Columbia Gas of Kentucky

A NiSource Company

2001 Mercer Road
Lexington, KY 40511

2009-00168

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APR 23 2009

PUBLIC SERVICE
COMMISSION

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

April 23, 2009

Dear Mr. DeRouen:

Enclosed for filing are an original and ten (10) copies of the Application of Columbia Gas of Kentucky, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Pension and Other Post-Retirement Benefit Expenses. If you have any questions, please contact me at (614) 460-4648 or sseiple@nisource.com.

Thank you,

Stephen B. Seiple (gmc)

Stephen B. Seiple
Assistant General Counsel

Enclosures

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
APR 23 2009
PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. FOR AN ORDER APPROVING ACCOUNTING PRACTICES TO ESTABLISH A REGULATORY ASSET RELATED TO PENSION AND OTHER POST-RETIREMENT BENEFIT EXPENSES.	))))))	Case No. 2009-00168

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

Columbia Gas of Kentucky, Inc. ("Columbia") moves the Public Service Commission of Kentucky ("Commission") pursuant to KRS §§ 278.030, 278.040 and 278.220 for an Order authorizing Columbia to establish regulatory assets and/or liabilities for pension costs and other post-retirement benefits costs. In support thereof, Columbia respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Commission.

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P.O. Box 14241
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) That by this Application Columbia seeks authorization to revise its accounting treatment of pension and other post-retirement benefit costs, effective January 1, 2009, so that Columbia may be permitted to establish regulatory assets and/or liabilities and defer on its books pension expense and other post-retirement benefits ("OPEB") expense[1] to the extent those annual expenses exceed the level of those expenses last used in the establishment of Columbia's rates. The recovery of the deferred amounts will be addressed in Columbia's base rate case proceedings.

(e) Like many other companies, Columbia provides defined contribution plans for its employees and has continuing obligations under noncontributory defined benefit retirement plans. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Pension costs are comprised of pension expense for Qualified and Non-Qualified Plans.

(f) Additionally, health care and life insurance benefits are provided for certain retired employees. OPEB costs are comprised of Medical Expense, Group Life Insurance and the amortization of the Transition Obligation.

(g) The majority of employees may elect to receive these Pension and OPEB benefits once they reach retirement age. The expected costs of such benefits are accrued during the employees' years of service.

(h) These benefit plans are administered by Columbia's parent, NiSource Inc. ("NiSource"), which employs a total return investment approach under which a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan

[1] The accounting treatment requested in this Application is requested only for pension and OPEB amounts attributable to operation and maintenance expense.

funded status, and asset class volatility. The investment portfolio contains a diversified blend of equity and fixed income investments. Equity investments are diversified across U.S. and non-U.S. stocks, as well as growth and value investment characteristics, and small and large capitalizations.

(i) Pension and OPEB costs are calculated pursuant to the provisions of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Post Retirement Benefits Other Than Pensions." The annual pension and OPEB costs are calculated by an independent actuarial firm. Both SFAS No. 87 and SFAS 106 require that these costs be accrued and charged to operations over the time employees perform services. The net periodic benefit costs are calculated annually by an actuary for NiSource as follows:

+ Service Costs
+ Interest Costs
- Expected Return on Plan Assets
+/- Amortization of Prior Service Costs
+/- Amortization of Net Gains or Losses
= Net Periodic Benefit Costs

(j) Columbia's Pension and OPEB expense has varied significantly during the last six years as illustrated through the following table[2], which sets forth Columbia's actual Pension and OPEB expense for the calendar years 2004 through 2009.

Description	2009 (Est)	2008	2007	2006	2005	2004
Pensions - Retirement Income Plan	980,525	(152,146)	(4,727)	(104,133)	212,790	289,648
OPEB - Retiree Medical & Group Life Insurance	509,963	247,575	260,613	429,166	376,648	349,109
OPEB - Amortization of Transition Obligation	281,698	281,698	281,699	281,697	281,694	281,695
Total	1,772,186	377,127	537,585	606,730	871,132	920,452

The percentage change in expense is further illustrated in the table below.

[2] Table reflects pension and OPEB amounts attributable to operation and maintenance expense only.

Year	Pension Expense	Change From Prior Year	Percent of Change	OPEB Expense	Change From Prior Year	Percent of Change
2004	$ 289,648			$ 630,804		
2005	$ 212,790	$ (76,858)	26.5%	$ 658,342	$ 27,538	4.4%
2006	$ (104,133)	$ (316,923)	148.9%	$ 710,863	$ 52,521	8.0%
2007	$ (4,727)	$ 99,406	95.5%	$ 542,312	$ (168,551)	23.7%
2008	$ (152,146)	$ (147,419)	3118.7%	$ 529,273	$ (13,039)	2.4%
2009 (Est)	$ 980,525	$ 1,132,671	744.5%	$ 791,661	$ 262,388	49.6%

(k) The principle reason for these significant expense variances is that Pension and OPEB costs are volatile due to the return on plan assets and discount rates –factors that are beyond the control of Columbia. The market value of Columbia's Pension and OPEB plan assets are subject to significant changes caused by fluctuations in long-term interest rates and in trust asset returns available in the capital markets. During 2008, the S&P 500 Index declined nearly 38.5%, while at the same time, corporate bond prices also declined as a result of the current economic crisis. The MSCI EAFE Index, a common benchmark for international equities, also declined over 43% during 2008. Similarly, NiSource pension plan assets and OPEB assets declined as a result of negative returns amounting to 30.3% and 31.8% respectively.

