Columbia Gas® of Kentucky
A NiSource Company

August 20, 2009

Mr. Jeff Derouen
Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

RECEIVED
AUG 21 2009
PUBLIC SERVICE COMMISSION

RE: Case No. 2009-00141

Dear Mr. Derouen,

Enclosed for filing are the original and eleven (11) copies of Columbia Gas of Kentucky, Inc.'s revised responses to the following data requests in the above case: Staff's second set number 22, Staff's third set number 14 and the Attorney General's first set number 64. Please docket the original and ten (10) copies and return the extra copy to me in the self addressed stamped envelope enclosed. Should you have any questions about this filing, please contact me at 614-460-4648. Thank you!

Sincerely,

Stephen B. Seiple
Assistant General Counsel

Enclosures

cc: All Parties of Record
Hon. Richard S. Taylor

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO SECOND DATA REQUEST OF COMMISSION STAFF

Data Request 022:

Refer to page 14 of the Racher Testimony, Schedule D-2.2 in Volume 6 of Columbia's application, and Workpaper WPD-2.2 in Volume 8 of the application.

a. The proposed adjustment for labor costs includes expected merit increases for union employees effective with wages beginning December 1, 2009. Explain what is meant by the descriptive phrase "expected merit increases" and whether it means the amounts of such increases are tentative rather than firm amounts.

b. The 2009 increases for non-union employees include a 3.0 percent increase effective March 1, 2009 for non-exempt employees and front line leaders and September 1, 2009 for other exempt employees. Provide Columbia's definition of front line leaders and clarify what employees are considered exempt.

c. The Commission has traditionally limited how far outside the test year it will allow post-test-year expense adjustments, especially if such adjustments are made in isolation from similar adjustments to revenues, rate base and capitalization. Explain why adjustments for wage and salary increases scheduled to take effect as much as eight months after the test year for other exempt employees, and 11 months after the test year for union employees, should be allowed for ratemaking purposes.

d. WPD-2.2, Sheet 8 of 15, shows the 2009 increases separately for clerical, exempt and union employees. Provide the 2009 increases with the amounts shown separately based on the respective effective dates of March 1, September 1, and December 1, 2009.

Response:

a. "Expected merit increases" means that the increase will occur in the future. The union increase is a firm amount based on the effective union contract provided in response to request 46 of the Commission Staff's first set of data requests. Refer to Pages 59 and 60 of the December 1, 2006 contract. Schedule 3 on Page 59 shows the hourly wage range effective December 1, 2008 for the job classifications and Schedule 4 on Page 60 shows the hourly wage ranges effective December 1, 2009. Schedule 4 includes a $0.15/hour structure adjustment. Adjusting the Schedule 4 ranges for the effect of the $0.15/hour structure adjustment yields a 3.5% wage increase in addition to the structure adjustment.

b. Front Line Leaders are exempt employees who supervise clerical and union employees. Exempt employees are paid a salary, not an hourly wage, and are not eligible for overtime pay. There are eight Front Line Leaders in the exempt employee list on WPD 2.2 Sheet 11. They are noted as Employee ID's 5, 6, 7, 10, 11, 12, 14, and 15.

c. The post-test-year adjustments for wage and salary adjustments have traditionally been included in prior cases as they have been considered to be known and measurable. The exempt employee salary increase for exempt employees other than front line leaders has been postponed from March 1, 2009 to September 1, 2009. As of early June, 2009, senior leadership's plan is to deliver merit increases on 9/1/09 to exempt employees who were not eligible on 3/1/09. The Information Technology group is programming the merit application tool to allow for a 9/1/09 merit effective date process which will roll out in late July or early August. The union increase effective December 1, 2009 is based on the union contract noted in part a. above.

