TESTIMONY OF
JIMMY D. STATON
EXECUTIVE VICE PRESIDENT & GROUP CEO
NISOURCE GAS TRANSMISSION AND STORAGE

BEFORE THE
COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

FIELD HEARING REGARDING
"PIPELINE SAFETY: AN ON-THE-GROUND LOOK AT SAFEGUARDING THE PUBLIC."

MONDAY, JANUARY 28, 2013
ROBERT C. BYRD UNITED STATES COURTHOUSE
CHARLESTON, WEST VIRGINIA

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Introduction

Mr. Chairman and Members of the Committee:

My name is Jimmy Staton. I live in Clarksburg, West Virginia, and I am CEO of NiSource Gas Transmission & Storage, parent company of Columbia Gas Transmission whose operational headquarters are located in Charleston.

Columbia Gas Transmission owns and operates approximately 12,000 miles of natural gas pipelines, including roughly 2,500 miles of pipeline in West Virginia. Our pipeline system is integrated with one of the largest underground storage systems in North America and we deliver domestically produced natural gas to businesses and communities across the Midwest, Mid-Atlantic and Northeast regions of the United States. Through our predecessor companies, NiSource and Columbia Gas have been a safe pipeline operator, an employer of choice and a community partner of West Virginia and surrounding states for more than a century.

Personally, I have worked in the natural gas and energy industry for nearly 30 years – serving in a variety of roles ranging from rates and regulatory to operations and engineering. At no other time during my career has there been such a promising outlook for America's domestic energy potential – and the economic and national security related benefits that comes with it – but that energy potential must be grounded in a daily commitment to operating safely.

At Columbia Gas we take our commitment to safety very seriously. I appreciate the opportunity to share with you the various initiatives we are undertaking to ensure we continue to provide safe and reliable pipeline service.

Sissonville Incident

Mr. Chairman, let me take a moment to provide you with an update on our efforts to respond to the incident that occurred on December 11, 2012, on our Line SM-80 pipeline near Sissonville.

This was a terrible incident – one in which I hope we never see the likes of again. Thankfully, no one was seriously injured. Please be assured that we are fully committed to making this right and taking any steps necessary to ensure the safety of our company's pipeline system.

In working with local emergency responders, we were able to isolate the incident, secure the site, and focus on the following three key areas:

(1) Making the area safe and immediately addressing the needs of any local residents and community agencies impacted by the pipeline incident;
(2) Collaborating with the National Transportation Safety Board (NTSB) and other federal, state and local authorities to identify the root cause of the event and apply "lessons learned" to our operations systemwide; and,
(3) Working proactively with federal and state officials to design and implement an Integrity Assurance plan that will ensure a safe return to service and the long-term integrity of Line SM-80.

Attending to Community Needs

Immediately following the incident, a team of local Columbia employees identified and made contact with each impacted resident to ensure that basic essentials, including temporary housing, food, and transportation were provided. Our team remained in constant contact with residents to ensure that no necessity was overlooked. In addition, we partnered with the regional office of the Red Cross – to tap into their special expertise, provide additional support for those in need, and facilitate Columbia employees and others in the community looking to help their neighbors through charitable giving. Our team has worked closely with all of the impacted residents to resolve the issues associated with the Line SM-80 incident.

We know this incident impacted the lives of several families living in the area, and we will continue to work to make things right.

We have also been working with various local and state agencies that assisted our efforts to safely secure the incident site. As a longtime West Virginia resident, I know first-hand that during challenging times, we come together to help each other – and that has certainly been the case here. We are grateful for the dedication and commitment of the first responders, the Department of Highways, and other local agencies that provided support and recovery efforts that day. We also have moved quickly to ensure that the operating budgets for these public agencies were not adversely impacted by this incident, and are providing full reimbursements for costs associated with the emergency response services rendered by these groups.

We've also provided contributions to the Aldersgate United Methodist Church and Sissonville High School in recognition of the important role they played in the hours and days following the incident.

We recognize this was a difficult time for Sissonville and Kanawha County. It has been and will continue to be our priority to work proactively with those who were impacted, as well as those who lent a helping hand. We've enjoyed a positive working relationship with a number of local agencies in Kanawha County over our many years of providing service in West Virginia, and we look forward to continuing this cooperative partnership in the future.

Cooperating with the NTSB

As I mentioned earlier, we have been working in close collaboration with the NTSB to determine the cause of the incident and to implement lessons learned across our policies, procedures and pipeline assets. The NTSB has noted, both in press briefings and a recently issued Preliminary Report, that the ruptured line had experienced significant external corrosion.

The NTSB has also confirmed that Columbia's SCADA system detected a drop in pressure in the SM-80 line, as well as the nearby SM-86 and SM-86 Loop pipelines, as designed. Alerts issued by our SCADA system are the first critical step toward the initiation of our Emergency Response plan and the dispatching of personnel to a pipeline rupture site. Columbia's SCADA system is staffed 24-hours a day, seven days a week by trained operations employees to provide a real-time

monitoring of the flow of gas through our pipeline system. The proper functioning of our SCADA system and the procedures followed by our Control Room personnel were a crucial component to our response to the Sissonville incident. We will continue to work closely with the NTSB as it produces its final report and are committed to applying lessons learned to our Control Room procedures.

A Safe Return to Service

As NTSB's investigation proceeds, our engineering team has been hard at work developing a comprehensive Integrity Assurance plan[1] to ensure the safe return to limited service for Line SM-80. This line is an important part of a pipeline system that plays a vital role in supplying natural gas to West Virginia and other critical eastern markets.

Our Integrity Assurance plan is designed to help facilitate an advanced internal inspection of the SM-80 pipeline. It addresses a comprehensive Corrective Action Order (CAO) recently issued by the U.S. Department of Transportation's Pipelines and Hazardous Materials Safety Administration (PHMSA). The CAO requires the implementation of a number of measures prior to restarting Line SM-80 to restricted service. We will address each requirement and, in fact, have elected to supplement the order in several important ways in order to provide an even greater level of assurance that we are fully committed to operating safely.

Under the Integrity Assurance plan, Columbia's engineering team will identify and complete the repair work needed to ensure the integrity of the pipeline for operation at a reduced pressure, and ready the line for further evaluation using "smart pig" in-line inspection tools. The work will include: the replacement of mainline valves along a 30-mile stretch of Line SM-80 from the Lanham Compressor Station to Columbia's Broad Run Valve Setting; the installation of launcher and receiver facilities at points along the line to enable passage of in-line inspection tools; a verification that the cathodic protection system is operating properly on all three of Columbia's pipelines in the vicinity of the incident origin; and the installation and adjustment of pressure

[1] A copy of the Executive Summary of the Columbia Gas Transmission Integrity Assurance Plan as submitted to PHMSA is included in Appendix A. Supporting materials are available upon request.

regulation and overpressure protection equipment to support operation of the pipeline at a safe temporary maximum allowable pressure. These steps will allow us to return the pipeline to a restricted level of service so that additional integrity assessment can be performed. Columbia will then implement the appropriate preventive and mitigative measures based on this assessment to provide for the safe return of Line SM-80 to full commercial service and to ensure the long-term integrity of the pipeline.

We will only return Line SM-80 to service once we have received approval from PHMSA and the West Virginia Public Service Commission, as well as communicated with our neighbors in Sissonville. We have also elected to hire an independent monitor experienced in pipeline safety and integrity related issues to provide a third party review of the plan and actions taken by Columbia in the course of carrying it out. The independent monitor will review pipeline integrity plans and inspections and provide feedback to both Columbia and PHMSA on the effectiveness of our work.

Modernization

In addition to our response to the SM-80 incident, Columbia is taking significant steps forward to assure the continued safe operation of our entire pipeline system for generations to come.

Aligning our efforts with the "Call to Action" by U.S. Department of Transportation Secretary Ray LaHood, we developed a comprehensive modernization plan that ensures pipeline and system upgrades; improves public safety, customer reliability and service; and provides economic benefits. This modernization effort will strategically and systematically replace, revamp or rebuild key pipeline and compression facilities across our entire system.

