COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

Application of	)	
	)	
COLUMBIA GAS OF VIRGINIA, INC.	)	CASE NO. PUE-2016-00033
	)	
For authority to increase rates and charges and to revise the terms and conditions applicable to gas service	)))	

APPLICATION OF
COLUMBIA GAS OF VIRGINIA, INC.

Pursuant to Chapter 10 of Title 56 of the Code of Virginia, § 56-232 *et seq.* ("Va. Code") and the State Corporation Commission's ("Commission") Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.* ("Rate Case Rules"), Columbia Gas of Virginia, Inc. ("CGV" or "Company") hereby requests authority to increase its rates and charges, effective for the first billing unit of October 2016, and to revise the terms and conditions applicable to gas service as described more fully herein ("Application"). The proposed rates and charges are designed to increase the non-gas base revenues of CGV by approximately $37 million per year. This revenue increase includes $7 million associated with investments under the Company's Steps to Advance Virginia's Energy ("SAVE") Plan pursuant to Va. Code §§ 56-603 *et seq.* (the "SAVE Act"), which the Company recovers through a rate mechanism ("SAVE Rider") separate from base rates. As permitted under the SAVE Act, CGV is proposing to include recovery of $7 million of SAVE investments in base rates and to set the current SAVE Rider to zero coincident with the implementation of its proposed base rates.

In support of its Application, CGV respectfully states the following:

GENERAL INFORMATION

1. The name, post office address and telephone number of CGV and its counsel as follows:

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2. CGV is a public service corporation organized and existing under the laws of the Commonwealth of Virginia. It is also a local distribution company providing natural gas distribution service to approximately 257,000 residential, commercial, and industrial customers in 91 cities and counties throughout the Northern Virginia, Piedmont, and South Central Operating Regions. The gas distribution services and operations of CGV are regulated by the Commission.

BACKGROUND, SUMMARY AND BASIS FOR FILING

3. CGV was last authorized to increase its rates and charges effective September 29, 2014 in Case No. PUE-2014-00020 (the "2014 Rate Case").[1] Since that time, the Company has continued to make significant capital investments to improve the overall safety, reliability and integrity of its natural gas system for the benefit of customers and to accommodate steady customer growth in its service territory. As Company Witnesses Brentley K. Archer and Philip

[1] *Application of Columbia Gas of Virginia, Inc. For authority to increase rates and charges and to revise the terms and conditions applicable to gas service*, Case No. PUE-2014-00020, Final Order (Aug. 21, 2015) (hereinafter referred to as the "2014 Final Order"). The final rates and charges approved in the 2014 Final Order substituted the rates and charges that took effect on an interim basis on September 29, 2014, subject to refund.

D. Wilson discuss, the Company will have invested more than $160 million in capital expenditures to improve the safety and reliability of its system for the benefit of customers from January 1, 2015 through the end of this year. In 2015 alone, the Company invested approximately $90 million in capital improvements in its system, the highest level in any 12-month period by the Company or its predecessor companies. During the twelve months ending September 30, 2017 ("rate year"), the Company's investment requirements include anticipated capital expenditures of approximately $76 million.[2]

4. A significant portion of the Company's capital investment during this period has occurred under its Commission-approved SAVE Plan. Implemented in 2012, CGV's SAVE Plan has focused on proactive replacement of at-risk facilities to enhance system safety and reliability. As permitted by the SAVE Act, the Company's previously approved SAVE Rider will be combined with customers' non-gas base rates when new rates become effective in this case, as discussed in the testimony of Company Witness Wilson. The Company's proposed methodology for combining the SAVE Rider with non-gas base rates is consistent with the methodology utilized in the 2014 Rate Case.

5. Since the 2014 Rate Case, NiSource Inc. ("NiSource"), CGV's parent company, completed a separation effective July 1, 2015, which resulted in two distinct energy infrastructure companies – a fully regulated natural gas and electric utilities company (NiSource) and a natural gas pipeline, midstream and storage company (Columbia Pipeline Group). As discussed by Company Witness Archer, the separation has allowed NiSource to focus solely on the regulated utility model across all of its operating states. Post-separation, CGV's day-to-day operations remain unchanged and continue to be directed by leaders with extensive experience in the natural gas distribution industry. Moreover, CGV's safety culture has retained the same high level of attention and CGV continues to make investments to

[2] Pursuant to the 2010 Final Order, the capital investments for CGV's Large Volume Transportation Service ("LVTS") customers have been removed from the cost of service and are not reflected in these expenditure levels.

enhance the safety, reliability and integrity of its distribution system for the benefit of all customers.

