

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S SUPPLEMENTAL POST-HEARING
REQUEST FOR INFORMATION
DATED NOVEMBER 28, 2016**

1. Refer to the response to Commission Staff's Post Hearing Data Request ("Staff's Post Hearing Request-), Item Cole-2. While overtime as a percentage of total labor decreased 1.68 percentage points between the Test Period and 2014, both Total Labor and Overtime Labor increased. Total Labor increased by 17.5 percent and Overtime Labor increased by 3.5 percent. Because Overtime Labor increased at a slower rate, the percentage to total labor decreased. Explain why Overtime Labor amounts continued to increase every year from 2014 through 2015, the Base Period, and the Test Year despite the hiring of an additional 31 full-time employees.

Response:

There are three major considerations when explaining the overtime expense for 2014, 2015, the Base Period and the Test Period. First, field employees who have been hired during these periods have spent a significant amount of time in training in order to be qualified to adequately and safely

perform the duties of their position. As a result, they have not been contributing as a full time equivalent to the work plan. Typically it takes 10 to 12 months of training for a field operations employee to contribute at full complement to the work plan. As previously stated in my testimony, Columbia continues to experience a loss of field employees to other positions within the company and retirements. Therefore, Columbia expects that the need to hire and train new employees at a rate higher than its historical rate will continue for the foreseeable future.

Second, the bulk of the overtime hours are related to after-hour and weekend call outs on the plant and service side for emergency response which are unpredictable and correlated to weather and other unforeseen circumstances, such as third party dig-ins. In some cases, overtime work results from repairing or replacing pipeline infrastructure during overnight hours because of safety concerns from construction activity or due to traffic permit requirements of governmental agencies.

Finally, while overtime labor expense has increased, overall overtime labor hours have decreased. The Overtime Labor percentage increase from 2014 to the Test Year that is shown in Response to Staff's Post Hearing Data Request Cole-2 is 3.52%. This increase is significantly lower than the cumulative annual

wage rate increases experienced as part of the contractual agreement between Columbia and the United Steel Workers union. The total overtime labor increase is less than increases in the hourly labor rate because the hours of overtime worked have been decreasing. The actual hours of overtime worked have decreased due to a variety of factors, including mild weather, as follows:

2014	34,063 hours
2015	31,152 hours
Base Period	28,623 hours

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2. Refer to the response to Staff's Post Hearing Request, Item Cole-3.
 - a. Explain why contractor costs increased from 2015 to the base period, and from the base period to the test period.
 - b. Refer to the response to Staff's Post Hearing Request, Item Noel-1.
 - (1) Columbia was asked to provide the basis for the Allocations 1 – 20, including the Direct Billed to Columbia and the NCSC Overheads. Provide the types, and dollar amounts of costs, and the respective actual formulary calculations, for years 2012, 2013, 2014, and 2015.
 - (2) In attachment A of its response, Columbia provides the cost type by year and an explanation of what the formula is, but Columbia's response did not include the actual formulary calculation with relevant detail values as was requested. For example, the Basis 1 allocation method is 50 percent based on the Affiliated Unit's Gross Fixed Assets as a percent

of the Parent's Gross Fixed Assets and 50 percent based on the Affiliated Unit's Operating Expenses as a percent of the Parent's Operating Expenses. So for the 2015 Labor & Related Basis 1 Allocation, Columbia's response should have included a formula similar to this:

$$\begin{aligned} & \left(\left(\left(\text{Columbia Gross Fixed Assets } \$\text{xxxxxxxx.xx} \div \text{NiSource} \right. \right. \right. \\ & \left. \left. \left. \text{Gross Fixed Assets } \$\text{xxxxxxxx.xx} \right) = \text{xx.x\%} \right) \times 50.0\% \right) \times \\ & \left. \text{NiSource Labor \& Related Cost Type } \$\text{xxxxxxxx.xx} \right) \div \\ & \left(\left(\left(\text{Columbia Operating Expenses } \$\text{xxxxxxxx.xx} \div \text{NiSource} \right. \right. \right. \\ & \left. \left. \left. \text{Operating Expenses } \$\text{xxxxxxxx.xx} \right) = \text{xx.x\%} \right) \times 50.0\% \right) \times \\ & \left. \text{NiSource Labor \& Related Cost Type } \$\text{xxxxxxxx.xx} \right) = \\ & \$1,691,579 \end{aligned}$$

Columbia did not provide these detailed calculations for each Allocation Basis — 1 through 20 by each Cost Types. Provide all of the complete detailed calculations — by each Allocation Basis and by each Cost Type within the Allocation Basis, as previously requested.