Our Modernization program, which is the first of its kind in the industry, is the culmination of a multi-year effort to evaluate our system and identify areas in need of investment. The program's system improvements include:

- Replacing Aging Infrastructure – replacing approximately 1,000 miles of existing interstate transmission pipelines, primarily bare steel (400 miles in the first five years);
- Expanding In-Line Inspection Capabilities – facilitating Columbia's ability to perform state-of-the-art maintenance and inspections without interrupting service;
- Increasing Pipeline System Reliability – uprating pressures and looping systems where needed to ensure gas is reliably delivered to critical markets; and,
- Upgrading Natural Gas Compression Systems – replacing and modernizing more than 50 critical compressor units along the pipeline system that will enhance system efficiency and improve environmental performance.

We anticipate investing more than $2 billion in this program over the next five years – dollars that will be directly focused on increasing pipeline safety and service reliability.

The Columbia Modernization program is aligned with key provisions of the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 that you and this Committee led the enactment of one year ago. Recently, Secretary LaHood publicly pledged to support and assist our efforts to navigate the federal and state permitting process under the auspices of an Executive Order issued by President Obama in March of 2012 aimed at encouraging investment in vital and economically significant national infrastructure.[2]

We developed this initiative with the input and assistance of our customers, and filed a broadly supported settlement agreement with the Federal Energy Regulatory Commission (FERC) in September of last year. Just recently, on January 24, the FERC endorsed our plan by issuing an affirmative order[3] that clears the way for our modernization efforts to continue and accelerate.

A number of our most critical Modernization projects will be occurring in West Virginia. One of the largest of those projects will be the $38 million WB Pipeline project, which will upgrade a number of older pipelines to accommodate in-line inspection equipment, or so-called "smart pigs." Our WB pipeline system runs across central West Virginia and delivers natural gas to the

[2] The Department of Transportation press release is attached in Appendix B.
[3] Columbia Gas Transmission, LLC, 142 FERC Paragraph 61,062 (2013), included in Appendix C.

state and other eastern markets. Upgrading this system to accommodate today's latest safety technology will not only allow for enhanced integrity assessment, but it will also greatly improve the efficiency and reliability of the pipeline.

Our plan also calls for over $100 million in critical compression facility upgrades in West Virginia. Three compressor stations have been identified for enhancement at Seneca, Frametown, and Lost River. These investments will provide increased reliability, system flexibility and efficiency. Work at the stations will improve compressor horsepower, dramatically improve emissions performance, and result in a significant reduction in fuel consumption.

In total, over the first six years of our Modernization program, Columbia will invest close to three-quarters of a billion dollars in safety and reliability related improvement projects in West Virginia alone. A recent economic analysis of our program estimates that Modernization will result in more than $1.1 billion in economic output in the state, including the creation or support of approximately 1,700 total jobs at the peak of our program in 2016 ranging from engineering to construction services. In addition to private economic activity, our Modernization investment is anticipated to generate approximately $80 million in new revenue for the State of West Virginia and its units of local government. Most importantly, our work in the state will make our systems safer and more reliable.

Closing

Mr. Chairman, Columbia's Modernization program is good news for pipeline safety and good news for job creation. At its core, the legislation you spearheaded in the 112th Congress sought to drive investment in newer and more advanced pipeline systems and facilities – all in the name of safely and reliably transporting this important resource. Columbia's Modernization program helps accomplish this important goal and will keep us on a solid footing to safely and reliably deliver natural gas to the next generation of natural gas consumers.

As a constituent, I cannot close without thanking you for your public service of nearly 50 years and your tireless dedication to the residents of West Virginia and this nation.

Thank you for the invitation to appear before the committee today. I am pleased to answer any questions you may have.

APPENDIX A

Columbia Gas Transmission

Integrity Assurance Plan

(Executive Summary)

January 8, 2013

COLUMBIA GAS TRANSMISSION, LLC

Line SM-80
Lanham to Broad Run

Integrity Assurance Plan – Phase 1

[January 8, 2013]

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Executive Summary

On December 11, 2012, at approximately 12:41 p.m., a natural gas pipeline incident involving an ignition and fire occurred in northern Kanawha County, WV, along the 20 inch diameter Columbia Gas Transmission (Columbia Gas) Line SM-80. Line SM-80 is approximately 30 miles long and runs from the Lanham Compressor Station to the Broad Run Valve Setting. In response to the incident, a pipeline segment approximately 8 miles long, from the Lanham Compressor Station to the Rocky Hollow Valve setting, was isolated, blown down and has remained out of service since the time of the rupture. In addition, a section approximately 22 miles long, from Rocky Hollow to the Broad Run valve setting, has been isolated and remains out of service, with a static pressure of less than 300 psig. The maximum allowable operating pressure (MAOP) of Line SM-80 is 1,000 psig, and the discharge pressure at Lanham was approximately 929 psig at the time of the incident.

This integrity assurance plan details the first phase in a four-phase approach designed to implement corrective measures to prevent recurrence, and ensure the safe return to service of Line SM-80. Phase 1 of the plan focuses on making repairs and ensuring the near term safety and integrity of Line SM-80, while preparing the line for Phase 2. Phase 2 focuses on performing a comprehensive integrity assessment of Line SM-80. Based on the integrity assessment, Columbia Gas will implement appropriate preventive and mitigative measures to provide for the safe return of Line SM-80 to full service and ensure the long-term integrity of the pipeline. Phase 3 includes completion of necessary repairs, summarizing the work completed, requesting regulatory approval to return Line SM-80 to service, and upon approval, restoring normal service to the pipeline. Phase 4 focuses on steps that Columbia Gas will take to document and communicate the work conducted, including keeping regulators informed of progress, maintaining records, and tracking expenditures associated with implementation of this plan.

Phase 1 Key Elements

Phase 1 includes the steps that Columbia Gas will take to repair the damaged sections of the pipeline, ensure the integrity of the pipeline for operation at a reduced/restricted pressure, and ready the pipeline for further evaluation using in-line inspection tools. Key elements of Phase 1 are:

1) Verification of the integrity of the pipeline in the vicinity of the incident origin
2) Complete repairs to Line SM-80 at the incident origin
3) Verification that the cathodic protection (CP) system is operating properly on all three pipelines in the vicinity of the incident origin
4) Replacement of mainline valves along Line SM-80 from Lanham to Broad
5) Installation of a temporary launcher at Lanham Station and a temporary receiver at Broad Run to enable the passage of in-line inspection tools (a permanent launcher and receiver will be installed in Phase 2)
6) Verification of the discharge pressure at Lanham Station immediately prior to the incident to establish a safe temporary maximum allowable pressure

7) Installation and adjustment of pressure regulation and overpressure protection to support operation of the pipeline at the safe temporary maximum allowable pressure.
8) Return of Line SM-80 to service at or below the safe temporary maximum allowable pressure on a temporary basis for purposes of conducting an in-line inspection. The pressure will be restored through a stepped approach that includes instrumented leak surveys.

Background

The NTSB conducted a field investigation following the incident. The NTSB reported that a 20 foot section of pipe was ejected during the event. The NTSB further reported that the ruptured pipeline was found to have areas consistent with external corrosion. According to the NTSB, visual examination of the ruptured pipe revealed a six foot area that ran along the bottom of the pipe where the pipe thickness was measured to be less than 1/10 inch thick in some places (approximately .078 inch thick). On December 20, 2012, the Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a Corrective Action Order (CAO) that requires the implementation of certain measures prior to restarting the pipeline to restricted service.

The purpose of this plan is to detail the work that will be completed both in the vicinity of the incident origin as well as along Line SM-80 from Lanham Compressor Station to the Broad Run valve setting to safely return the pipeline to restricted service so that additional integrity assessment can be completed. This plan also details the other actions Columbia Gas will take to comply with the requirements set out in the CAO issued by PHMSA. As further detailed in this Plan, Phase 1 includes:

Preliminary Cause Determination

- Continue to support the NTSB in the ongoing investigation of the incident and incorporate findings, as appropriate, into the Integrity Assurance Plan.

Repairs to Incident Origin

- Verification of the integrity of the pipeline in the vicinity of the incident origin.
- Repairs to Line SM-80 at the incident origin.

