BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Gas Company for a Waiver of Orders	)	Case No. 18-1903-GA-WVR
Related to the Tax Cuts and Jobs Act	)	
of 2017.	)	

TESTIMONY OF JOSEPH G. BOWSER
ON BEHALF OF OHIO GAS COMPANY
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

MAY 7, 2019

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017.	))))	Case No. 18-1903-GA-WVR

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017.	))))	Case No. 18-1903-GA-WVR

TESTIMONY OF JOSEPH G. BOWSER ON BEHALF OF OHIO GAS COMPANY IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

I. INTRODUCTION

Q1. Please state your name and business address.

A1. My name is Joseph G. Bowser, 21 East State Street, 17th Floor, Columbus, Ohio 43215.

Q2. By whom are you employed and in what position?

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees"), providing testimony on behalf of Ohio Gas Company.

Q3. Please describe your educational background.

A3. In 1976, I graduated from Clarion State College with a Bachelor of Science degree in Accounting. In 1988, I graduated from Rensselaer Polytechnic Institute with a Master of Science degree in Finance.

Q4. Please describe your professional experience.

A4. I have been employed by McNees since 2005, where I focus on assisting Industrial Energy Users-Ohio ("IEU-Ohio") members address issues that affect the price and availability of utility services. As part of my responsibilities, I provide IEU-Ohio members assistance as they evaluate and act upon opportunities to secure value for their demand response and other capabilities in the base residual auction ("BRA") and incremental auctions conducted by PJM Interconnection, L.L.C. ("PJM") as part of the Reliability Pricing Model ("RPM"). Prior to joining McNees, I worked with the Office of the Ohio Consumers' Counsel ("OCC") as Director of Analytical Services. There I managed the analysis of financial, accounting and ratemaking issues associated with utility regulatory filings. I also spent ten years at Northeast Utilities, where I held positions in the Regulatory Planning and Accounting Departments, provided litigation support in regulatory hearings, and assisted in the preparation of the financial/technical documents filed with state and federal regulatory commissions. I began my career with the Federal Energy Regulatory Commission ("FERC"), where I led and conducted audits of gas and electric utilities in the Eastern and Midwestern regions of the United States. I am a Certified Public Accountant (inactive) and am a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants.

Q5. Have you previously submitted expert testimony before the Public Utilities Commission of Ohio ("Commission" or "PUCO")?

A5. Yes. Since 1996, I have submitted testimony as an expert in numerous cases, including this proceeding.

II. PURPOSE OF TESTIMONY

Q6. What is the purpose of your testimony?

A6. The purpose of my testimony is to summarize, sponsor, and support the Stipulation and Recommendation filed on April 25, 2019 ("Stipulation") for the Commission's consideration. This testimony concerns an application filed by Ohio Gas Company seeking a waiver of a Commission order directing utilities to file applications to adjust rates for changes in federal tax law. See Exhibit A. My testimony discusses the criteria that the Commission utilizes when it considers the adoption of settlements and explains how the Stipulation in this case meets those criteria. More specifically, my testimony supports the conclusion that the Stipulation:

1) Is the product of serious bargaining among capable, knowledgeable parties;
2) As a package, benefits ratepayers and the public interest; and
3) Does not violate any important regulatory principle or practice.

III. SUMMARY OF THE STIPULATION AND RECOMMENDATION

Q7. Did you participate in the negotiations which led to the Stipulation being submitted for consideration and approval by this Commission?

A7. Yes. I attended the settlement meetings held at the offices of the Commission, which led to the Stipulation. The parties represented in those meetings were the

Ohio Gas Company, the Staff of the Commission ("Staff") and OCC. The Stipulation is attached to my testimony as Exhibit B.

Q8. Who are the signatory parties to the Stipulation?

A8. The Signatory Parties include the Ohio Gas Company, Staff, and OCC.

Q9. Did the parties reach agreement regarding the remaining effects of the Tax Cuts and Jobs Act of 2017 ("TCJA") as they affect Ohio Gas Company?

A9. Yes. The parties stipulated to a statement of facts that they indicated should be controlling in this proceeding. They also provided recommendations for the Commission to consider.