(3) Columbia was asked to explain why the amount of Direct Billing to Columbia increased from \$4,894,794.69 in 2012 to \$6,894,337.50 in 2015 and the basis for the increase in the Base Year and Test Year and to provide a detailed breakdown of the actual calculations of the costs by year. Columbia provided a table with value results of the four types of costs Columbia describes as being responsible for 90 percent of the significant increases between 2012 and 2015. The largest contributor,

Labor & Related, was supported by four metrics related to the safe operation of infrastructure were as follows:

a. The reduction of the average response time to an emergency being less than 45 minutes over 96 percent of the time. What was the percentage for responses averaging 45 minutes or less for the years 2012, 2013, 2014, and 2015?

b. The pipeline damage rate from third parties has dramatically reduced during the past several years. What was the third-party pipeline damage rate for the years 2012, 2013, 2014, and 2015?

c. The amount of time a grade 2 leak remains open on Columbia's system has been reduced. What was the amount of time a grade 2 leak remained open for the years 2012, 2013, 2014, and 2015?

d. The additional contract crews dedicated to Columbia's Accelerated Main Replacement Program ("AMRP") are increasing. Provide the number of crews dedicated to the AMRP program for the years 2012, 2013, 2014, and 2015, and state how many, of Columbia employee crews were dedicated to the AMRP during those some corresponding years.

Response:

2. a. Columbia continues to see an increase in the cost of using outside contractors for all functions that utilize contractors including, but not limited to the following functions: locating facilities, leak surveying, curb valve locating, vacuum excavation, leak repair, and the installation of new facilities. The primary driver for the increase in cost is a decrease in qualified contractors. Columbia employs contractors which meet PHMSA requirements and its own internal standards with regard to safety and Operator Qualifications (OQ). With Columbia's commitment to providing reliable, and most importantly safe service we feel these price increases are justifiable.

Columbia partners with NiSource Supply Chain ("Supply Chain") (NCSC's procurement organization) to review all expiring agreements with external contractors. Supply Chain policy and internal procurement processes require expenditures with external contractors to be reviewed for participation in a competitive bid or Request for Proposal. Each qualified bidder will have their proposal evaluated by both Columbia and Supply Chain to ensure all of the requirements for safety, quality, and pricing have been fully satisfied per the scope of the work and deliverables. This bid process takes into consideration independent industry recognized market data groups, such as Denali and Power Advocate, to ensure fair and reasonable pricing for our customers.

2. b. (1) See response to part 2 b. (2).

(2) In order to ensure the information provided to this response is clear, a review of the NCSC allocation process is necessary.

NCSC's allocation process has been in place for many years – well into the last century. Over the years, the process has been reviewed and approved by FERC, with the most recent formal review dated October 24, 2012 as part of the FERC audit of NCSC. A copy of the FERC audit was provided in the response to Staff Set 2 Request 55, which does not identify any allocation process deficiencies. Additionally, as required by the current service agreement NCSC and all the NiSource affiliates, Columbia's Internal Audit group conducts an annual review of cost allocation process and reports findings to NCSC management and the NiSource Audit Committee.