Verification of Cathodic Protection

- Verification that the cathodic protection (CP) system is operating properly on SM-80 and the two adjacent pipelines, SM-86 and SM-86 Loop, within three miles upstream and three miles downstream of the incident origin.

Preparation of Line SM-80 for In-Line Inspection

- Replacement of mainline valves along Line SM-80 from Lanham to Broad Run with new, full bore valves to enable passage of in-line inspection tools.
- Investigation and, where necessary, replacement of other potential restrictions to the passage of in-line inspection tools.

- Installation of a temporary launcher at Lanham Station and a temporary receiver at Broad Run to enable the passage of in-line inspection tools. A permanent launcher and receiver will be installed in Phase 2 (see Element 9 of "Summary and Overview of Integrity Assurance Plan - Phase 2," below).

Safe Return to Temporary Maximum Allowable Pressure

- Verification of the discharge pressure at Lanham Station immediately prior to the incident for establishing a safe temporary maximum allowable pressure.
- Inspection and full operation of all critical valves that might be required during an emergency to ensure they can be completely closed.
- Installation and adjustment of pressure regulation and overpressure protection to support operation of the pipeline at a restricted pressure.
- Return of Line SM-80 to service at or below the safe temporary maximum allowable pressure on a temporary basis for purposes of conducting an in-line inspection. The pressure will be restored through a stepped approach that includes instrumented leak surveys.

In the course of completing the Phase 1 work, detailed documentation of measurements, pipe characteristics, pipe condition, pipe coating characteristics, environmental and other conditions will be collected. This information will be used, where appropriate, to support Phase 2 of the Integrity Assurance Plan. The results of the work outlined in this Integrity Assurance Plan will be shared with PHMSA, as well as the National Transportation Safety Board (NTSB) and the West Virginia Public Service Commission (WVPSC).

Safety

Employee and public safety will be the highest priority in the course of conducting the work outlined in this plan. All work will be conducted in a safe manner and will comply with all Columbia Gas safety plans and procedures. Daily safety meetings will be held that will include employees, contractors and authorized visitors at the beginning of each work day. All company and state required one-calls shall be completed and the site cleared before any excavation activities occur. In addition, all persons performing tasks covered by 49 CFR Part 192, Subpart N shall be qualified according to the Columbia Gas Operator Qualification Plan.

Independent Review and Monitoring

Columbia Gas will hire a qualified outside contractor ("independent monitor") experienced in pipeline safety and pipeline integrity related issues to provide independent third party review and monitoring of the Integrity Assurance Plan prepared for Line SM-80 and the actions taken by Columbia Gas in the course of carrying out the work specified in the Plan. The independent monitor will 1) review and provide feedback to Columbia and PHMSA concerning the prudence and effectiveness of plans for verification of the integrity of Line SM-80, 2) review the results of inspections, tests and analysis completed for Line SM-80 during the course of this plan, 3) review the actions taken pursuant to the plan to ensure that they are reasonable and prudent,

and 4) provide PHMSA with a quarterly report of progress towards compliance with the CAO and the Columbia Gas Integrity Assurance Plan.

Preliminary Cause Determination

Following the Line SM-80 pipeline incident, an investigation into the cause of the incident was initiated by the National Transportation Safety Board (NTSB). As stated, the NTSB has reported that the ruptured pipeline was found to have areas consistent with external corrosion and that visual examination of the ruptured pipe revealed a six foot area that ran along the bottom of the pipe where the pipe thickness was measured to be less than 1/10 inch thick in some places (approximately .078 inch thick). The NTSB, however, has not released a preliminary cause determination, and the investigation is ongoing.

Columbia Gas has been fully cooperating with the NTSB investigation and is committed to supporting the ongoing investigation of the incident. Columbia Gas has provided and will continue to provide requested information and support to the NTSB and will incorporate, as appropriate, the findings of the investigation into the Integrity Assurance Plan.

Repairs to Incident Origin

The removed sections of pipe near the rupture origin will be replaced with new, coated pipe. Repair and testing of the pipe will follow the Pipe Repair, Modification and Hydrostatic Testing Plan provided in Attachment A. Up to approximately four joints (160 feet) of new 20 inch diameter, 0.375 wall thickness, API-5L X65 pipe will be installed at the location. The pipe will be hydrostatically tested for not less than eight hours at a minimum test pressure of 2,438 psig (100 % SMYS). The minimum test pressure of 2,438 psig is equivalent to 244% of the pipeline MAOP of 1,000 psig.

All girth welds will be non-destructively tested in accordance with the Columbia Gas Welding Manual and will be coated with a 100% solids two-part epoxy in accordance with Procedure 70.001.026 External Coating – Underground Facilities – New Construction or Maintenance Application (See Attachment B). In addition, the pipe will be supported with sand bags, covered in rock shield, and soft fill will be installed below and around the pipe to ensure the pipe is protected from damage. Prior to backfilling the pipe, an instrumented inspection of the coating will be performed in accordance with Procedure 70.001.013 – Inspect Pipe Coating with Holiday Detector (See Attachment C).

Verification of Cathodic Protection

Columbia Gas will inspect and verify the proper operation of all CP rectifiers, test stations and other CP equipment on Lines SM-80, SM-86 and SM-86 Loop within three miles upstream and three miles downstream of the incident origin. CP inspections will be completed after the pipe replacements described in the previous section. Inspections will include test station and rectifier readings that will be performed in accordance with Procedures 70.002.008 - P/S Reading - Test Stations, 70.002.001 - Readings – Casing and 70.002.003 - Reading - Rectifier

(See Attachment D) and will be documented in the company Work Management System. Any deficiencies will be documented and remediated prior to continuing the Phase 1 Plan.

Preparation of Line SM-80 for In-Line Inspection

Line SM-80 from Lanham Compressor Station to the Broad Run valve setting is currently not equipped to allow the passage of in-line inspection tools. Pipe replacements, equipment replacements and facility enhancements, as follows, will be performed to prepare the pipeline for the passage of in-line inspection tools:

- The existing mainline plug valves on Line SM-80 at Rocky Hollow and Patterson Fork Valve Settings will be removed and replaced with new ball valves that will support the passage of ILI tools. The replacement and testing of the pipe at these locations will follow the Pipe Repair and Hydrostatic Testing Plan shown in Attachment A. Pipe exposed during the course of the valve replacement work will be inspected following the Columbia Gas pipe inspection protocols (see Attachment E).
- A review of pipe materials and mapping will be completed to identify any other restrictions that would inhibit the passage of in-line inspection tools. Where such restrictions are identified they will be investigated and, if necessary, replaced to ensure the passage of in-line inspection tools. The replacement and testing of the pipe at these locations will follow the Pipe Repair and Hydrostatic Testing Plan shown in Attachment A. Pipe exposed during the course of investigation or replacement work will be inspected following the Columbia Gas pipe inspection protocols (see Attachment E).
- Temporary launchers and receivers sized and compatible with high resolution in-line inspection tools will be installed. A temporary launcher will be installed at Lanham Compressor Station and a temporary receiver will be installed at the Broad Run Valve setting. Due to the long lead time associated with permanent launchers and receivers, temporary facilities will be used to allow for in-line inspection in the near term. However, permanent facilities will be fabricated and installed in Phase 2, and will be installed prior to the return of Line SM-80 to full service. See section titled "Summary and Overview of Integrity Assurance Plan - Phase 2".
- All girth welds will be non-destructively tested in accordance with the Columbia Gas Welding Manual and will be coated with a 100% solids two-part epoxy in accordance with Procedure 70.001.026 External Coating – Underground Facilities (See Attachment B). In addition, the pipe will be supported with sand bags, covered in rock shield, and soft fill will be installed below and around the pipe to ensure the pipe is protected from damage. An instrumented inspection of the coating will be performed prior to backfilling the pipe in accordance Procedure 70.001.013 Inspect Pipe Coating with Holiday Detector (See Attachment C).

A drawing showing the areas along SM-80 where work is planned to prepare the line for the passage of in-line inspection tools is included in Attachment F.

Safe Return to Temporary Maximum Allowable Pressure

The following measures will be taken to ensure the integrity of Line SM-80 before it is returned to restricted service.