Q10. Please summarize the stipulated facts and matters related to the recommendations contained in the Stipulation.

A10. The Company previously agreed to reduce its revenue requirement in its base distribution rate case, Case Nos. 17-1139-GA-AIR, *et al.* ("*Rate Case*"), to incorporate the effect of a reduction in the federal income tax rate under the TCJA. In the Joint Stipulation and Recommendation in the *Rate Case*, the Company also agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. The Commission approved the Joint Stipulation and Recommendation in the *Rate Case* without modification on February 21, 2018. The Company collected revenue based on rates that included tax expense set at the prior tax rate from January 2018 through March 2018 ("2018 Tax Savings") of $463,257.

The implementation of the TCJA resulted in excess deferred income taxes ("EDIT") as a result of the reduction in the federal income tax rate to 21%, effective January 1, 2018. EDIT consists of two parts. Under federal tax law, Normalized EDIT relates to property for which accelerated depreciation is taken for tax purposes and amortization must be accomplished under specialized rules. Non-Normalized EDIT relates to all other items for which there are tax timing differences and may be amortized on a schedule approved by the Commission.

Unlike many utilities that, as a result of the TCJA, owe a credit to customers for EDIT, the Company has Non-Normalized EDIT of ($478,722), which would result in a rate increase of $478,722. Offsetting the 2018 Tax Savings against the Non-Normalized EDIT would result in an increase in the revenue requirement (*i.e.*, a benefit for the Company) for the first year.

Amortization of the Normalized EDIT of $2,630,467 in accordance with federal income tax law requirements would result in a decrease in the revenue requirement (*i.e.*, a benefit for consumers) approved in the *Rate Case* for approximately the first 11 years of the amortization period (2019 through 2029), but would result in an increase in the revenue requirement (*i.e.*, benefit for Company) for the remaining 16 years (2030 through 2045). Over the entire 27-year amortization period, there would be a revenue increase of approximately $983,712, as set out in Schedule D of the Application.

Thus, any further changes to implement the effects of the TCJA in rates, beyond what was implemented through the Joint Stipulation and Recommendation in the *Rate Case*, would result in a revenue increase.

Q11. Beyond a waiver of any immediate change in rates related to the TCJA, have the parties addressed the long-term effects of the tax law changes?

A11. Yes. Another component of the Stipulation is that the Signatory Parties agree and recommend that customers shall be protected such that the Normalized EDIT resulting from the TCJA, including the subsequent amortization thereof, shall not be used as the basis to increase the revenue requirement calculation in this proceeding or any future proceeding under R.C. 4909.15, R.C. 4909.18, R.C. 4905.26, or under any provision of Chapter 4929 of the Ohio Revised Code, or any successor to the foregoing statutory provisions. Further, Ohio Gas Company will track the tax-related amortization to assure that the tax effects will not result in a revenue increase in a future application to adjust rates.

IV. STANDARDS FOR CONSIDERING APPROVAL OF A STIPULATION

Q12. What are the standards that the Commission has used when considering approval of a stipulation?

A12. The Commission evaluates the adoption of stipulations that it is presented with for consideration, by applying a three-part test for review. The questions that the Commission considers are whether:

1) The settlement is the product of serious bargaining among capable, knowledgeable parties;

2) The stipulation, as a package, benefits ratepayers and the public interest; and

3) The stipulation violates any important regulatory principle or practice?

Q13. Does the Stipulation in this case satisfy the above criteria?

A13. Yes, it does. I will explain in more detail below how the Stipulation fulfills each of the three criteria.

Q14. Is the Stipulation the product of serious bargaining among capable and knowledgeable parties?

A14. Yes, the Stipulation is the result of a process of negotiation involving experienced counsel representing members of several stakeholder groups. The parties that took part in the negotiations were capable and knowledgeable about the issues raised in this case. The settlement process was open to all intervening parties, and the settlement discussions ultimately led to the Stipulation.

Q15. Please explain how the Stipulation benefits customers and the public interest.