NCSC utilizes Allocation Bases, which are defined in Appendix A of the NCSC Service Agreement and reflect the types of statistics that are accumulated and utilized in developing allocation percentages. NCSC allocates costs in accordance with the following Bases of Allocation that have been previously approved by the SEC, and filed annually with the FERC:

BASIS 1 - Gross Fixed Assets and Total Operating Expenses

BASIS 2 - Gross Fixed Assets

BASIS 3 - Number of Meters Serviced

BASIS 4 - Number of Accounts Payable Invoices Processed

BASIS 7 - Gross Depreciable Property & Total Operating Expenses

BASIS 8 - Gross Depreciable Property

BASIS 9 - Automotive Units

BASIS 10 - Number of Retail Customers

BASIS 11 - Number of Regular Employees

BASIS 13 - Fixed Allocation

BASIS 14 - Number of Transportation Customers

BASIS 15 - Number of Commercial Customers

BASIS 16 - Number of Residential Customers

BASIS 17 - Number of High Pressure Customers

BASIS 20 - Service Company Billing (Direct and Allocated) Costs

For example, Basis 10 utilizes statistical Retail Customer counts to determine the various billing pool allocations included in the basis.

Please note that NCSC has further categorization of allocations to each Basis – including the Basis 10 Retail Customer allocator. The further categorization is identified by a four digit Billing Pool. Within Basis 10 – Retail Customers, there are currently 15 different Billing Pools (e.g. 00JA, 00JE, 00JI). The role of the Billing Pool is to determine which of the NiSource affiliates are sharing the costs being allocated. For example, 00JA includes 4 NiSource subsidiaries – Columbia Gas of Ohio, Columbia Gas of Maryland, Columbia Gas of Pennsylvania and Columbia Gas of Virginia. The 00JA allocation percentages reflect each company’s Retail Customer count divided by the total Retail Customer count for only these four companies. In this case, Columbia of Kentucky is not in this billing pool, so it would not be allocated charges that were classified using this Billing Pool. Using Billing Pool 00JE to provide a second example, 7 NiSource affiliates are included in this billing pool. In addition to the four affiliates used in Billing Pool 00JA, Columbia of Kentucky, NIPSCO and Columbia Gas of Massachusetts are included in Billing Pool 00JE. The underlying data used to determine the 00JE percentages is the same Retail Customer data, however in this

case, all 7 companies' statistical data are included in the calculation. Columbia of Kentucky's allocation percentage in Billing Pool 00JE would be determined based on its Retail Customer count as a percentage of the total Retail Customer count for the 7 affiliates.

The multiple Billing Pools within each Basis provide different versions of each allocator to allow NCSC to properly allocate costs among only the companies that benefit from the costs being incurred. Since 2012, there were new Billing Pools added or subtracted as NCSC needs changed. The specific Billing Pools can change – but the Bases that determine the type of statistic utilized to allocate costs change only with FERC approval, at minimum.

Also noted there is a pattern to the 4 digit Billing Pool that helps align to the different Bases. All Billing Pools have a two digit "00" at the front. The third digit of the Billing Pool aligns with the Basis. Basis 1 Billing Pools third digit is either an "A" or "Z", Basis 2 Billing Pools third digit is a "B", Basis 10 Billing Pools third digit is a "J" and so on.

There are several allocation bases and billing pools that contain percentages allocated to NCSC. For example, Basis 11 billing pool 00KF is allocated to all NiSource affiliates based on regular employees. NCSC has employees and therefore is included in this Billing Pool allocation. In this instance, Columbia

would be allocated the portion as determined by its employee count to total employee count as well as get a portion of the NCSC allocated costs based on the NCSC employee count to total employee count. This secondary allocation is the primary part of the NCSC overhead costs as identified in Staff's Post Hearing Request, Item Noel-1 Attachment A. The secondary allocation is calculated each month and is based on each company's portion of the total NCSC labor. Specifically, Columbia's allocation of all NCSC overhead reflects the total Columbia charged labor from NCSC divided by the Total NCSC labor for each month.

In summary, NCSC has 15 approved Allocation Bases that identify the statistical data used to allocate costs among affiliates. Within these 15 Bases, NCSC has approximately 70 Billing Pools that further define the NiSource affiliates that share in the allocated costs.