6. The Company has also continued to demonstrate excellent operational performance to ensure a safe and reliable gas distribution system for its customers. As Company Witness Archer testifies, the Company ranks fifth among all gas utilities nationally for its low number of damages per 1,000 requests for facility locates through the one-call process. In addition, in 2015 the Company achieved an Occupational Safety and Health Administration Incident Rate of 1.09, placing it in the top decile nationally among gas utilities. System improvements during this period have also significantly reduced the number of open leaks on CGV's pipelines, as explained by Company Witness Wilson.

7. Since the 2014 Rate Case, the Company has also continued to enhance pipeline safety and reliability through its formal integrity management program for its distribution system ("DIMP") by identifying, prioritizing and reducing gas distribution pipeline integrity risks. O&M costs associated with the implementation of the Company's DIMP initiatives, as well as compliance activities with other pipeline safety advisories from the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration ("PHMSA"), collectively defined as "eligible safety activity costs" under Va. Code § 56-235.10, totaled $8 million in 2015, and are projected to reach $6 million during the rate year. Pursuant to Va. Code § 56-235.10, the Company is seeking to recover as deferred costs in new base rates the incremental level of eligible safety activity costs not reflected in existing base rates.

8. Apart from DIMP initiatives, the Company conducts other safety-related activities focused primarily on emergency response, reducing third party damages, and repairing open leaks. During the rate year, the Company is undertaking five new safety-related initiatives including (i) enhanced right-of-way maintenance; (ii) remediation of post-1971 shallow transmission mains; (iii) measurement and regulation station maintenance and repair; (iv) enhanced emergency response; and (v) implementation of a Pipeline Safety Management

System. Company Witness Wilson's testimony provides detail on these and other safety-related initiatives and the associated O&M costs.

9. The Company has also invested in additional training for its employees, which has resulted in both direct and indirect increases in operations and maintenance ("O&M") costs. The Company has incurred direct costs associated with the Virginia Common Operator Qualification ("OQ") standards, also referred to as enhanced OQ standards, for employees to meet or exceed safety and operational compliance requirements. Further, extensive training is required for CGV employees before they can be qualified to work in the field, which is becoming more technical in nature due to the new tools available. Additional training for contractor employees also drives up contractor prices for such work.

10. As demonstrated by the testimony and exhibits of Company Witness Chun-Yi Lai, CGV will experience an annual revenue deficiency of $37 million through the rate year. This revenue deficiency reflects CGV's costs and revenues for the test year ended December 31, 2015, the increase in the Company's rate base since its last base rate increase, a fair rate of return on common equity ("ROE") and updated capital structure, and certain rate year adjustments that "reasonably can be predicted to occur during the rate year" as permitted by Va. Code § 56-235.2. Approximately $7 million of the revenue requirement is attributable to the recovery of SAVE expenditures in base rates rather than through the SAVE Rider, as noted above. The remaining $30 million represents an increase to overall customer rates.

11. An earnings test analysis of the Company's test year jurisdictional operations, after limited accounting adjustments and the exclusion of the LVTS customer class, shows a 6.155% average ROE, as set forth in the testimony and exhibits of Company Witness Lai, which is below the approved ROE range of 9.00% - 10.00% set by the Commission in the 2014 Rate Case.

12. The Company requests that the Commission approve 11.25% as the Company's authorized fair return on common equity, as supported by the analyses of Company Witness

Vincent V. Rea. The 11.25% proposed ROE falls at the midpoint of Mr. Rea's cost of equity range for the Company of 10.75% to 11.75%, which range reflects an average of a 115 basis point leverage adjustment to the proxy groups analyzed as part of the determination of the proper ROE in this case associated with CGV's lower equity capitalization and corresponding higher financial risk relative to peer utilities, as this Commission has previously recognized.[3]

13. The revenue level requested by the Company would produce revenues not in excess of the aggregate total costs incurred by CGV in serving customers within the jurisdiction of the Commission, subject to normalization for nonrecurring costs, adjustments for known future increases in costs and adjustments for increases reasonably predictable to occur within the rate year, and a fair return on the Company's rate base used to serve those customers, as such costs, normalizations, adjustments and return are calculated, allowed and prescribed in the Rate Case Rules for general rate cases.

14. The Company's proposed rates will result in an increase to the typical monthly bill for a residential customer with average usage of approximately 13.90%, inclusive of SAVE recovery, as detailed in the testimony of Company Witness Mark P. Balmert. For small general service ("SGS") SGS1 customers, the typical monthly bill based on average usage will increase by approximately 13.99%. For SGS2 and SGS3 customers, the increase is approximately 5.86% and 6.45%, respectively, for the typical monthly bill with average usage.