A15. The *Rate Case* settlement did not address the effects of the TCJA on EDIT or the amounts collected in rates prior to the rate change. The Stipulation in this case completes that process. The tax effects would result in both rate increases and decreases. Taken together, they would result in a net revenue increase, all else being equal over the life of the expected amortization periods. As I noted previously, Non-Normalized EDIT is a negative balance for Ohio Gas Company and more than offsets the embedded taxes associated with rates in effect prior to the rate change in April 2018. Likewise, the effect of amortizing the Normalized EDIT could result in a potential future rate case, as indicated on Exhibit 1 to the Stipulation. Ohio Gas Company, however, agreed to forego the revenue enhancements that may result from the TCJA. It also will maintain records of the actual amortization and accumulated amortization of the balance of the Normalized EDIT. The Stipulation, therefore, continues the certainty and predictability in customer rates that Ohio Gas Company's customers have had for the past three decades, dating back to the Company's base rate increase in 1985.

Q16. Does the Stipulation violate any important regulatory principle or practice?

A16. No, the Stipulation does not violate any important regulatory principle or practice.

Q17. You reference the Application, the Stipulation, and schedules appended to each of them in your testimony. Are Exhibits A and B true and accurate copies of the Application and Stipulation, respectively?

A17. Yes

Q18. Does that conclude your testimony?

A18. Yes.

V. EXHIBITS

EXHIBIT A

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017	)))	Case No. 18-1903-GA-WVR

APPLICATION

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DECEMBER 27, 2018

ON BEHALF OF OHIO GAS COMPANY

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017	)))	Case No. 18-1903-GA-WVR

APPLICATION

In an Entry issued on January 10, 2018, the Public Utilities Commission of Ohio ("Commission") directed rate regulated utilities to record on their books a deferred liability for the estimated reduction in federal income tax expense resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"). *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, Entry ¶ 7 (Jan. 10, 2018) ("*Tax COI*"). On October 24, 2018, the Commission further ordered rate regulated utilities, with some exceptions, to file applications not for an increase "to pass along to consumers the tax savings resulting from the TCJA." *Id*., Finding and Order ¶ 29 (Oct. 24, 2018). In that Finding and Order, the Commission also stated that "the Commission is open to any alternative proposals by utilities, provided such proposals pass all tax savings on to customers, have the full agreement of Staff and provide for input from other interested stakeholders." *Id*.

In its base distribution rate case, Ohio Gas Company ("Ohio Gas") agreed to reduce its revenue requirement to incorporate the effect of a reduction in the federal income tax rate under the TCJA. *In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates*, Case No. 17-1139-GA-AIR, *et al.*, Joint Stipulation and Recommendation (the "Stipulation") at 4-5 (Jan. 26, 2018) ("*Rate

Case"). Additionally, Ohio Gas agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. *Id*. at 5. The Commission approved the Stipulation without modification on February 21, 2018. *Id*., Opinion and Order (Feb. 21, 2018).

Although Ohio Gas collected revenue based on rates that included tax expense set at the prior tax rate from January to March 2018 ("2018 Tax Savings"), it has determined that amortization of both Non-Normalized Excess Deferred Income Taxes ("EDIT") and Normalized EDIT would result in revenue increases that exceed the 2018 Tax Savings. Based on that determination, any further changes to effect the reduction in the corporate tax rate would result in a revenue increase.

Ohio Gas has advised the Commission Staff and the Office of the Ohio Consumers' Counsel that Ohio Gas has determined that any further changes to implement the TCJA in rates would result in a revenue increase and that it is precluded from seeking an increase from consumers under the approved Stipulation.

In this Application, therefore, Ohio Gas seeks a determination that it has fully complied with the Commission's directive to return the tax savings to customers as a result of the resolution of its base distribution rate case in 2018 and a waiver of the Commission's order to file an application not for an increase.

In support of its Application, Ohio Gas states:

1. Ohio Gas is a natural gas company within the meaning of R.C. 4905.03(A)(6), and as such, is a public utility subject to the jurisdiction of the Commission.

2. The TCJA became effective in January 2018. One provision of the law provided for a reduction in the corporate income tax rate from up to 35% to a fixed rate of 21%.

3. On January 10, 2018, the Commission opened an investigation in the *Tax COI* to consider the effects of the TCJA on the rates of rate-regulated utilities. In that Entry, the Commission directed each rate regulated utility to record on its books a deferred liability for the estimated reduction in federal income tax expense resulting from the TCJA.