- Repairs - Any actionable anomalous conditions discovered on the SM-80 pipeline during the course of completing Phase 1 of the Integrity Assurance Plan will be repaired following Operations and Maintenance Plan 220.02.01 Pipeline Repair (see Attachment G).
- Critical Valves – All critical valves along the SM-80 pipeline system from Lanham to Broad Run that may be required during an emergency will be inspected and fully operated to ensure that they can be completely closed. Valve inspections will follow Plan 220.03.02 - Valve Inspection and Operation and Procedure 220.002.001 Inspection & Operation – Valve (see Attachment H) except that each valve will be fully operated. A schematic depicting all critical valves that will be inspected and operated is provided in Attachment I.
- Discharge Pressure Review and Validation – A report validating the SM-80 discharge pressure at Lanham Compressor Station at the time of the incident is included in Attachment J. Columbia Gas has reviewed SCADA pressure data and has validated that the discharge pressure at Lanham Compressor Station on Line SM-80 at the time of failure was greater than 929 psig, which supports a temporary MAOP of 741 psig (80% of 929 psig). However, due to favorable market conditions, Columbia Gas has determined that additional safety measures can be taken and will further restrict the temporary MAOP to 600 psig for the duration of the Integrity Assurance Plan.
- Return to Service under Temporary Maximum Allowable Operating Pressure – Once the pipeline repair work is completed, the measures prescribed in this plan have been satisfactorily completed, and approval is received from the Director of the PHMSA Eastern Region, Columbia Gas will follow the Return to Service plan provided in Attachment K, to safely return Line SM-80 to restricted operation for purposes of conducting an in-line inspection. Columbia Gas plans to return the pipeline pressure to no more than is necessary to efficiently and effectively conduct an in-line inspection on Line SM-80 between Lanham and Broad Run (not to exceed 600 psig). After successful completion of the necessary in-line inspections, Columbia Gas will isolate Line SM-80 from other sources of natural gas supply and reduce the pressure of the pipeline to below 300 psig until completing the remaining requirements of this Integrity Assurance Plan and PHMSA has granted the necessary approvals to restore full service to the pipeline.
- The Return to Restricted Service Plan (Attachment K) requires step increases in pressure in quarter increments up to the temporary MAOP of 600 psig. Each quarter step will be followed by a 30 minute idle period. Following each 30 minute idle period, an instrumented leak survey will be conducted over the entire pipeline using instrumented aerial patrol. In addition, an on-ground instrumented leakage patrol will be conducted for 300 feet upstream and downstream from the incident location. Any leaks discovered will be investigated and resolved before continuing the quarter step process. 24 hours after the fourth pressure increment is completed, another set of aerial and ground leak surveys will be conducted. Any leaks discovered will be investigated and resolved as soon as practical, but within 24 hours.

- The Return to Restricted Service Plan will be initiated only during weather conditions conducive to ensure successful aerial leakage patrol of the pipeline (not during periods of high winds or severe weather). Should conditions change during implementation of the Return to Restricted Service Plan and aerial patrol can no longer be effectively conducted, the pressure on the pipeline will be lowered to the previous step up in pressure until effective aerial patrol can be completed.
- All pressure control and overpressure protection devices will be set to ensure that the temporary MAOP of 600 psig will not be exceeded. Line SM-80 will continue to be isolated from Line SM-86 and SM-86 Loop while the temporary maximum allowable operating pressure is in effect. Overpressure protection devices at Lanham Compressor Station will be used to limit the operating pressure at or below the pressure necessary to effectively and efficiently run the in-line inspection tools, and in no case above 600 psig.

Preliminary Phase I Schedule

The schedule for completion of tasks outlined in this Phase 1 plan is dependent upon many factors including receipt of environmental and other clearances, weather, availability of materials and other factors. A Gantt chart containing a preliminary schedule for the completion of each major item outlined in this plan is included in Attachment L. This schedule is based upon information known at this time and is subject to change as actions under this plan are carried out.

Summary and Overview of Integrity Assurance Plan - Phase 2

Upon completion of Phase 1 of the Integrity Assurance Plan, Line SM-80 will have been repaired at the rupture site and verified safe for a return to service at a temporary maximum allowable pressure not to exceed 600 psig for purpose of performing additional integrity assessment. Line SM-80 will have been made capable of passage of in-line inspection tools and additional work will have been completed to aid in the comprehensive integrity assessment of Line SM-80.

Following the successful completion of Phase 1, Columbia Gas will seek approval from the Director of PHMSA Eastern Region for initiation of a Phase 2 plan. The Phase 2 plan will be documented and submitted for approval prior to initiation. Key elements of the Phase 2 plan will include:

1. Continued support of the ongoing NTSB investigation and incorporation, as appropriate, of findings of the investigation into the Integrity Assurance Plan.
2. Verification of Line SM-80 pipe properties and data to ascertain if records reflect actual pipe specifications, including representative sampling with bell-hole excavation, inspection and validation.
3. Verification of MAOP records for Line SM-80 and implementation of corrective measures if records do not substantiate current MAOP.
4. The SM-80 pipeline from Lanham to near Broad Run will be prepared for the passage of instrumented in-line inspection tools by running cleaning pig(s) and a pig equipped with a gauge plate to further ensure that there are not restrictions for the in-line inspection

tools. Columbia plans to conduct an in-line inspection using Baker Hughes 20 inch high resolution magnetic flux leakage (MFL) and high resolution caliper ILI tools coupled with an inertial mapping unit along Line SM-80, from Lanham to Broad Run.

5. After successful completion of the necessary in-line Inspections, Columbia will isolate Line SM-80 from other sources of natural gas supply and reduce the pressure of the pipeline to below 300 psig until such time as Columbia has completed the necessary steps under this Integrity Assurance plan and PHMSA has granted the necessary approvals to restore full pressure service to the pipeline.
6. Investigation of anomalies and repairs (as necessary), based on ILI results
7. Performance of a close interval survey from Lanham to Broad Run of Lines SM-80, SM-86 and SM-86 Loop.
8. Performance of a coating integrity survey and correction of any deficiencies in areas where the survey indicates potentially inadequate cathodic protection (i.e. where readings fail to meet the criteria of 49 CFR Part 192, Subpart I).
9. Installation of a permanent launcher at the Lanham Compressor Station and permanent receiver at Broad Run on Line SM-80, to enable the passage of in-line inspection tools in the future.
10. Establishment of a long term integrity assurance and reassessment plan for Line SM-80 for incorporation into the Columbia Gas Integrity Management Plan.
11. Columbia Gas will contract with a qualified contractor to provide a geotechnical survey of Line SM-80 between Lanham Compressor Station and Broad Run to identify any areas of significant earth movement within the pipeline right of way that could adversely impact the pipeline. Any such areas identified will be investigated and remediated, as necessary.

Criteria - Assessment, Repair, Documentation, Request for Approval and Restoration of Full Service - Phase 3

The following elements will be completed under Phase 3:

1. Columbia Gas will complete the assessment in Phase 2 and perform any necessary repairs by December 20, 2013.
2. Columbia Gas will maintain records of all work performed as part of the Integrity Assurance Plan and will prepare a complete package of information for presentation to the PHMSA Eastern Region, once the steps under Phase II have been completed. Based on successful completion of the Integrity Assurance measures, Columbia Gas will present this information and seek PHMSA Eastern Region approval to return Line SM-80 to full and normal service.
3. Line SM-80 will only be returned to normal service after all work has been successfully completed and approval has been granted by the Director of the PHMSA Eastern Region.