The Billing Pool percentages are not calculated monthly. Rather they are calculated with the completion of an Allocation Survey. At minimum, NCSC utilizes data as of December and as of June each year to calculate the Billing Pool percentages and utilizes these percentages starting in February and August for at most a six month period. If NCSC believes there has been a significant change in

the underlying statistical data, it has the option to recalculate the Billing Pool percentages during interim periods between these two normal updates.

The detailed calculations used to develop the approximately 70 Billing Pool allocation percentages utilized between 2012 and 2015 are provided in the below table. Attachments A through G to Staff Post Hearing Supplemental DR 2 provide the Excel files with working formulae used to develop the Billing Pool percentages for each allocation survey. Attachment A includes many working tabs for each of the allocation bases in effect between 2012 and 2016. Each allocation basis includes up to 11 tabs. The first 3 tabs represent the raw data used to calculate the various allocation bases. The following tabs represent the various allocation bases and the calculations being requested. There is also a summary tab included at the end of each allocation basis survey. The tabs are in order of allocation survey in effect. For example, the first set of tabs represents the 2nd survey of 2011 which was effective between August 2011 and January 2012. Attachments B through G provide the statistical data and calculations for the allocation bases not included in Attachment A.

Attachment A	Support data for Bases 1, 2, 7, 8, 9, 10, 11, 14, 15, 16, & 17
Attachment B	Support data for Basis 13, Southlake Space Allocation
Attachment C	Support data for Basis 13, Marble Cliff Space Allocation
Attachment D	Support data for Basis 13, Civic Center/Arena Space Allocation
Attachment E	Support data for Basis 13, IT Devices
Attachment F	Support data for Basis 13, Mainframe Usage

Attachment G	Support data for Basis 20, Service Company Billing
Attachment H	Updated Attachment A to Staff Post Hearing 1a w/ add'l detail
Attachment I	Base Period Actual Costs by basis, month, and billing pool

Here are the steps in the allocation survey process:

Step 1: Gather statistical data for various allocation bases. This includes data from various sources depending on allocation basis. Please refer to Staff Post Hearing DR Noel-1c Attachment A for additional detail. Currently, the allocation survey is updated every six months or as needed.

Step 2: Calculate billing pool percentages for each affiliate based on statistical data. This is the step/calculation being requested. Percentages are reviewed and approved by NCSC Controller.

Step 3: Input billing pool percentages into a centralized billing application (PeopleSoft). Billing Pool is either directly billed or allocated using one of the approved allocation bases.

Step 4: Each month, collect NCSC charges (with billing pool) and run mechanized NCSC billing process (contract billing). This process allocates costs to the affiliates based on the percentages entered in Step 3.

With this background on the NCSC allocation process, the sample formula provided in the data request does not fully reflect the process underlying the calculation of each dollar amount. In fact, there is no one formula underlying each dollar amount, but rather multiple formulas based on: (1) the allocation survey in effect at the time of the billing; (2) the specific allocation basis and billing pool attached to each individual transaction. The information provided in Attachments A through G represents the detailed calculations from allocation surveys in effect between 2012 and 2016.

In order to be responsive, Attachments H and I have been provided with actual costs generated from use of the Allocation Bases/Billing Pools.

- Attachment H to Staff Post Hearing Supplemental DR 2 provides an updated response to Attachment A of Staff Post Hearing 1a with the addition of Billing Pools and Allocation Surveys in effect during each year requested.
- Attachment I includes all approved allocation bases for the Base Period of September 2015 through August 2016. Please note the filed Base Period includes 6 months of actual costs and 6 months of forecasted costs; however, Attachment I contains 12 months of actual costs since the actual

data is available. Attachment I shows that Columbia’s portion of the allocation bases and billing pools are consistent during effective allocation survey periods, regardless of cost type.

