

June 1, 2010

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

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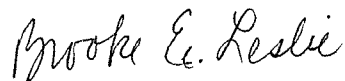
PUBLIC SERVICE  
COMMISSION

**RE: Case No. 2010-00143**

Dear Mr. Derouen,

Enclosed for docketing with the Commission is an original and ten (10) copies of Columbia Gas of Kentucky, Inc.'s Response to the Commission's Second Set of Data Requests in the above case. Should you have any questions about this filing, please contact me at 614-460-5558. Thank you!

Sincerely,



Brooke E. Leslie  
Counsel

Enclosures

cc: Hon. Richard S. Taylor

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

**Data Request 001:**

Refer to the response to Item 2.b. of the Commission Staff's First Data Request ("Staff's First Request"). For the majority of the work orders identified in the response, the costs of materials and labor make up only a small portion of the total costs.

Describe, generally, what makes up the "Non-Material Items" in the costs of the projects represented by the 67 work orders included in the response.

**Response:**

The Non-Materials Items in question are generally comprised of expenditures such as:

- Construction overheads - This overhead allows employees involved in construction activities, but where it would be impractical for them to charge directly to individual work orders, to charge a portion of their labor and other applicable expenses to a capital clearing account. For instance, an operating engineer may be responsible for numerous construction projects, and the use of this clearing account allows all construction work orders eligible for this overhead, to receive an equitable portion of the charges.
- Vehicle costs
- Outside services – The majority of actual capital construction work is not performed by company employees, but rather, by external contractor crews. Therefore, a large portion of construction expenses are classified as Outside Services. These services generally consist of expenditures for construction activities such as main line installations and service line reconnects
- Employee expenses
- Allowance for Funds Used During Construction
- General tool costs

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

**Data Request 001 (b):**

Refer to the response to Item 2.b. of the Commission Staff's First Data Request ("Staff's First Request"). For the majority of the work orders identified in the response, the costs of materials and labor make up only a small portion of the total costs.

For the following work orders, provide a listing of the components of the "Non-Material Items" portion of the total cost:

- (1) 00557.WP2519.2621 ;
- (2) 00557.WP2537.2621 ;
- (3) 00557.WP2698.2631 ;
- (4) 00557.WP2704.2633;
- (5) 00561.WP3082.2621 ;
- (6) 07803.WP2313.2621 ;
- (7) 07805.WP2335.2623;
- (8) 07813.WP2479.2631 ;
- (9) 07909.WP2675.2623 ;
- (10) 07913.WP2663.2621 ; and
- (11) 07919.WP2726.2621

**Response:**

Please see the attachment titled "Case No 2010-00143 – Staff Set 2 DR 1b – Attachment 1" for the requested work order component information.

**Columbia Gas of Kentucky, Inc.**  
**Accelerated Main Replacement Program**  
**2009 Main Line Projects - Selection for Second Data Request**  
**with Breakdown of Non-Material Item Charges**

Case No. 2010-00143  
Staff Set 2 DR 1b  
Attachment 1

<b>Construction Work Order</b>	<b>2009 Total Non-Material Item Charges</b>
<b>00557.WP2519.2621</b>	<b>79,968</b>
AFUDC Debt	217
AFUDC Equity	484
Clearing Cost	2,710
Construction Overheads	15,760
Outside Services	60,798
<b>00557.WP2537.2621</b>	<b>163,814</b>
Clearing Costs	5,709
Construction Overheads	29,327
Outside Services	128,778
<b>00557.WP2698.2631</b>	<b>114,645</b>
AFUDC Debt	139
AFUDC Equity	310
Clearing Costs	2,564
Construction Overheads	34,052
Outside Services	77,580
<b>00557.WP2704.2633</b>	<b>120,013</b>
AFUDC Debt	96
AFUDC Equity	214
Clearing Costs	2,529
Construction Overheads	31,432
Outside Services	85,742
<b>00561.WP3082.2621</b>	<b>99,307</b>
AFUDC Debt	28
AFUDC Equity	63
Clearing Costs	2,583
Construction Overheads	29,490
Outside Services	67,143
<b>07803.WP2313.2621</b>	<b>413,798</b>
AFUDC Debt	191
AFUDC Equity	51
All Other	7,500
Clearing Costs	9,448
Construction Overheads	67,818
Employee Expense	128
Outside Services	328,663
<b>07805.WP2335.2623</b>	<b>181,551</b>
AFUDC Debt	925
AFUDC Equity	1,311
Clearing Costs	5,433
Construction Overheads	44,115
Outside Services	129,766

**Columbia Gas of Kentucky, Inc.**  
**Accelerated Main Replacement Program**  
**2009 Main Line Projects - Selection for Second Data Request**  
**with Breakdown of Non-Material Item Charges**