Update as of August 20, 2009: The senior leadership plan has changed from what is discussed above. Exempt, non-front line leaders will not be receiving salary increases September 1, 2009. In lieu of base pay increases for 2009, eligible employees will receive a lump sum payment equivalent to 2% of their salary. Therefore, the Company withdraws its request for recovery of the September 1, 2009, amount listed below.

d. The 2009 increase for each classification by date is shown below:

Classification	Effective Date	Amount of Increase
Clerical	March 1, 2009	$23,230
Exempt Front Line Leaders (FLL)	March 1, 2009	$17,574
Exempt (non-FLL)	September 1, 2009	$37,208
Union	December 1, 2009	$150,427

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO THIRD DATA REQUEST OF COMMISSION STAFF

Data Request 014:

Refer to the responses to Item 22 of the Staffs Second Request and Item 6 of the Office of the Attorney General's ("AG") Initial Request.

a. The first response indicates that Columbia believes it is appropriate to include the costs of post-test-year wage and salary increases in its cost of service, even if those occur 11 months outside test year. Explain whether Columbia agrees with the following statement: The full effects of any post-test-year wage and salary increases that may be included in its cost of service will not be reflected in its actual costs of operation until 12 months after the effective date of said increases; however, the full effects of the increases will be included in the cost of service for ratemaking purposes from the date of a Commission rate Order in the same manner as if the increases had occurred during the test year.

b. The second response indicates Columbia believes its depreciation expense adjustment (based on test-year-end plant) should not be recognized in the accumulated depreciation component of rate base as that would have the effect of reducing its "rate base by an amount not yet funded by the customer." In his request, the AG referenced the "long-standing Commission ratemaking policy of adjusting accumulated depreciation by the amount of the adjustment to depreciation expense. This Commission has approved this treatment for at least 25 years as evidenced by its Order in Columbia's 1984 rate case, Case No. 9554, in which it increased accumulated depreciation by $84,960 to reflect the pro forma adjustments to its (Columbia's) test-period depreciation expense. Explain why Columbia's current position on not adjusting accumulated depreciation is not inconsistent with its position on including post-test-year salary and wage increases in the cost of service.

Response:

a. Columbia agrees with the statement. The reason this must be the case is that the purpose of any normalization of test year costs is to adjust the test year to reflect the costs that can be reasonably expected to occur during the first twelve months rates are in effect. To the extent known and measurable information is presented that the test year costs are no longer representative of the costs that can be reasonably expected to occur during the first twelve months rates are in effect, an adjustment must be made.

The decision to include or exclude post-test-year wage and salary increases should be based on three criteria: 1) is the increase known and measurable, 2) will the increase be in effect before proposed rates go in effect, and 3) is the increase reasonable.

Update as of August 20, 2009: The senior leadership plan has changed from what is discussed below. Exempt, non-front line leaders will not be receiving salary increases September 1, 2009. In lieu of base pay increases for 2009, eligible employees will receive a lump sum payment equivalent to 2% of their salary. Therefore, Columbia withdraws its request for recovery of the September 1, 2009, increase noted on Staff Set 2-022.

1) Columbia's response to Staff Set 2-022 itemizes the post test year labor increases along with the referenced union labor contract attached to response to Staff Set 1-046 and Columbia's management decision to postpone from March 1, 2009 to September 1, 2009 exempt salary increase for exempt employees other than front line leaders shows that the increase is known and measurable.
2) All post test year requested labor increases will in all probability be in effect before proposed rates are billed to customers.
3) The increases are in line with increases Columbia has provided to its employees in the last few years and the increases the PSC has approved in past rate cases.

Including the known and measurable post test year labor increases in the cost of service allows Columbia a reasonable opportunity to recover the actual labor costs Columbia will incur during the first twelve months rates are in effect. Even with the labor increases Columbia is requesting, Columbia will still not be able to recover the annual merit labor increases it will incur in March 2010 less than 12 months after proposed rates go in effect. The labor expense proposed in this case represents at a minimum the level that will be effect during the rate year and therefore just and reasonable.

b. Columbia is aware that, in other cases, the Commission has included proposed adjustments to depreciation expense as an adjustment to the accumulated depreciation balance utilized in the calculation of rate base. As explained in response to AG-1-6, such an adjustment would have the effect of reducing Columbia's rate base by an amount not yet recovered from customers, which would be inappropriate. The linkage between allowance for depreciation expense (return of) and return on rate base (return on) capital expenditures made by a utility is that until the utility's investment in an asset is recovered from the customers through incorporating an approved level of depreciation in rates, then the utility should recover a fair and reasonable return on the existing or remaining unrecovered investment. This linkage would be broken by reducing rate base for a depreciation level not yet incorporated in, billed, and recovered through rates.