4. In a Finding and Order entered on October 24, 2018 in the *Tax COI*, the Commission directed each rate regulated utility, with several exceptions, to file by January 1, 2019 an application to "pass along to consumers the tax savings resulting from the TCJA." *Id*., Finding and Order ¶ 29 (Oct. 24, 2018). The Commission also noted that it was open to alternative proposals, provided such proposals passed all tax savings on to customers. *Id*.

5. Tax adjustments resulting from the reduction in the federal corporate tax rate fall into three areas: (1) tax savings incorporated in rates to be prospectively applied; (2) tax savings associated with the change in the tax rate embedded in base rates and riders collected after the change in the tax rate but prior to any prospective rate changes; and (3) adjustments to deferred income taxes associated with timing differences between federal tax filings and recovery in regulated rates. *Id*., *passim* and *In the Matter of the Motion of Ohio Power Company for a Procedural Schedule and Request for Expedited Ruling and*

Memorandum in Support for the Implementation of the Tax Cuts and Jobs Act of 2017, Finding and Order (Oct. 3, 2018).

6. Ohio Gas previously implemented a reduction in base rates that incorporates the effects of the reduction in the federal corporate tax rate in a base distribution rate case. At the time that the TCJA became effective, Ohio Gas was seeking a base rate increase. *Rate Case*, Application (May 31, 2017). The rate application incorporated the prior federal corporate tax rate applicable to Ohio Gas. *Id*., Schedule C-4. The rate application was resolved by the Stipulation. *Id*., Stipulation (Jan. 26, 2018). As part of the Stipulation, Ohio Gas agreed to reduce its requested revenue requirement by incorporating a tax rate of 21%. *Id*., Stipulation at 4-5. This change in the tax rate reduced the increase in the annual revenue requirement in excess of $600,000. *Id*., Stipulation at 5. Ohio Gas also agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. *Id*. The Commission approved the Stipulation without modification. *Id*., Opinion and Order (Feb. 21, 2018). Rates based on the 21% federal corporate tax rate were effective March 1, 2018, on a service rendered basis. *Id*., Letter to Barcy McNeal from Frank P. Darr (Feb. 22, 2018) (tariff filing).

7. The Stipulation did not address the return of any tax savings under the rates in effect.

8. Ohio Gas billed and collected rates based on the prior tax rate from January 1, 2018 to March 31, 2018. The 2018 Tax Savings was $463,257. Schedule A.

9. The Stipulation also did not address EDIT. EDIT consists of two parts. Under federal tax law, Normalized EDIT relates to property for which accelerated depreciation is taken for tax purposes and amortization must be accomplished under specialized rules. Non-Normalized EDIT relates to all other items for which there are tax timing differences and may be amortized on a schedule approved by the Commission.

10. Unlike some utilities that have previously submitted applications to address EDIT, Ohio Gas presently shows a net debit for its Non-Normalized EDIT. The positive balance of EDIT results from a significant deferral for contributions in aid of construction. If this balance were amortized in rates, rates would increase $478,722. Schedule B.

11. Offsetting the 2018 Tax Savings against the Non-Normalized EDIT would result in a net increase in revenue of $15,465. Schedule C.

12. Ohio Gas has identified that it has Normalized EDIT of $2,630,467. The period for amortization of the Normalized EDIT is estimated to be 26 years. To properly reflect the amortization of the Normalized EDIT, Ohio Gas will book an increase in its net rate base as the EDIT is reduced. As a result of the amortization of Normalized EDIT, Ohio Gas would realize a net increase in its revenue requirement of $983,712, or an average of $37,835 during the 26-year amortization period. Schedule D.

13. As set out above, the return of the 2018 Tax Savings and the amortization of the Non-Normalized and Normalized EDIT would result in a net rate increase to customers, but Ohio Gas has agreed that it will not seek an increase in rates for

the increase in the revenue requirement as a result of any remaining changes necessary to effect the TCJA. Accordingly, there is no further action that Ohio Gas may take to comply with the orders in the *Tax COI*.