PROPOSED TARIFF MODIFICATIONS

15. Due to recent changes in the natural gas market, CGV is proposing a modification to the market rate index referenced in the Company's Tariff to no longer exclusively utilize the Transco Zone 6 Non-N.Y. Index price. As Company Witness Robert E. Horner testifies, the exclusive use of this index has resulted in a number of transportation service customers under

[3] *See Application of Columbia Gas of Virginia, Inc. (Formerly Commonwealth Gas Services, Inc.), For general increase in natural gas rates and approval of performance-based rate regulation methodology pursuant to § 56-235.6 of the Code of Virginia*, Case No. PUE-1997-00455, Final Order, 1999 S.C.C. Ann. Rept. 380, 383 (Feb. 19, 1999) (holding that "the starting point for the return on equity range of 10.25% to 11.25% should be adjusted upward by 40 basis points to account for the differences between the various proxy-group equity ratios and the consolidated Columbia Energy Group equity ratio").

Rate Schedules TS1 and TS2 choosing to forego delivering gas quantities to the Company because the Tariff index price (the Transco Zone 6 Non-N.Y. index price) is lower than the market price. In these circumstances, the Company must purchase gas in the market to fulfill the needs of the transportation service customers. When the purchase price the Company pays in the market exceeds the Tariff index price it bills the transportation service customers, the difference is absorbed by the Company's PGA customers. By changing the market index to be more representative of market prices, the Company can eliminate this financial incentive and also rectify the consequential effect of having the PGA customers subsidize the transportation customers' gas supply costs.

16. There are several areas within the Tariff that utilize a market based index when the Company is purchasing or selling gas quantities for deliveries that fall outside of Tariff tolerances/specifications. For consistency, the Company is proposing to modify each area within the Tariff that includes this index. Company Witness Horner provides more detail on the proposed modifications to the Tariff and the basis for the change.

DIRECT TESTIMONY SUPPORTING OBJECTIVES SOUGHT

17. Evidence in support of this Application is included in the pre-filed direct testimony and exhibits included in Volumes I through II for the following individuals, as well as in the schedules required by the Rate Case Rules ("Schedules") included in Volumes III through VI, which are filed with this Application:

Brentley K. Archer, President, Columbia Gas of Virginia, Inc., provides an overview of the key points of the Company's Application and explains why it is crucial for the Company to obtain the relief it is requesting. Mr. Archer also sponsors Schedule 37, which is the NiSource corporate organizational chart.

Philip D. Wilson, Vice-President and General Manager, Operations, describes the Company's DIMP and other pipeline safety initiatives, other O&M activities and costs, as well as the Company's recent capital additions and planned capital expenditures through the rate year.

Vincent V. Rea, Director of Regulatory Finance and Economics, presents evidence and a recommendation supporting the capital structure, ROE, and the overall rate of return that CGV seeks in this proceeding, and also sponsors Schedules 1-6 and 8.

Chun Yi Lai, Lead Regulatory Analyst for NCSC, presents the results of the earnings test analysis for the test year ended December 31, 2015, and supports the accounting adjustments, including reasonably predictable costs that will occur in the rate year ending September 30, 2017. Ms. Lai also presents and supports the development of the cost of service and revenue requirement. Ms. Lai sponsors Schedules 7, 9, 11, 15, 16, 19, 21, 25, 26, 30, 31, 34, 36, 38, 39, 42, and Schedule 29 Adjustments 1 through 11, 13 through 30, 39 through 54, and Adjustments ET-1 through ET-20.

Chad Notestone, Manager of Regulatory Accounting for NCSC, provides support for the test year and rate year rate base. Mr. Notestone also presents the balance sheet analysis and lead/lag study. Mr. Notestone sponsors Schedules 12, 14, 17, 18, 22, 24, 27, and 28 and Schedule 29 Adjustments 30, 31 through 38, 55, and 56.

Mark P. Balmert, Director of Rates and Regulatory Services for NCSC, sponsors the allocated cost of service studies presented in Schedule 40. Mr. Balmert also addresses the rate design relied upon in developing the rates in this filing, including certain proposed changes. Mr. Balmert also sponsors the associated bill comparisons in Schedule 43.

Jeffrey C. Eing, Accounting Manager for NCSC, addresses affiliate charges to and from CGV, except those from NCSC, and sponsors Schedule 35.

Jennifer L. Sawyers, Special Studies Accounting Manager for NCSC, addresses the role of NCSC and reasonably predicted NCSC charges anticipated through the rate year.

Patrick L. Baryenbruch, President of Baryenbruch & Company, LLC, provides testimony and sponsors his study of the reasonableness of affiliate charges for services provided to CGV.

