

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	:	
The East Ohio Gas Company d/b/a	:	
Dominion East Ohio to Adjust its	:	Case No. 18-1587-GA-RDR
Pipeline Infrastructure Replacement	:	
Program Cost Recovery Charge and	:	
Related Matters	:	

COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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**On Behalf of the Staff of the
Public Utilities Commission of Ohio**

March 25, 2019

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INTRODUCTION

Pursuant to the Stipulations adopted in Case Nos. 15-362-GA-ALT, 11-2401-GA-ALT, 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT, and 06-1453-GA-UNC, the Staff of the Public Utilities Commission of Ohio (Staff) conducted an investigation of the East Ohio Gas Company's d/b/a Dominion East Ohio (DEO or Company) application to adjust its Pipeline Infrastructure Replacement Program (PIR Program or Program) Cost Recovery Charge and submits its conclusions and recommendations to the Public Utilities Commission of Ohio (Commission) in these Comments. The Staff of the Commission's Rates and Analysis Department prepared these Comments. Included are financial reviews of DEO's proposed additions to plant-in-service, revenue requirement, and other matters. The Comments are the results of Staff's investigation and do not reflect the views of the Commission, nor is the Commission bound by Staff's representations or recommendations.

BACKGROUND

DEO is an Ohio Corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western, and southeast Ohio communities.

The Company's PIR Program was originally authorized by a Commission Opinion and Order on October 15, 2008 in Case No. 07-829-GA-AIR, *et al* (Rate Case Order). DEO's PIR Program initially called for replacement of 4,122 miles of bare steel, cast iron, and other metallic (BS/CI) pipelines in its distribution system over a 25-year period and provided that DEO would assume ownership and ongoing responsibility for all customer-owned service lines when such lines were separated from service in order to replace associated mainlines or to repair leaks. The Rate Case Order also authorized DEO to establish a PIR Cost Recovery Charge (PIR Rider) to recover its PIR investments from customers, adopted a process for Staff and intervenor review of DEO's annual applications to increase the PIR Rider, and established a cap on annual PIR Rider increases. The PIR Program was initially authorized for a five-year period.

By an Opinion and Order dated August 3, 2011, the Commission approved a stipulation reached by the parties in Case No. 11-2401-GA-ALT. In that case, the parties agreed, among other things, that (1) DEO would add 1,450 miles of pre-1955 ineffectively coated pipe to the scope of its replacement program; (2) DEO would test field coated pipe that was installed after 1955 and replace any pipe found to be ineffectively coated under the Program; (3) the Program would be reauthorized for another five-year period; (4) specified caps would be placed on annual increases to the

PIR Rider; and (5) DEO would modify the schedule for filing its annual applications to adjust the PIR Rider to be consistent with the schedules used for other utilities' gas infrastructure replacement programs. This revised schedule provides that DEO shall submit a pre-filing notice (PFN) with nine months of actual data and three months of estimated data in support of its PIR Rider applications by November 30 each year. The Company then files an updated application by February 28 of the succeeding year that includes 12 months of actual data in support of new PIR Rider rates to be effective with the first billing cycle in May.

DEO's PIR Program was again reauthorized by a Commission Opinion and Order adopted on September 14, 2016 in Case No. 15-362-GA-ALT. Among other things, the Commission reauthorized DEO's PIR for the period 2017 through 2021 and maintained the same PIR Cost Recovery Charge application procedures and timelines that were adopted in the 11-2401-GA-ALT case.

In accordance with the approved application process, on November 30, 2018, DEO filed a PFN in this case indicating its intent to file an application to adjust existing PIR rider rates to recover PIR Program costs incurred during the period January 1, 2018 through December 31, 2018. The PFN included Schedules 1 through 17, which provided an estimated PIR revenue requirement based on nine months of actual data from the period January 1, 2018 through September 30, 2018, and three months of projected data for the period October 1, 2018 through December 31, 2018. On February 28, 2019,

DEO filed its Application in this case, which included updated Schedules 1 through 18, 12 months of actual data through 2018, and supporting testimony.

On March 8, 2019, the Attorney Examiner in this case issued an Entry establishing a procedural schedule for the case as follows:

- (a) March 25, 2019 – Deadline for the filing of motions to intervene.
- (b) March 25, 2019 – Deadline for Staff and intervenors to file comments on the application.
- (c) March 29, 2019 – Deadline for DEO to file a statement informing the Commission whether the issues raised in the comments have been resolved.
- (d) April 2, 2019 – Deadline for the parties and Staff to file expert testimony.
- (e) In the event that some or all of the parties enter into a stipulation resolving some or all of the issues in this case, the parties must file such stipulation with the Commission by 9:00 a.m. on April 4, 2019.
- (f) In the event that all of the issues are not resolved or the parties enter into a stipulation, a hearing shall commence on April 5, 2019, at 10:00 a.m. at the offices of the Commission, 180 East Broad Street, 11th Floor, Hearing Room 11-C, Columbus, Ohio 43215. Any party requesting a continuance of the hearing must file a motion to continue the hearing with the Commission by 9:00 a.m. on April 4, 2019.