14. As noted above, the Commission has indicated that it will consider alternatives to the filing of an application not for an increase in rates. Under the facts and circumstances set out in this Application, Ohio Gas has stated good cause for the Commission to waive the Order that Ohio Gas file an application not for an increase in rates since any further changes to rates would result in a rate increase.

15. Ohio Gas has contacted both Commission Staff and the Office of the Ohio Consumers' Counsel. Each has been advised that Ohio Gas has determined that return of the 2018 Tax Savings and amortization of the EDIT would result in a rate increase and that Ohio Gas is therefore seeking a determination that it has fully complied with the Commission's order in the *Tax COI*.

WHEREFORE, Ohio Gas requests:

1. That the Commission find that the 2018 Tax Savings is $463,257.

2. That the Commission find that the Non-Normalized EDIT is ($478,722).

3. That the Commission find that the return of the 2018 Tax Savings and amortization of the Non-Normalized EDIT result in an increase in the revenue requirement of $15,465

4. That the Commission find that the Normalized EDIT is $2,630,467;

5. That the Commission find that the amortization of the Normalized EDIT as required by federal law would result in an increase in the revenue requirement of $983,712;

6. That the Commission find that return of the 2018 Tax Savings, amortization of Non-Normalized EDIT, and Normalized EDIT over the statutorily required period of approximately 26 years would result in a rate increase;

7. That the Commission find that Ohio Gas, due to the terms and conditions which the Commission approved in the Rate Case which prevent Ohio Gas from increasing its gas distribution rate, has fully complied with the requirements of its Order in the *Tax COI* to return tax savings associated with the TCJA to consumers;

8. That the Commission waive the order that Ohio Gas file an application not for an increase in rates; and

9. That the Commission make any other orders that are necessary to implement this Application.

Respectfully submitted,

<u>/s/ Frank P. Darr</u>

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ON BEHALF OF OHIO GAS COMPANY

SCHEDULE A

Ohio Gas Company
Tax Savings Rider
2018 Adjustment - Carrying Cost Calculation

		2018 January	2018 February	2018 March	2018 April	2018 May	2018 June	2018 July	2018 August	2018 September	2018 October	2018 November	2018 December	2019 January	Total
1	Grossed-up Income Tax Savings (Through 3/31/18 / 3 Months)	$ 148,718	$ 148,718	$ 148,718	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 446,154
2	Cumulative Income Tax Savings	$ 148,718	$ 297,436	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	
3	Balance Subject to Interest	$ 74,359	$ 223,077	$ 371,795	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	$ 446,154	
4	Interest Cost	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
5	Monthly Interest Cost	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	0.33%	
6	Monthly Interest	$ 248	$ 744	$ 1,239	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 1,487	$ 17,103
															$ 463,257

New Rates in 17-1139-EL-AIR effective April 1, 2018

SCHEDULE B

12/31/2017	**Account 283 - non-property related ADIT**		($30,194)
		EDIT (1-(.21/.34)	($11,545)
		Jurisdictional allocation	89.43%
		Jurisdictional amount	($10,324)
		Gross-up	1.328948
	Account 283 non-property EDIT		($13,721)
	Account 282 non-property ADIT		$1,108,595
		Excess ADIT (1-(.21/.34)	$423,875
		Jurisdictional allocation	87.42%
		Jurisdictional amount	$370,551
		Gross-up	1.328948
	Account 282 non-property EDIT		$492,443
		Total unprotected EDIT	$478,722