Conclusion Criteria - Periodic and Summary Reporting and Documentation - Phase 4

Columbia Gas will take steps to ensure that PHMSA is kept informed of progress during each phase of implementation of this plan, will provide summary reports and will maintain documentation and report certain expenditures associated with implementation of this plan as further detailed below:

1. Monthly reports for Phase 1 – Columbia Gas will submit monthly reports to the Director of the PHMSA Eastern Region that: (1) include all available data and results of the testing and evaluations required by the CAO; and (2) describe the progress of the repairs or other corrective and/or remedial actions undertaken. The first monthly report is due by the third of each month until Phase 1 has been completed. The Director may adjust the reporting period upon written request of Columbia Gas.
2. Quarterly Reports for Phase 2 – Columbia Gas will submit quarterly reports to the Director of PHMSA Eastern Region that: (1) include all available data and results of the testing and evaluations required by the CAO; and (2) describe the progress of the repairs or other corrective and/or remedial actions being undertaken. The first calendar quarterly report is due once Phase I has been completed, as determined by the Director of the Eastern Region. There should be four quarterly report submissions while this order is still in effect.
3. Summary Report for Phase II – Once Phase 2 has been completed, a composite summary of all work performed will be assembled and presented to the Director of the PHMSA Eastern Region. The Director will review the summary as part of the consideration for approval to return Line SM-80 to normal service.
4. Documentation – Columbia Gas will maintain documentation of the costs associated with the implementation of the CAO and will include in each monthly report submitted the to-date costs associated with: (1) preparation and revision of procedures, studies and analysis; (2) physical changes to the pipeline infrastructure, including repairs, replacements and other modifications; and (3) environmental remediation, if applicable.

APPENDIX B

U.S. Department of Transportation

Press Release

"Secretary LaHood Pledges Support to Expedite Pipeline Modernization Project"

April 20, 2012

U.S. Department of Transportation
Office of Public Affairs
1200 New Jersey Avenue, SE
Washington, DC 20590
www.dot.gov/briefing-room.html

News

DOT 45-12
Friday, April 20, 2012
Contact: Jeannie Layson
Tel: 202-366-4831

Secretary LaHood Pledges Support to Expedite Pipeline Modernization Project

Increased Safety, More Energy Capacity & Thousands of New Jobs

PITTSBURGH, Pa. – U.S. Department of Transportation Secretary Ray LaHood today announced that the agency will lead the effort to help expedite federal permitting for a 1,000 mile pipeline modernization project by NiSource, Inc. that will produce thousands of jobs, enhance safety and increase energy capacity.

"A year ago, I asked pipeline operators to take a hard look at their infrastructure and identify those sections of pipeline that need to be repaired, rehabilitated or replaced to ensure safer and more reliable delivery of energy resources," said Secretary LaHood. "And we are happy to help NiSource speed up construction and replace some of the oldest pipelines in the nation, ensuring good jobs and increased safety for people in Pittsburgh, as well as throughout Pennsylvania and the other states that will benefit from this project."

Secretary LaHood and PHMSA Administrator Cynthia Quarterman met with Pittsburgh Mayor Luke Ravenstahl and representatives from NiSource in Pittsburgh today to pledge their support in expediting the construction. NiSource, Inc. has announced it will modernize its Columbia Gas Transmission, LLC gas transmission and storage system by replacing aging infrastructure that serves communities in six states, including the Marcellus shale gas production region, where the majority of the pipeline infrastructure is more than 40 years old and running on inefficient platforms.

This massive modernization project will take place in Kentucky, Maryland, Ohio, Pennsylvania, Virginia and West Virginia, and it will promote the safe and reliable delivery of energy resources across the Midwest, Mid-Atlantic and Northeastern regions of the United States. NiSource projects that the modernization project will:

- Invest **$4 billion over 10 to 15 years, beginning in 2012;**

- Produce an estimated **7,000 to 8,000 direct jobs** by replacing aging infrastructure with safer and more reliable pipelines; and
- Replace approximately **1,000 miles of large diameter pipeline** using **domestic-made steel**.

"A modern pipeline infrastructure is crucial for the efficient and safe delivery of our nation's resources, and this is exactly the kind of project that government should help facilitate," said PHMSA Administrator Cynthia Quarterman. "We will help them work through the process, and make sure the project is constructed safely."

A year ago, Secretary LaHood issued a Call to Action to the nation's pipeline operators, asking them to take a hard look at their infrastructure and identify pipelines that need to be repaired, requalifed or replaced to ensure safer and more reliable delivery of energy resources. This project is also in accordance with the President's Executive Order to Improve Performance of Federal Permitting and Review of Infrastructure Projects.

"I commend Pennsylvania for making pipeline safety a priority by passing the Gas and Hazardous Liquids Pipeline Act," said Secretary LaHood. "This is personal for all of us--none of us ever want to see another tragedy like the one that happened in Allentown."

DOT will coordinate with other government entities to identify opportunities to remove overlaps and expedite the regulatory and approval processes without sacrificing safety or lowering industry standards.

There are more than 2.5 million miles of pipelines that deliver oil and gas to communities and businesses throughout the United States. PHMSA provides information and resources to the public to help them stay safe around pipelines through its Pipeline Safety Awareness website, State Pipeline Profiles and pipeline safety workshops for operators and emergency responders. PHMSA also urges the public to learn more about 811, a toll-free number that everyone should call before beginning any excavation project.

The Pipeline and Hazardous Materials Safety Administration develops and enforces regulations for the safe, reliable, and environmentally sound operation of the nation's 2.5 million mile pipeline transportation system and the nearly 1 million daily shipments of hazardous materials by land, sea, and air. Please visit http://phmsa.dot.gov for more information.

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APPENDIX C

Columbia Gas Transmission, LLC
FERC Order Approving Settlement
RP12-1021-000

January 24, 2013

142 FERC ¶ 61,062
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony T. Clark.

Columbia Gas Transmission, LLC Docket No. RP12-1021-000

ORDER APPROVING CONTESTED SETTLEMENT

(Issued January 24, 2013)

1. On September 4, 2012, Columbia Gas Transmission, LLC (Columbia) filed with the Commission a Stipulation and Agreement of Settlement (Settlement) that represents a settlement of Columbia's base rate levels and other issues related to the repair and maintenance of Columbia's aging pipeline system. According to Columbia, the Settlement represents a collaborative resolution between Columbia and the vast majority of its shippers to address complex issues arising from recent and anticipated changes in pipeline safety requirements and the aging nature of Columbia's system. As discussed below, we approve the contested Settlement on the basis that it provides an overall just and reasonable result.

Background

2. Columbia states that the Settlement arose from Columbia's comprehensive evaluation of its interstate pipeline transmission facilities, which identified areas for rehabilitation or replacement in order to modernize its system, improve system integrity, and enhance service reliability and flexibility. According to Columbia, approximately 73 percent of the 12,000 miles of its system subject to the United States Department of Transportation's (DOT) regulation was constructed before the enactment of Federal pipeline safety standards in 1970. In addition, Columbia states that its system contains approximately 1,272 miles of bare steel pipeline, which is at higher risk for corrosion and failure. According to Columbia, this is significantly more bare steel pipeline than any other interstate pipeline subject to DOT regulation. Columbia states that the majority of its system cannot accommodate in-line inspection and cleaning tools.

3. Columbia also states that approximately 55 percent of its more than 300 compressor units were installed before 1970. Columbia states that it has 18 compressor facilities, with 57 compressor units, which must be available 100 percent

of the time during the November to March winter period in order to ensure that Columbia can make all of its firm deliveries.

4. Columbia states that its evaluation of its interstate facilities identified a number of specific rehabilitation and modernization projects that comprise its Modernization Program. Columbia states that pursuant to its Modernization Program, the pipeline will make significant capital expenditures over the next 10 to 15 years to modernize its interstate pipeline system infrastructure, and to enhance the system's reliability, safety and regulatory compliance. These projects focus on replacing high pressure bare steel pipelines and pipelines with a history of failure in locations where there is the greatest risk that a pipeline failure would cause a disruption of service or threaten public safety. These projects also focus on modernizing compressor units along constrained mainlines serving a broad customer base.

5. Columbia avers that the Settlement represents a fair and balanced resolution of numerous issues relating to Columbia's base rate levels, the Modernization Program, and the recovery of revenue requirements associated with the Program.

The Settlement

6. Columbia's September 4, 2012 Settlement generally provides for the following:

- An annual $35 million rate reduction (retroactive to January 1, 2012), and an additional base rate reduction of $25 million each year beginning January 1, 2014, both reductions to end on the effective date of Columbia's next Natural Gas Act (NGA) section 4 general rate case, or a subsequent NGA section 5 rate adjustment.

- Initial refunds to firm shippers of $50 million in two equal installments.

- A rate moratorium through January 31, 2018 and an NGA section 4 general rate filing obligation no later than February 1, 2019.