Furthermore, the adjustment to the accumulated reserve is just one side of the rate base equation. Using the end of test year level of rate base provides a reasonable estimate of the rate base level expected to be in place and funded by investors during the first twelve months rates are in effect. Including an adjustment to the reserve, without any recognition of any future plant additions, particularly non-revenue plant additions, distorts the level of rate base expected to be in effect during the first twelve months of the new rates. Absent the plant additions from Columbia's Accelerated Main Replacement Program which will be addressed through Columbia's proposed Accelerated Main Replacement

Rider, Columbia believes the rate base it proposed in this case represents the minimum level that will be in effect during the rate year.

Columbia's position on not adjusting accumulated depreciation is not inconsistent with its position on including post-test-year salary and wage increases in the development of its cost of service. This decision properly recognizes that rates should be established based on its collection revenue requirement. This includes the use of a rate base representative of the average investment on its books during the collection year. The Commission's proposed adjustment would result in an understatement of Columbia's average rate base investment during the collection year since no adjustment is proposed in recognition of additional investment in plant Columbia will be making during the collection year. Recognition of this additional investment must be made if you were to adopt the proposed adjustment to the reserve. It is for this reason the proposed treatment of this issue for rate making purposes is proper and reasonable.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 064:

With regard to the NCSC adjustments shown on Schedule D-2.8, Sheet 3, please provide the following information:

a. Provide the actual CGK labor & benefits allocation factors (equivalent to the 2.78% used in this adjustment) for each of the years 2004 through 2008.
b. Date of the "approved 2009 Merit increase" of 3% and the basis of this assumed 3% increase.
c. What is the portion of the actual February 2009 Benefits expense of $2,621,834 representing pension expenses? In addition, since a separate pension expense adjustment is already being requested on Schedule D-2.8, Sheet 4, isn't there a pension expense increase double-count by also reflecting a pension expense increase as part of the labor benefit ratio of 39.27% on Schedule D-2.8, Sheet 3? If not, explain why not.

Response:

a. CGK labor and benefits allocation factors for the years 2004 – 2008 can be found on table AG Set 1 No. 64 A.

Table AG Set 1 No. 64 A

Year	Allocation Factor
2004	3.12%
2005	3.03%
2006	3.13%
2007	3.25%
2008	2.78%

b. The post-test-year adjustments for wage and salary adjustments have traditionally been included in prior cases as they have been considered to be known and measurable. The exempt front line leader salary increase was effective March 1, 2009. The non-exempt salary increase was effective March 1, 2009. The exempt employee salary increase for exempt employees other than front line leaders has been postponed from March 1, 2009 to September 1, 2009. The union increase effective December 1, 2009 is based on the union contract.

As of early June, 2009, senior leadership's plan is to deliver merit increases on 9/1/09 to exempt employees who were not eligible on 3/1/09. The Information Technology group is programming the merit application tool to allow for a 9/1/09 merit effective date process which will roll out in late July or early August.

Update as of August 20, 2009: The senior leadership plan has changed from what is discussed above. Exempt, non-front line leaders will not be receiving salary increases September 1, 2009. In lieu of base pay increases for 2009, eligible employees will receive a lump sum payment equivalent to 2% of their salary. Therefore, Columbia withdraws its request for recovery of the September 1, 2009 increase. The wage increase for exempt, non-front line leaders withdrawn amounts to $58,439 of the $66,828 shown on Schedule D-2.8, Sheet 3, Line 5.

c. $1,430,305.50 of the $2,621,834 in benefits expense is related to pension expense. The purpose of the adjustment on Schedule D-2.8, Sheet 3 is to reflect the merit increase and increase in benefits expense from the test year expense. In this regard, pension expense should not be included on the Actual February 2009 Benefits Expense line on Schedule D-2.8, Sheet 3. Removal of pension expense results in $1,191,528 in Total NCSC Benefits Expense and $33,124 for Columbia on Line 7, changes the Percentage on Lines 9 and 11 to 17.84% and results in a Net Benefits Increase of $11,922 instead of $26,243 as originally reported. Therefore, $14,321 should be removed from the original adjustment of $93,071 resulting in a revised adjustment of $78,750.