2.b.(3)

a) Columbia has made improvements in responding more rapidly to customer’s emergency calls over the past 5 years. This was accomplished by implementing additional shifts, residency requirements for new employees, and technology changes in our call-out system. Columbia’s percentage of emergency calls responded to in under 45 minutes is shown in the table below:

	2012	2013	2014	2015	2016 (YTD)
KY	89.62%	91.50%	92.25%	92.36%	97.13%

b) Columbia has continued to focus on improving its damage rate by hiring Damage Prevention Coordinators and a Leader to work closely with our locating contractor, enhancing public awareness messaging, and improving excavator and public education. Columbia’s Damage Rate per 1000 calls is shown in the table below:

	2012	2013	2014	2015	2016 (YTD)
Damages/1000	5.27	4.50	4.69	3.68	2.68

c) Columbia saw the average time that Grade 2 leaks were open during 2012, 2013 and 2014 increase as it continued to lose experienced employees in the plant department. More recently, however, because of the recent release of newly trained employees into the field during 2015 and 2016 Columbia has seen improvements in this metric. The average amount of time a Grade 2 leak remains open on Columbia's system is shown in the table below:

	2012	2013	2014	2015	2016 (YTD)
Average Months Open – Grade 2	6	7	9	6	3

d) During 2012-2015, Columbia used outside contract crews for AMRP projects. Additionally, the Company employed multiple Construction Coordinators assigned to the construction crews to coordinate and oversee the safe execution of the projects. The number of outside contract crews fluctuates considerably over the course of a year. During the summer months when there is ample daylight and favorable weather, more crews will be deployed than in January when the weather is less favorable and daylight is in short supply.

The table below demonstrates the total number of crew weeks and average number of crews working on capital projects for Columbia for the period 2012-2015. The historical average for AMRP work as a percentage of total capital is

58%. The table also demonstrates the amount of crews working on AMRP projects which corresponds to the allocation of capital spend noted above.

Total Crew Deployment for Capital Projects				
	2012	2013	2014	2015
Crew Weeks	564	796	979	1080
Average Crews	11	15	19	21

AMRP Crew Deployment				
	2012	2013	2014	2015
Crew Weeks	327	462	568	626
Average Crews	6	9	11	12

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3. The majority cause of the increase in Labor & Related cost was cited as resulting from the transfer of employees from the operating affiliates into providing services directly to the benefiting affiliates. It would appear that the increase in the Allocated Labor & Related Costs is the result of Columbia's having transferred employees to the NiSource Corporate office.

a. Does the above mean that the increase in Columbia's full-time equivalent ("FTE") count from 127 to 158 in the Miller-2 response is actually greater than 31 new additions because some existing positions were shifted to NiSource and the NET gain was 31 FTE? Explain and provide the number of Columbia's FTEs that were transferred to NiSource that are now providing services directly benefiting Columbia, and what those services are. Refer to the response to Staffs Post Hearing Request, Item Noel-2.

b. Attachment A that was provided by Columbia shows that NiSource total Labor & Related is projected to increase from \$5,144,522 in 2012 to

\$8,257,668 in 2017, an increase of \$3,113,147, or 55 percent. In the table provided in Noe1-1b. Labor & Related allocated to Columbia between 2012 and 2015, the increase was \$1,471,743, or 47.3 percent of the total NiSource increase from 2012 to 2017. Provide the actual complete allocation calculation (not just the resultant values) for total Labor & Related for the years 2012. 2013, 2014. 2015, Base Year, and Test Year.

c. As stated in Noel-1b above, the primary contributor to the increased Labor & Related costs was FTE transferred to NiSource from the affiliates. But according to the table data provided by Columbia in part b of their response to the net change between 2014 and the Test Period, there is a net gain of only two employees or 0.1 percent. Explain the change in Employee Count from Calendar year 2014 to calendar year 2015, from year 2015 to the Base Period, and from the Base Period to the Test Year.

Description	2014	2015	Base Period	Test Year	Difference 2014 to Test Year
Employee Count	1,839	1,731	1,790	1,841	
Change		(108)	59	51	2
Percent of Change		5.9%	3.4%	2.8%	0.1%

Response:

- a. There were no transfers of Columbia employees to NCSC therefore, the conclusion that the “increase in the Allocated Labor and Related Costs is the result of Columbia’s having transferred employees to the NiSource Corporate Office” is inaccurate. The transfers being referenced in rebuttal testimony and previous responses are not related to the Columbia FTE count included in the Miller-2 response.