- A capital cost recovery mechanism (CCRM), through which Columbia would recover the revenue requirements associated with the Modernization Program.

- A revenue sharing mechanism under which Columbia will refund to its customers 75 percent of any base rate revenues it collects over $750 million in any year after January 1, 2012.

- The standard of review for future changes to the Settlement is the just and reasonable standard.

7. Pursuant to the Settlement, the CCRM would recover the costs (up to $300 million annually, subject to a 15 percent tolerance) associated with "Eligible Facilities" that have been placed in service and remain in service. The Settlement

includes an initial five-year term for the CCRM (January 1, 2014 –January 1, 2019) to recover costs Columbia incurs during the 2013-2017 period as part of the Modernization Project. Appendix E to the Settlement identifies the specific eligible replacement and upgrade projects that Columbia intends to undertake each year between 2013 and 2017, and the estimated costs of each project. Appendix E sets forth the location of each pipeline replacement and looping project and the number of miles of pipeline to be replaced or constructed in each project. Appendix E also identifies the location of each compressor unit to be replaced, the horse power of the replacement compressor unit, and which existing units will be converted to standby service.

8. Section 7.2 of the Settlement requires Columbia to obtain the consensus of 75 percent of the shippers paying the CCRM rate (determined by billing determinants) to add, remove or substitute Eligible Facility projects, or to modify an Eligible Facility. Columbia retains the discretion to unilaterally perform projects that it reasonably believes could lead to imminent unsafe conditions, including replacing bare steel pipeline, subject to the cost and scope limitations otherwise applicable to projects eligible for CCRM recovery. Columbia also agrees to a $100 million annual capital maintenance expenditure for transportation and storage projects that will not be recouped through the CCRM recovery mechanism, and to use any amounts less than $100 million spent in a given year as a reduction to plant investment. Storage and gathering projects are also specifically excluded from recovery as Eligible Facilities.

9. The Settlement provides for Columbia to earn a return on the capital costs included in the CCRM through a total net rate base multiplier of 14 percent, made up of a pre-tax rate of return of 12 percent, and Taxes Other Than Income of 2 percent. Columbia will recalculate the CCRM on an annual basis. Further, Columbia states that, in order to provide rate stability and safeguard shippers against losses in billing determinants, the Settlement requires Columbia to calculate the annual per unit CCRM rate based on the greater of (1) actual annual billing determinants for all non-incremental rate customers adjusted for discounting[1] or (2) an agreed-upon minimum level of billing determinants (billing determinant floor). The Settlement provides that in each annual CCRM filing, Columbia will true up any over or under-recovery of its CCRM revenue requirement during the preceding year.[2] However, if Columbia's discounted rate

[1] The Settlement treats the CCRM as an add on to Columbia's base rate and provides that Columbia will attribute any discounts to the total base rate, including the CCRM add-on, proportionately between the CCRM and the remainder of the applicable base rate.

[2] Section 7.7 of the Settlement provides that each CCRM Rate calculation will include an annual true-up so that any over- or under-recovery of revenue requirements

(continued...)

transactions reduce Columbia's CCRM revenue below the level that would result from the billing determinant floor, Columbia must impute the revenue it would achieve by charging the maximum rate for service at the level of billing determinant floor. Columbia must also assume that all negotiated rate transactions are at the maximum rate. Absent agreement of the parties and approval of the Commission, the CCRM will not be used to recover Modernization Program costs incurred after 2017.

10. Columbia states that the CCRM will avoid "pancaking" NGA section 4 rate cases. Columbia also claims the CCRM will make the rate review process more efficient by limiting the scope of an annual review to whether Columbia's actual capital expenses in the past year meet its Eligible Facilities Plan. The Settlement also provides that Columbia will remove its existing daily scheduling penalty provision from its tariff.

11. The Settlement provides that Columbia will not propose any new cost tracking mechanism during the term of the Settlement.

12. The Settlement states that Columbia will not propose market based rates for new storage projects during the term of the Settlement.

13. The Settlement provides that it is not precedential and is being agreed to only in light of existing circumstances on Columbia's system, particularly that approximately 50 percent of Columbia's system was constructed prior to 1960 and approximately 55 percent of Columbia's compressor units were installed prior to 1970. In addition, Columbia's system contains approximately 1,272 miles of bare steel pipeline subject to DOT regulation, and the majority of the system cannot accommodate in-line inspection and cleaning tools.

14. The Settlement also provides for the severance of the direct interests of Contesting Parties, and an option for Columbia to withdraw the settlement offer if there are contesting parties that represent 10 percent or more of total peak day transportation entitlements on the system.

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from the previous year shall be recovered in the next succeeding CCRM Rate filing, calculated each year (subject to the annual and overall CCRM caps) by comparing the actual revenue requirements to the revenues received during the recovery period. The Settlement provides that each subsequent annual CCRM filing shall include revenue requirements related to Eligible Facilities placed in service during the prior November 1 through October 31 period, except that if the CCRM remains in place for the full five year Initial Term, the final year of the CCRM shall include revenue requirements related to the Eligible Facilities placed in service during November and December of 2017.

Comments on Settlement

15. Numerous customers from all sectors of the industry filed in support of the Settlement.[3] Those customers filing in support all note that given the unique circumstances of Columbia's system, the Settlement represents a fair and balanced resolution that allows Columbia to make critical necessary modernization upgrades to its system while providing its customers with real and meaningful benefits in terms of both improved services and flexibility through the modernization efforts, and rate relief and predictability. The supporting customers note that Columbia's system serves customers in eleven states and the District of Columbia and provides significant take away capacity for gas producers in the expanding Marcellus and Utica shale plays.[4] The customers state that they will benefit from increased operational flexibility and reliability, as well increases in public safety, as a result of the Modernization Program. Those customers also specifically identify the Settlement's significant base rate reduction, the retroactive decrease in base rates, the $50 million in refunds, the revenue sharing provision and the rate predictability resulting from the moratorium as key rate components underlying their support of the Settlement. Exelon, NiSource, the Virginia Cities, and others also note that by allowing Columbia to recover the costs associated with the necessary system upgrades through the CCRM, it can avoid successive rate case filings and the inherent financial costs and distractions of resources associated with protracted litigation. Chesapeake notes that customers also benefit through Columbia's agreement to spend $100 million annually on maintenance, and the fact that the CCRM recovery mechanism is capped on both an annual and full program basis. It also approves of the fact that the CCRM proposal specifically identifies projects and provides shippers with the right to monitor and challenge Columbia's expenditures. In sum, Columbia's shippers support the Settlement because they find the CCRM to be a fair mechanism for Columbia to complete and recover the costs of needed system modernizations that will enable Columbia to maintain the integrity and reliability of its system and protect the public's safety, while also providing the customers with immediate and concrete benefits in the form of rate reductions and predictability.

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[3] Those filing comments in support of the Settlement include Cabot Oil and Gas Corporation (Cabot), Exelon Corporation (Exelon), the NiSource Delivery Companies (including Columbia Gas of Maryland), New Jersey Natural Gas Company and NJR Energy Services Company (NJR), Waterville Gas and Oil Company, The Cities of Charlottesville and Richmond, Virginia (Virginia Cities), Interstate Gas Supply, Indicated Shippers, Duke Energy of Ohio and Duke Energy of Kentucky, Antero Resources Appalachian Corporation, and Chesapeake Energy Marketing, Inc. (Chesapeake).

[4] *See, e.g.,* Comments of Cabot.

16. Only the Maryland Public Service Commission (Maryland PSC) opposes the Settlement. It asserts that the surcharge mechanism proposed to recover the costs of the Modernization Program is an inappropriate method to recover capital costs, and generally challenged the 14 percent rate base multiplier to be used to determine a pre-tax rate of return and taxes other than income taxes to be recovered through the CCRM. According to the Maryland PSC, it and the Commission have repeatedly considered trackers such as the CCRM to be inappropriate for core infrastructure spending because they reduce the pipeline's incentive to maximize revenues and minimize costs. The Maryland PSC also asserts that the CCRM would shift the burden of investment costs from Columbia to its customers, and its approval could start the slide down a slippery slope toward such mechanisms replacing rate cases as the primary method for recovering major investment costs. The Maryland PSC also argues that the Commission has consistently disallowed such mechanisms, including recently rejecting a similar surcharge to recover safety charges,[5] because recovering such costs in a surcharge is contrary to the requirement in the Commission's regulations[6] to design rates based on estimated units of service.