PIR PROGRAM PROGRESS AND DEO'S APPLICATION

DEO reports that in 2018 it replaced 165.6 miles of BS/CI pipelines and 36,145 service lines (includes both main-to-curb and curb-to-meter service lines) and moved

278 inside customer meters outside. Including the 2018 replacements and move-outs, the Company reports that, since inception of the PIR Program in July 2008, it has replaced a total of 1,731.6 miles of BS/CI pipelines, replaced 391,497 service lines, and moved 1,894 meters outside. To recover its 2018 PIR investments, DEO's Application and supporting schedules propose a revenue requirement of \$192,828,070.87.

When allocated to the customer rate classes established in the cost of service study used in DEO's last base rate case, the Company recommends that the Commission approve the following adjustments:

Rate Class	Proposed Rates	Current Rates
GSS/ECTS	\$11.89/month	\$10.23/month
LVGSS/LVECTS	\$65.89/month	\$59.66/month
GTS/TSS	\$475.73/month	\$378.04/month
DTS	\$0.0581/Mcf	\$0.0633/Mcf

IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017

The Tax Cuts and Jobs Act of 2017 (TCJA) reduced the Federal corporate income tax rate from 35% to 21%. The TCJA had two primary effects associated with ratemaking for public utilities: a reduction in a utility's Federal income tax expense and the recognition of Excess Accumulated Deferred Income Taxes (EDIT).¹ Dominion has incorporated these two components of the TCJA in this filing. First, in order to recognize

¹ Accumulated Deferred Income Taxes had been deferred at the previous corporate tax rate of 35%. When the tax rate was reduced to 21%, those balances were in excess of the utilities' future tax obligations, which gave rise to the EDIT described above.

the new tax rate, the pre-tax rate of return has been reduced from 11.36% to 9.91%.

Second, the Company has recognized EDIT associated with liberalized depreciation as a regulatory liability and reduced rate base by the balance.² Dominion will begin amortizing and refunding the EDIT associated with liberalized depreciation when rates go into effect. In addition, Dominion asserts that the EDIT associated with the Net Regulatory Asset – PISCC does not need to be refunded to customers³, so the Company has excluded this EDIT balance from the computation of the revenue requirement. Dominion has included an adjustment of \$304 to reconcile the difference between the over-collection of tax expense from January – April 2018 and the actual amount refunded to customers.

STAFF’S INVESTIGATION, CONCLUSIONS, AND RECOMMENDATIONS

The purpose of Staff’s investigation was to determine if the Company’s Application and supporting documentation justify the requested PIR revenue requirement and can be used as a reliable basis for DEO’s proposed increases to the PIR rider rates. As part of its investigation, the Staff reviewed and analyzed all of the documentation filed by the Company. Staff audited nine months (i.e., January – September 2018) of actual capital expenditures, associated expenses, over/under-collections, and O&M savings data contained in the notice of intent filing and traced it to supporting work papers and to source data. In addition, Staff issued data requests, conducted investigative interviews,

² The balance of Accumulated Deferred Income Taxes has been reduced by the balance of the EDIT.

³ See Testimony of Vicki H. Friscic p. 4

and performed independent analyses when necessary. Staff has completed its investigation of Dominion's proposed Rider application, and recommends that due to the timing of the February filing, Staff audit the October – December 2018 actual PIR expenditures during the 2019 annual audit.

Staff reviewed the Company's schedules to verify the accuracy of the TCJA impacts. Staff determined that the pre-tax rate of return and EDIT associated with liberalized depreciation were appropriately reflected in the determination of the revenue requirement; however, Staff rejects the Company's assertion that EDIT associated with PISCC does not need to be refunded. Staff believes the deferred taxes associated with PISCC represent amounts that have been funded by customers, therefore customers are entitled to receive the EDIT associated with PISCC. Furthermore, as part of Case No. 18-0047-AU-COI, the Commission ordered utilities to return to customers *all* benefits resulting from the TCJA.⁴ Staff recommends that the Company include the entire PISCC-related EDIT balance, as of December 31, 2017, as an offset to rate base, and that the balance be amortized over a period of 72 months (6 years) unless otherwise required to be amortized in accordance with the Average Rate Assumption Method (ARAM). Staff further recommends that the amortization of PISCC-related EDIT be grossed up at the prevailing Federal tax rate.

With the adoption of these recommendations, Staff has no other objections to DEO's Application and supporting documentation and recommends that the Commission approve DEO's Application as modified by the recommendation stated above.

⁴ *In the Matter of the Commission's Investigation of the Financial Impact of the Tax Cuts and Jobs Act of 2017 on Regulated Ohio Utility Companies*, Case No. 18-47-AU-COI, Finding and Order (Oct. 24, 2018) at 27.

Respectfully submitted,

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**On Behalf of the Staff of the
Public Utilities Commission of Ohio**

PROOF OF SERVICE

I certify that a copy of the foregoing **Comments** was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 25th day of March, 2019.

/s/ Jodi J. Bair

Jodi J. Bair

Assistant Attorney General

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Summary: Comments electronically filed by Ms. Yvette L Yip on behalf of the Public Utilities Commission of Ohio