The majority of the transfers to NCSC from the operating affiliates are directly related to the Integration Center (I/C) employees shifting to NCSC to centralize shared services and utilize existing service agreements and billing functionality. The Integration Center is an extremely important part of the NiSource support for efficiently operating its utility companies. It functions as the data and dispatch center for assigning employees to respond to emergencies, scheduling new customer connections, taking account terminations and generally supporting the operations capabilities of Columbia and other NiSource affiliates. As mentioned in Witness Noel’s Rebuttal Testimony, the Integration Center was historically a part of Columbia Gas of Ohio (“COH”), and COH would charge other NiSource gas distribution companies (including Columbia) for the portion

of the work the Integration Center was performing on their behalf. Due in part to the shared services tasks being performed, it was determined that the Integration Center would be better aligned within the organization as a NCSC function. In addition, during 2013, the Integration Center services began to also support Columbia Gas of Massachusetts (“CMA”).

Therefore, in December 2013/January 2014, the COH Integration Center employees were moved from COH to NCSC. As such, the transfer of employees to NCSC resulted in an increase in NCSC labor, but not an overall increase in total NiSource labor costs, since CKY is now billed for these charges by NCSC rather than COH. Additional full time equivalents (“FTE's”) were added to the Integration Center in response to increasing overtime spend and the corresponding need to focus on the safety of Emergency Dispatch employees working additional hours. The additions also aid in reducing the number of field employees being supported per dispatcher with the goal of increasing the quality and timeliness of Emergency Response to customers.

During the second half of 2015, there were approximately 40 employees transferred from other NiSource affiliates into NCSC within the areas of Capital Execution, Environmental, Safety, and Training, Gas Operations, and Performance Transformation. While none of the employees

transferred were Columbia employees, some of the employees transferred into NCSC provide services to Columbia.

- b. For clarity purposes, the increase of \$3,113,147 represents Net NCSC Labor & Related charges between 2012 and 2017, and the increase of \$1,471,743 represents Gross NCSC Labor & Related charges direct billed to Columbia between 2012 and 2015. It is important to note that these are not comparable numbers as one set represents Net NCSC charges (i.e. expense only), while the other represents Gross NCSC charges (i.e. total billings which include expense and capital amounts). Also, the larger variance spans between 2012 and 2017, while the \$1,471,473 spans between 2012 and 2015 and only represents the direct billed charges to Columbia, which does not include the allocated charges. Please refer to Staff Post Hearing Supp. DR 3 Attachment A for net labor and related NCSC charges for 2012, 2013, 2014, 2015, Base Year, and Test Year. For 2012, 2013, 2014, and 2015, the charges are provided by allocation basis and billing pool for each allocation survey in effect during each year. Please refer to the response to Staff's Supplemental Post-hearing Request for Information No. 2 for an explanation of the mechanized allocation calculation. With regard to the forecasted portion of the base year and test year, the budget is primarily

developed using actual cost experience in the budgeting system. Within the budget system, a calculation of allocation takes place and limits the output to a company level as opposed to cost category. As such, the results are based on the use of actual costs, and are therefore appropriate and reasonable.

- c. Total NiSource Corporate Services Company (NCSC) headcount does not provide a comprehensive picture of labor as it relates to Columbia. There are NCSC employees that do not provide nor charge any services to Columbia and therefore would have no labor impact. The below table shows Columbia equivalent FTEs. This calculation was done by taking NCSC labor dollars by department and deriving a labor percentage allocated to Columbia within each department. The Columbia labor percentage by department is then applied to the total NCSC FTE count within each department to provide a Columbia equivalent FTE. As shown in the table below, the Columbia equivalent FTE count has increased by 11 from 2014 through the end of the test period. Please refer to labor increase explanations in Witness Noel's rebuttal testimony on pages 2 through 7.

As of Date	Equivalent FTEs
December 2014	68
December 2015	73
August 2016	78
Forecasted December 2017	79