Robert E. Horner, Manager of Regulatory Policy for CGV, describes proposed changes to the Company's Rate Schedules, General Terms and Conditions, and Form of Service Agreements. Mr. Horner also provides cost support for Other Service Charges in Section 19 of the General Terms and Conditions. Mr. Horner sponsors Schedule 41.

COMPLIANCE WITH RATE CASE RULES AND REQUEST FOR PARTIAL WAIVER

18. In support of this Application, the Company is filing an original and 12 copies[4] of Schedules 1-9, 11-12, 14-19, 21-22, 24-28, 30-31, 34, and 36-43, and one copy of Schedule 29, as permitted by the Rate Case Rules, Rule 20 VAC 5-201-10 (I).[5] Two copies of Schedules 29 and 40 have been submitted to the Commission's Division of Utility Accounting and Finance, and two copies of Schedule 40 have been submitted to the Division of Energy Regulation. As permitted by the Rate Case Rules, the information required to be provided in Schedule 35 has been included in the Company's Annual Report of Affiliate Transactions, which is being submitted to the Commission's Division of Utility Accounting and Finance concurrently with the filing of this Application, and is incorporated by reference herein.

19. Pursuant to Rule 10 E of the Commission's Rate Case Rules, 20 VAC 5-201-10 E, and for good cause shown, the Company respectfully requests that the Commission waive, in part, the requirements of Rules 10, 20 and 90 of the Rate Case Rules with respect to Schedule 6 (Public Financial Reports). With this Application, the Company has provided one complete unbound copy of its Schedule 6 comprised of the NiSource Inc. 2015 Form 10-K (Annual Report) to the Commission's Document Control Center for purposes of public review and

[4] Except to the extent subject to the Company's request for partial waiver addressed herein.
[5] Schedules not applicable to the Company have been omitted in accordance with Rule 90 of the Rate Case Rules.

inspection. The NiSource Form 10-K is publicly available on the NiSource website,[6] and the Company will agree to provide hard copies to any parties upon request. Due to its voluminous nature, the Company respectfully requests that the Commission waive, for good cause shown, the requirements of 20 VAC 5-201-10, 20 VAC 5-201-20, and 20 VAC 5-201-90 with respect to the submission of 12 additional copies of Schedule 6 with the Application.

20. CGV has served a true copy of this Application in compliance with Rule 20 VAC 5-201-10 (J), together with a statement that a true copy of the complete Application may be obtained at no cost by making a request therefore orally or in writing to a specified Company official or location, by placing the same in the United States first class mail, addressed to customary places of business or residences of each of the following:

(a) The County Attorney and the Chairman of the Board of Supervisors of each county (or equivalent officials in the counties having alternate forms of government) in this Commonwealth affected by the proposed increase; and

(b) The Mayor or Manager and the Attorney of every city or town (or equivalent officials in the counties having alternate forms of government) in this Commonwealth affected by the proposed increase.

21. CGV also has served a true copy of the complete Application upon the Office of the Attorney General of Virginia's Division of Consumer Counsel by hand delivery.

WHEREFORE, CGV respectfully requests that the Commission: (1) find this Application is deemed filed pursuant to 20 VAC 5-201-10 D; (2) grant the Company's request for a partial waiver of the Rate Case Rules with respect to the Schedule 6 filing requirements; (3) authorize the implementation of the rate and tariff modifications proposed herein, on an interim basis subject to refund, effective for the first billing unit of October 2016; and (4) grant the Company such further relief as the Commission deems necessary and appropriate.

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[6] A copy of the NiSource Inc. 2015 Form 10-K (Annual Report) is available at: http://ir.nisource.com/annuals.cfm.

Respectfully submitted,

COLUMBIA GAS OF VIRGINIA, INC.

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April 29, 2016

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February 25, 2016

VIA ELECTRONIC FILING

Joel H. Peck, Clerk
State Corporation Commission
c/o Document Control Center
Tyler Building, First Floor
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Richmond, Virginia 23219

Re: Application of Columbia Gas of Virginia, Inc.
For a general increase in natural gas rates and charges
Case No. PUE-2016-00___

Dear Mr. Peck:

Please be advised that Columbia Gas of Virginia, Inc. ("Columbia") intends to file an Application for a general increase in rates and charges on or about April 29, 2016. This Notice is being provided to the Commission as required by Rule 20 VAC 5-201-10 of the Rules Governing Utility Rate Applications and Annual Informational Filings.

Thank you for your attention to this matter.

Very truly yours,

T. Borden Ellis

cc: Ms. Kimberly B. Pate
Mr. William F. Stephens
Mr. Massoud Tahamtani
William H. Chambliss, Esq.
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