Case No. 2010-00143  
Staff Set 2 DR 1b  
Attachment 1

<b>Construction Work Order</b>	<b>2009 Total Non-Material Item Charges</b>
<b>07813.WP2479.2631</b>	<b>474,686</b>
AFUDC Debt	3,504
AFUDC Equity	83
Clearing Costs	12,843
Construction Overheads	84,807
Employee Expense	416
Outside Services	373,033
<b>07909.WP2675.2623</b>	<b>523,066</b>
AFUDC Debt	101
AFUDC Equity	226
Clearing Costs	8,149
Construction Overheads	139,567
Employee Expense	375
Outside Services	374,647
<b>07913.WP2663.2621</b>	<b>328,513</b>
AFUDC Debt	178
AFUDC Equity	398
Clearing Costs	4,740
Construction Overheads	92,783
Employee Expense	375
Outside Services	230,039
<b>07919.WP2726.2621</b>	<b>741,136</b>
AFUDC Debt	1,953
AFUDC Equity	4,361
Clearing Costs	9,159
Construction Overheads	235,833
Employee Expense	375
Outside Services	489,454

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

**Data Request 002:**

Refer to the response to Item 3 of Staff's First Request. Provide a general description of the Non-Materials cost of \$2.7 million incurred as part of the total cost of \$3.9 million related to service-line replacement activity in 2009.

**Response:**

The Non-Materials Items in question are generally comprised of expenditures such as:

- Construction overheads – This overhead allows employees involved in construction activities, but where it would be impractical for them to charge directly to individual work orders, to charge a portion of their labor and other applicable expenses to a capital clearing account. For instance, an operating engineer may be responsible for numerous construction projects, and the use of this clearing account allows all construction work orders eligible for this overhead, to receive an equitable portion of the charges.
- Vehicle costs
- Outside services - The majority of actual capital construction work is not performed by company employees, but rather, by external contractor crews. Therefore, a large portion of construction expenses are classified as Outside Services. These services generally consist of expenditures for construction activities such as service line installations and paving restorations.
- Employee expenses
- Allowance for Funds Used During Construction
- General tool costs

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

**Data Request 003:**

Refer to the last paragraph in response to Item 4 of Staff's First Request. Describe the disposition of the 1 ¼" meters which are removed from service as part of the accelerated replacement project.

**Response:**

Those 1 ¼" meters that are removed from service are sent to Columbia's meter shop for evaluation, testing and possible rehabilitation. If a 1 ¼" meter is not-temperature compensated, it is discarded. If a 1 ¼" meter passes the Commission's accuracy tests, the top and gasket is replaced with a 1" top and prepared for a future reinstallation. Those 1 ¼" meters that do not pass the applicable tests are repaired and retested. Any meter that cannot be repaired or one that has historical accuracy problems is discarded.

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

**Data Request 004:**

Refer to the last paragraph in response to Item 5 of Staff's First Request. Provide a detailed explanation, along with applicable spreadsheets, calculations, and workpapers, of how the 16.4 percent savings generated using the area-based replacement strategy was determined.

**Response:**

Attachment One compares the actual mainline costs of the three area-based replacement projects discussed in Item 5 of the Staff's First Request to an estimate of the cost had Columbia's traditional replacement strategy been used. This comparison indicates that Columbia's costs would have been 16.4% higher using the traditional strategy. Every effort was made to consider the specifics of each project and identify cost items in the manner that likely would have occurred had Columbia used its traditional replacement strategy. The items considered for this comparison include: size-for-size replacements, an increased number of tie-ins commensurate with the length of replacement, additional pavement restoration due to a larger number of tie-in excavations, additional contract tie-in units, additional backfill material, and additional company labor associated with testing and purging. Columbia's 2009 Blanket Contractor's costs were used in calculating the cost of traditional construction. Though it would have taken many years to complete these projects using the traditional method of replacement, the cost comparison does not consider the time value of money.

The traditional strategy would have required size-for-size replacements instead of smaller diameter, higher pressure installations. This larger pipe would have been necessary to maintain the minimum level of acceptable service since it would not have been practicable to bring elevated pressure to shorter pipe sections in a safe and cost-effective manner. Shorter sections of larger diameter pipe result in higher material and pipe installation costs.

The traditional strategy would have also required more tie-ins for the projects identified. Whereas, area-based projects allow for installing large amounts of pipe with a minimum number of tie-ins, the traditional method would require that each short section replaced be tied in to the existing main. These tie-ins are more costly in terms of labor and contract costs because the excavations are larger and often deeper. They require more paving material for surface restoration, more backfill material to pad the pipe and more labor to maintain the safety of the excavation. Additional manpower is also required for such items as: minimum test durations, cooling times for the plastic tie-ins, weld times for the steel tie-ins, and purging and monitoring.



Attachment One

Description	Area-Based Strategy Replacement Costs	Traditional Strategy Replacement Costs
Pipe Installation	\$ 719,057	\$ 779,034
Pavement Restoration	\$ 216,829	\$ 320,447
Time and Equipment	\$ 89,470	\$ 72,255
Erosion Control	\$ 1,857	\$ 2,484
Extra Depth	\$ 2,445	\$ 1,030
Additional Material Cost	\$ -	\$ 33,176
Additional Company Labor	\$ -	\$ 22,842
<b>Total</b>	<b>\$ 1,029,658</b>	<b>\$ 1,231,267</b>
Percent Difference		16.4%