SCHEDULE C

2018 Tax Savings and Non-Normalized EDIT

2018 Stub with interest	$463,257
Unprotected Excess ADIT	($478,722)
Net increase to customers	$15,465

SCHEDULE D **Normalized EDIT**

		Excess Deferred Taxes Balance	Amortization	Grossed up Amortization	Accum. Amort.	Grossed up R of R 11.96%		25 ARAM	Net Credit to Customers Difference
RETURN ON RATE BASE	9.00%								
BEGINNING BALANCE*	$2,630,467								
AMORTIZATION YEAR 1		$2,525,248	$105,219	$139,830	$105,219	$6,292	0.04000	$105,219	($133,538)
AMORTIZATION YEAR 2		$2,420,293	$104,956	$139,481	$210,174	$18,861	0.03990	$104,956	($120,620)
AMORTIZATION YEAR 3		$2,315,600	$104,693	$139,131	$314,867	$31,397	0.03980	$104,693	($107,734)
AMORTIZATION YEAR 4		$2,211,171	$104,430	$138,781	$419,296	$43,903	0.03970	$104,430	($94,878)
AMORTIZATION YEAR 5		$2,107,004	$104,166	$138,432	$523,463	$56,377	0.03960	$104,166	($82,055)
AMORTIZATION YEAR 6		$2,003,101	$103,903	$138,082	$627,366	$68,820	0.03950	$103,903	($69,263)
AMORTIZATION YEAR 7		$1,899,460	$103,640	$137,733	$731,007	$81,231	0.03940	$103,640	($56,502)
AMORTIZATION YEAR 8		$1,796,083	$103,377	$137,383	$834,384	$93,610	0.03930	$103,377	($43,773)
AMORTIZATION YEAR 9		$1,692,969	$103,114	$137,034	$937,498	$105,959	0.03920	$103,114	($31,075)
AMORTIZATION YEAR 10		$1,590,117	$102,851	$136,684	$1,040,350	$118,275	0.03910	$102,851	($18,409)
AMORTIZATION YEAR 11		$1,487,529	$102,588	$136,334	$1,142,938	$130,561	0.03900	$102,588	($5,774)
AMORTIZATION YEAR 12		$1,385,204	$102,325	$135,985	$1,245,263	$142,814	0.03890	$102,325	$6,830
AMORTIZATION YEAR 13		$1,283,142	$102,062	$135,635	$1,347,325	$155,037	0.03880	$102,062	$19,402
AMORTIZATION YEAR 14		$1,181,343	$101,799	$135,286	$1,449,124	$167,228	0.03870	$101,799	$31,942
AMORTIZATION YEAR 15		$1,079,807	$101,536	$134,936	$1,550,660	$179,387	0.03860	$101,536	$44,451
AMORTIZATION YEAR 16		$978,534	$101,273	$134,587	$1,651,933	$191,515	0.03850	$101,273	$56,929
AMORTIZATION YEAR 17		$877,524	$101,010	$134,237	$1,752,943	$203,612	0.03840	$101,010	$69,375
AMORTIZATION YEAR 18		$776,777	$100,747	$133,887	$1,853,690	$215,677	0.03830	$100,747	$81,789
AMORTIZATION YEAR 19		$676,293	$100,484	$133,538	$1,954,174	$227,710	0.03820	$100,484	$94,172
AMORTIZATION YEAR 20		$576,072	$100,221	$133,188	$2,054,395	$239,712	0.03810	$100,221	$106,524
AMORTIZATION YEAR 21		$476,115	$99,958	$132,839	$2,154,352	$251,683	0.03800	$99,958	$118,844
AMORTIZATION YEAR 22		$376,420	$99,695	$132,489	$2,254,047	$263,622	0.03790	$99,695	$131,133
AMORTIZATION YEAR 23		$276,988	$99,432	$132,139	$2,353,479	$275,530	0.03780	$99,432	$143,391
AMORTIZATION YEAR 24		$177,820	$99,169	$131,790	$2,452,647	$287,406	0.03770	$99,169	$155,616
AMORTIZATION YEAR 25		$83,033	$94,787	$125,967	$2,547,434	$299,005	0.03760	$94,787	$173,038
AMORTIZATION YEAR 26		$0	$83,033	$110,346	$2,630,467	$309,639		$83,033	$199,293
AMORTIZATION YEAR 27			$0	$0	$0	$314,604			$314,604
AMORTIZATION YEAR 28			$0	$0	$0	$0			$0
AMORTIZATION YEAR 29			$0	$0	$0	$0			$0
AMORTIZATION YEAR 30			$0	$0	$0	$0			$0
			$2,630,467	$3,495,754		$4,479,466		$2,630,467	$983,712
				rev. credit					

*Total company amount of $3,008,999 allocated 87.42% to jurisdictional per Schdule B-6 in Case No. 17-1139-GA-AIR

GRCF	1.328948
ROR	9.00%
	11.96%

EXHIBIT B

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017.	))))	Case No. 18-1903-GA-WVR