17. In its reply to the Maryland PSC's protest, Columbia asserts that the Settlement represents a comprehensive package that enjoys the unanimous support of Columbia's shippers, and that the CCRM and rate base multiplier challenged in the protest are two integral components of the indivisible Settlement. Columbia asserts that the Settlement includes numerous protections insisted on by its shippers to ensure that Columbia has the incentive to perform the modernization work efficiently and effectively, including specifically defining the Eligible Facilities for which costs may be recouped by the CCRM, and placing caps on the recoverable amounts so that Columbia is at risk for costs that fall outside the scope of the defined projects and for any costs that exceed the caps. Columbia further asserts that the Settlement contemplates significant shipper oversight through a requirement for annual meetings to review projects and costs for the past period and for the upcoming year. Columbia also states that the Settlement limits each annual rate filing to recovery of revenues related to Eligible Facilities that are placed in service between November 1 and October 31 of the prior year. Columbia also claims that the Settlement is consistent with, and supported by, the Commission's policy strongly supporting negotiated settlements as a means of providing regulatory certainty and administrative efficiencies for the Commission and the parties, by avoiding lengthy and costly rate proceedings. Finally, Columbia argues that the Commission should not

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[5] Maryland PSC Protest at 2 (citing *Granite State Gas Transmission, Inc.*, 132 FERC ¶ 61,089 (2010) (*Granite State*)).

[6] 18 C.F.R. § 284.10(c)(2) (2012).

allow the Maryland PSC's protest to prevent Columbia's shippers from realizing the substantial benefits afforded by the Settlement.

Discussion

18. In order to approve Columbia's proposed Settlement over the objections of the Maryland PSC, the Commission must find that the settlement is just and reasonable.[7] In determining whether to approve a contested settlement under that standard, section 385.602(h)(1)(i)[8] of the settlement rules permits the Commission to decide the merits of the contested issues, if the record contains substantial evidence on which to base a reasoned decision, or if the Commission determines there is no genuine issue of material fact. In addition, as the Commission held in *Trailblazer*, even if some individual aspects of a settlement may be problematic, the Commission still may approve a contested settlement as a package if the overall result of the settlement is just and reasonable.[9]

19. As discussed more fully below, after considering the Maryland PSC's comments opposing the Settlement, the Commission finds that those comments do not raise any genuine issue of material fact. The Commission also finds that the overall result of the settlement is just and reasonable. Therefore, the Commission approves the Settlement for all parties, including the Maryland PSC and the local distribution companies subject to regulation by the Maryland PSC.

20. Maryland PSC's primary objection to the Settlement raises a policy issue, rather than any issue of fact: namely that the CCRM is contrary to the Commission's policy that capital costs incurred to comply with the requirements of the pipeline safety legislation should not be included in a cost-of-service tracking mechanism which guarantees the pipeline's recovery of those costs.[10] As Maryland PSC points out, the

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[7] *Trailblazer Pipeline Co.*, 85 FERC ¶ 61,345, at 62,339 (1998), *reh'g*, 87 FERC ¶ 61,110 (1999), *reh'g*, 88 FERC ¶ 61,168 (1999) (*Trailblazer*) (citing *Mobil Oil Corp. v. FERC*, 417 U.S. 283, 314 (1974)).

[8] 18 C.F.R. § 385.602(h)(1)(i) (2012).

[9] *Trailblazer*, 85 FERC ¶ 61,345 at 62,342-3, explaining what that order described as the second of three approaches the Commission has used to approve contested settlements, without severing the contesting parties.

[10] *Florida Gas Transmission Co.*, 105 FERC ¶ 61,171, at PP 47-48 (2003) (*Florida Gas*), distinguishing such capital costs from security-related costs which may be included in a surcharge mechanism under the policy set forth in *Extraordinary*

(continued...)

Commission has stated that pipelines commonly incur capital costs in response to regulatory requirements intended to benefit the public interest, and recovering those costs in a tracking mechanism is contrary to the requirement, in section 284.10(c)(2) of our regulations to design rates based on estimated units of service.[11] This requirement means that the pipeline is at risk for under-recovery of its costs between rate cases, but may retain any over-recovery. As the Commission explained in Order No. 436, this gives the pipeline an incentive both to (1) "minimize costs in order to provide services at the lowest reasonable costs consistent with reliable long-term service"[12] and (2) "provide the maximum amount of service to the public."[13] Cost-trackers undercut these incentives by guaranteeing the pipeline a set revenue recovery. Thus, in accordance with this policy, in *Florida Gas* and *Granite State*, the Commission rejected proposals for safety cost trackers, with true-up mechanisms, made in NGA section 4 filings. The Commission has, however, permitted such a regulatory surcharge for pipeline safety costs in uncontested settlements.[14]

21. The Commission recently followed this policy when it rejected a protested proposal by CenterPoint Energy – Mississippi River Transmission, LLC (MRT), in an NGA general section 4 rate case filing, to recover regulatory safety costs through a tracker with a true-up mechanism.[15] The order in that proceeding noted, however, that while the Commission was rejecting MRT's proposed safety tracker consistent with existing policy, that decision was based in part on the fact that the DOT's Pipeline and Hazardous Materials Safety Administration (PHMSA) is in the early stages of developing regulations to implement the 2011 Act. The Commission stated that it is open to

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Expenditures Necessary to Safeguard National Energy Supplies, 96 FERC ¶ 61,299 (2001); *Granite State*, 132 FERC ¶ 61,089 at P 11.

[11] *Florida Gas*, 105 FERC ¶ 61,171 at P 47.

[12] *Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol*, Order No. 436, FERC Stats. & Regs., Regulations Preambles 1982-1985 ¶ 30,665, at 31,534 (1985).

[13] *Id.* at 31,537.

[14] *See, e.g., Florida Gas Transmission Co.*, 109 FERC ¶ 61,320 (2004); *Granite State Gas Transmission, Inc.*, 136 FERC ¶ 61,153 (2011).

[15] *CenterPoint Energy -Mississippi River Transmission, LLC*, 140 FERC ¶ 61,253 (2012) (*MRT*).

considering the need for additional action as the PHMSA process moves forward and pipelines face increased regulatory requirements.

22. In this case, the Commission finds that the Settlement and the CCRM provide a reasonable means for Columbia to recover the substantial costs of addressing urgent public safety and reliability concerns, without undercutting Columbia's incentives to operate efficiently and to maximize service to the extent that previously proposed and rejected surcharges would have done. As stated by Columbia, approximately half of its pipeline infrastructure regulated by the DOT is over fifty years old, approximately 55 percent of its compressors were installed before 1970 and there is limited horsepower back-up at many critical locations. In addition, the system contains approximately 1272 miles of potentially dangerous bare steel pipeline, many of its control systems run on an obsolete platform and because the older part of the system was not designed to accommodate in-line inspection, Columbia will only be able to inspect approximately thirty-five percent of the DOT regulated portion of its system using modern in-line inspection tools. Our approval of the Settlement and the CCRM will facilitate Columbia's ability to make the substantial capital investments necessary to correct these very significant problems and thus provide more reliable service while minimizing public safety concerns.

23. We find that the CCRM surcharge proposed by Columbia includes numerous positive characteristics that distinguish the surcharge from those we have rejected previously, and that work to maintain the pipeline's incentives for innovation and efficiency. First, the development of the CCRM began with Columbia and its shippers engaging in a collaborative effort to review Columbia's current base rates, leading to Columbia's agreement to reduce its base rates by $35 million retroactive to January 1, 2012, by another $25 million effective January 1, 2014, and to provide refunds to firm shippers of $50 million. Maryland PSC does not contest this aspect of the Settlement, which provides the shippers rate relief which could otherwise only be obtained pursuant to NGA section 5 and could not take effect in the retroactive manner provided by the Settlement. The Commission finds that these provisions of the Settlement assure that the base rates, to which the CCRM surcharge will be added, have been updated in a just and reasonable manner to reflect current circumstances on Columbia's system.