(l) These facts are further illustrated through the following table which shows the change in the value of NiSource's Master Retirement Trust and Columbia Energy Group's Qualified Pension assets from December 31, 2007 to December 31, 2008.

Change in Market Value of Qualified Pension Plan Assets

	NiSource Master Retirement Trust	Columbia Energy Group Pension Plan
Asset Values at 12/31/07	$ 2,238,200,000	$ 881,300,000
2008 Benefit Payments	(161,800,000)	(65,600,000)
2008 Sponsor Contributions	1,700,000	0
2008 Investment Loss	(635,700,000)	(250,300,000)
2008 Divestiture	(1,900,000)	0
Asset Value at 12/31/08	$ 1,440,500,000	$ 565,400,000

(m) The impact of above-stated change in assets is shown in the following table which provides for reconciliation of Qualified 2008 FAS 87 Expense with Qualified 2009 FAS 87 Expense. The table demonstrates that the change in asset value is the primary reason driving the change in expense.

	NiSource Master Retirement Trust	Columbia Energy Group Pension Plan
Total Qualified 2008 FAS 87 Expense	$ (24,100,000)	$ (11,300,000)
2008 Asset Experience	140,800,000	50,400,000
Change in Expected Return (9% to 8.75%)	3,600,000	1,400,000
Plan Changes	0	0
Other Assumption Changes & Experience	1,200,000	4,200,000
Total Qualified 2009 FAS 87 Expense	$ 121,500,000	$ 44,700,000

(n) The return experienced by NiSource's Master Retirement Trust during the calendar year 2008 was consistent with that experienced by most major asset classes as demonstrated by the following table that compares returns experienced by most major asset classes with average annual investment returns during the 20 years ending December 31, 2007 with NiSource.

Asset Class	Index	2008 Performance	20-Year Annual Performance
NiSource Master Retirement Trust		-30.3%	10.5%
US Equity	S&P 500	-38.5%	11.8%
Small Cap US Equity	Russell 2000	-33.8%	11.3%
International Equity	MSCI-EAFE	-43.4%	7.5%
Emerging Markets Equity	MSCI-Emerging Mkts.	-53.2%	16.3%
US Bonds	BC US Aggregate	5.2%	7.6%
US Treasury Bonds	BC US Treasury	13.7%	7.4%
High Yield Bonds	ML High Yield Bond	-26.2%	8.9%
Cash	T-Bills (90 Day)	1.8%	4.7%

(o) The return experienced by NiSource's Master Retirement Trust during the last ten years has varied significantly with market conditions as demonstrated by the following table which sets forth historical returns for the most recent ten years net of fees.

Year	Annual Return
2008	-30.3%
2007	10.5%
2006	13.8%
2005	7.6%
2004	11.7%

2003	28.2%
2002	-9.1%
2001	0.5%
2000	2.8%
1999	16.3%

(p) The volatility of these expenses due to the above-stated factors creates a situation where it is almost impossible for Columbia or the Commission to determine a representative level of Pension and OPEB expense for inclusion in base rates. This inability of Columbia or the Commission to include a representative level may result in a significant impact on earnings and/or rates charged to customers. For this reason, Columbia is seeking a long-term solution to the problem through this Application.

(q) Columbia's current base rates provide for recovery of the following amounts for each of the above-referenced plans:

Pensions – Retirement Income Plan	$ (15,800)
OPEB - Retiree Medical	$ 336,506
OPEB - Group Life Insurance	$ (38,318)
OPEB - Amortization of Transition Obligation	$ 281,695
Total	$ 564,083

(r) The reduction in asset returns, combined with a situation where it is almost impossible for Columbia or the Commission to determine a representative level of Pension and OPEB expenses for inclusion in base rates, has resulted in a dramatic increase in Columbia's Pension and OPEB expense during the calendar year 2009 of approximately $1,208,103 over that which is reflected in Columbia's current base rates. The 2009 expense is extraordinary, and could not reasonably have been anticipated by Columbia, nor included in Columbia's planning processes. As described earlier herein, this increase in expense is driven by long-term interest rates and the sharp decline in the returns on assets in the capital markets – factors which are beyond Columbia's control.

(s) These costs are reasonable and necessary business costs incurred by Columbia in compliance with SFAS No. 87 and SFAS No. 106 that may result in a significant and unavoidable positive or negative impact on Columbia's earnings. As a result, Columbia requests the authority to revise its accounting procedures, effective January 1, 2009, to provide for the deferral of the difference between annual Pension and OPEB expense calculated through SFAS No. 87 and 106 and the annual Pension and OPEB expense included in base rates. Only those amounts attributable to operation and maintenance expense will be deferred and recognized as a regulatory asset or regulatory liability pursuant to the provisions of SFAS No. 71. These assets or liabilities would be collected from, or, returned to customers through amortization of the asset or the liability in Columbia's subsequent base rate case proceedings, in whatever manner deemed appropriate by the Commission.

(t) Columbia respectfully requests expedited consideration of this Application. Prompt approval of this Application will permit Columbia to adjust its accounting procedures as described herein so that Columbia's books will more accurately reflect expenses actually being incurred.

Wherefore, for the reasons stated herein, Columbia respectively requests the Commission grant the accounting authority requested in this Application.

Respectfully submitted,
COLUMBIA GAS OF KENTUCKY, INC.

By: ______________________________
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