24. Second, the Settlement identifies, by pipeline segment and compressor station, the specific Eligible Facilities for which costs may be recovered through the CCRM, and the Settlement delineates and limits the amount of capital costs and expenses for each such project.[16] The Settlement also limits Columbia's ability to add or change projects. In

[16] By contrast, the surcharge mechanisms proposed in *Florida Gas* and *MRT* contained only general definitions of what type of costs would be eligible for recovery,

(continued...)

addition, it is significant that Columbia agrees to continue making annual capital maintenance expenditures of $100 million for transportation and storage projects, which it will not seek to recover through the CCRM recovery mechanism. These provisions of the Settlement should assure that the projects whose costs are recovered through the CCRM go beyond the regular capital maintenance expenditures which Columbia would perform in the ordinary course of business and that the projects are critical to assuring safe and reliable operation of Columbia's existing system. In addition, these provisions should minimize disputes in Columbia's annual CCRM filings concerning the need for particular projects.

25. Third, and critically important to our approval of the CCRM, is Columbia's agreement to (1) establish a billing determinant floor for calculating the CCRM and (2) impute the revenue it would achieve by charging the maximum rate for service at the level of billing determinant floor before it trues up any cost under-recoveries.[17] Also, any such true-up is limited to the $300 million annual cap and other related cost caps. These provisions, along with the required base rate reductions and the provision for Columbia to continue substantial capital maintenance investments that will not be recovered in the CCRM surcharge, subject Columbia to a continuing risk of cost under-recovery. These aspects of the Settlement thus alleviate the Commission's historic concern that surcharges which guarantee cost recovery are not appropriate for recovering capital costs, because they diminish a pipeline's incentive to be efficient and to maximize service provided to the public. These provisions of the Settlement also protect Columbia's shippers from significant cost shifts if Columbia loses shippers or must provide increased discounts to retain business.

26. Fourth, the CCRM would not be a permanent part of Columbia's rates. The Settlement provides that the CCRM will terminate on January 1, 2019, unless the parties agree to extend it and the Commission approves the extension. Thus, subject to extension requiring the consent of all parties, the CCRM is meant to recover a set amount of costs over defined period, and will not become a permanent part of Columbia's rates.

27. Finally, the surcharge is broadly supported, or at least not opposed, by all Columbia's customers. Based on all these factors, the Commission finds that Maryland

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leaving the pipeline considerable discretion as to what projects it would subsequently propose to include in the surcharge and creating the potential for significant disputes concerning the eligibility of particular projects.

[17] By contrast, the surcharge mechanisms proposed in *Florida Gas*, *Granite State*, and *MRT* did not include a comparable billing determinant floor.

PSC's policy objections to the CCRM mechanism do not justify rejection of the Settlement.

28. Maryland PSC's only other contention in opposing the Settlement is its statement that an NGA general section 4 rate case in this instance would provide the opportunity to determine whether the 14 percent rate base multiplier, inclusive of a 12 percent pre-tax rate of return and taxes other than income taxes of 2 percent for eligible facilities is just and reasonable. Rule 602(f)(4) of the Commission's regulations requires that, "any comment that contests a settlement by alleging a dispute as to a genuine issue of material fact must include an affidavit detailing any issue of material fact by specific reference." Maryland PSC did not file any affidavit with its comments demonstrating an issue of fact concerning whether the rate base multiplier provides an unreasonable return. Thus, we cannot find that its protest raised a genuine issue of fact with respect to the return to be included in the CCRM surcharge.[18]

29. The Commission also finds that all of Columbia's customers are likely to be in better position with the Settlement than without it. To the extent the Commission was to sever the Maryland PSC and local distribution companies it regulates,[19] those LDCs and Maryland consumers could not receive the immediate benefits of the Settlement, including the retroactive rate reduction and refunds. Moreover, while the severed parties would not be subject to the CCRM when it takes effect next year, Columbia would be free to file section 4 rate cases to increase the severed parties' rates at such time as the CCRM resulted in Columbia's overall rates exceeding its current rates.

30. The Settlement also includes numerous other significant benefits for Columbia's shippers which would not be available absent the Settlement. Aside from the significant retroactive rate reduction and refund payments already discussed, these include (1) the revenue sharing mechanism under which Columbia will refund to its customers 75 percent of any base rate revenues it collects over $750 million in any year after January 1, 2012, (2) a rate moratorium that will provide rate certainty until 2018, (3) a requirement for the pipeline to file an NGA section 4 general rate case by February 2019,

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[18] *See, e.g., San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services into Markets Operated by the California Independent System Operator Corporation and the California Power Exchange Corporation, et al.*, 128 FERC ¶ 61,004, at P 16 (2009); *Duke Energy Trading and Marketing, L.L.C., et al.*, 125 FERC ¶ 61,345, at P 31 (2008).

[19] *See Trailbazer*, 85 FERC ¶ 61,345 at 62,345, explaining that, if the Commission severs a public service Commission from a settlement, it must also sever the local distribution companies regulated by the public service Commission.

(4) the removal of Columbia's existing daily scheduling penalty, thus providing shippers greater flexibility to modify their daily takes to respond to unexpected changes in their need for gas without incurring additional costs, and (5) Columbia's agreement not to propose market-based rates for new storage projects during the term of the Settlement or to propose any additional cost tracking mechanisms.

31. The Commission finds that the very substantial benefits that will inure to Columbia's shippers through the Settlement outweigh the inclusion of an otherwise disfavored surcharge, particularly given the customer protections inherent in the CCRM. The Settlement is crafted to address undisputed circumstances on Columbia's system, namely that the system is aging and that Columbia needs to make significant upgrades and repairs to modernize the system and to ensure that it will be able to continue to provide reliable firm transportation service, consistent with public safety. The Commission concludes that the benefits of the Settlement render the overall Settlement package just and reasonable.

32. As we have stated repeatedly, the Commission favors collaborative efforts and settlements between pipelines and their shippers regarding rate and other contested issues, as such negotiated agreements conserve the Commission's time and resources. The instant Settlement is the result of an extensive and comprehensive effort on behalf of Columbia and its customers to review the pipeline's existing rates, to evaluate imminent issues with regard to the aging system, and to develop a plan to address and pay for the costs of modernizing that system. The Commission notes that the procedures undertaken by the pipeline and its customers are precisely the kind of pro-active discussions and communications between customers and the pipelines that the Commission has repeatedly encouraged, and we commend the parties for their efforts in reaching this agreement.

The Commission orders:

The Settlement is hereby approved as discussed in the body of this order.

By the Commission. Chairman Wellinghoff is concurring with a separate statement attached.

(S E A L)

Kimberly D. Bose,
Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Columbia Gas Transmission Corporation Docket No. RP12-1021-000

(Issued January 24, 2013)

WELLINGHOFF, Chairman, *concurring*:

I share the concerns about cost tracking mechanisms expressed in this proceeding by the Public Service Commission of Maryland. Cost tracking mechanisms reduce a pipeline's incentive for innovation, efficiency and cost minimization, and shift the risk embedded in the return on equity from the pipeline to the shippers.

I am voting to approve the instant settlement because Columbia's shippers have negotiated significant limits to this cost tracking mechanism that mitigate my concerns. In particular, the cost tracking mechanism is limited to specifically identified projects, establishes a billing determinant floor at maximum tariff rates, and is not permanent part of Columbia's rates. Further, Columbia agrees that it will not propose any new cost tracking mechanism nor market based rates during the term of the settlement. In addition, there are other significant consumer benefits to approving the settlement. The settlement provides for $50 million in refunds, an annual $35 million rate reduction (retroactive to January 1, 2012), and an additional base rate reduction of $25 million each year beginning January 1, 2014.

For these reasons, I am voting to approve the settlement. However, I encourage shippers of pipelines seeking to implement a cost tracking mechanism to consider additional limits to protect consumers. For example, I believe that it also would be appropriate for a pipeline to credit shippers all revenues from services provided over the facilities at issue that were not included in the rate design billing determinants and to explore a reduction in the return on equity that applies to those facilities.

Jon Wellinghoff
Chairman