STIPULATION AND RECOMMENDATION

APRIL 25, 2019

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for a Waiver of Orders Related to the Tax Cuts and Jobs Act of 2017.	))))	Case No. 18-1903-GA-WVR

STIPULATION AND RECOMMENDATION

I. BACKGROUND

A. Rule 4901-1-30, Ohio Administrative Code ("OAC"), provides that any two or more parties to a proceeding may enter into a written or oral stipulation concerning the issues presented in such proceeding. Pursuant to Rule 4901-1-10 (C), OAC, the Staff of the Public Utilities Commission of Ohio ("Commission Staff") is considered a party for the purpose of entering into a stipulation under Rule 4901-1-30 OAC.

B. The purpose of this document is to set forth the understanding of the Signatory Parties (as defined below), to resolve all issues raised in this proceeding, and to resolve the directives issued by the Public Utilities Commission of Ohio ("Commission") in Case No. 18-47-AU-COI ("*Tax Investigation Case*"). The tax cut benefits for base rates were addressed in the rate case (Case No. 17-1139-GA-AIR) and are currently being passed back to consumers. However, as is explained in more detail below, one aspect of the tax cut benefit attributable to the excess deferred income tax ("EDIT") is an adjustment that would be beneficial for consumers in the early years (years 1-11), but an increased charge to consumers in the latter years (years 12- 27). Any further changes to implement the effects of the TCJA in rates, beyond what was implemented through the

Stipulation in the *Rate Case*, would result in an overall revenue increase to customers; and therefore, the parties have agreed to not implement further the rate changes necessary to further modify the EDIT.

II. PARTIES

A. This Stipulation and Recommendation ("Stipulation") is entered into by and among Ohio Gas Company ("Company"), Commission Staff, and the Office of the Ohio Consumers' Counsel ("OCC") (collectively, "Signatory Parties").

III. GENERAL MATTERS

A. It is understood by the Signatory Parties that this Stipulation is not binding upon the Commission. However, the agreement contained herein is supported by information provided herewith, or referenced herein, is based upon the Signatory Parties' desire to arrive at a reasoned and reasonable result considering the law, facts, and circumstances and, accordingly, should be given careful consideration by the Commission.

B. This Stipulation is submitted for purposes stated in paragraph I.B above and should not be understood to necessarily reflect the positions which the Signatory Parties would have taken if all the issues in the proceedings would have been litigated. Like most stipulations and recommendations reviewed by the Commission, the willingness of the Signatory Parties to jointly sponsor this document is predicated on the reasonableness of the Stipulation taken as a whole. The fact that this document is being offered by the Signatory Parties should not be construed as necessarily indicating agreement on theory or concepts.

C. The Signatory Parties believe that this Stipulation represents a reasonable compromise of varying interests. This Stipulation is expressly conditioned upon adoption in its entirety by the Commission without material modification. Each party has a right in its sole discretion to determine whether the Commission's approval of this Stipulation constitutes a "material modification" thereof. Should the Commission reject or materially modify all or any part of this Stipulation, the Signatory Parties shall have the right, within thirty (30) days of issuance of the Commission's order, to file an application for rehearing or to withdraw from the Stipulation by filing a notice with the Commission in this proceeding and serving all the Parties. The Parties agree that they will not oppose or argue against any other Signatory Party's application for rehearing that seeks to uphold the original unmodified Stipulation. Upon the Commission's issuance of any entry on rehearing that does not adopt the Stipulation without material modification, any party may withdraw from the Stipulation by filing a notice with the Commission within thirty (30) days of the Commission's entry on rehearing. Upon notice of withdrawal by any party, pursuant to the above provisions, the Stipulation shall immediately become null and void. In such event, this proceeding shall go forward at the procedural point at which this Stipulation was filed.

D. Except for enforcement purposes, neither this Stipulation nor the information and data contained herein, nor the Commission Order approving the Stipulation shall be cited as precedent in any future proceedings for or against any Signatory Party, or the Commission itself.

E. The Signatory Parties request that the Commission approve this Stipulation without further hearing. In support of the request to waive hearing and in support of this

Stipulation, the Signatory Parties stipulate to the following statements of fact that shall be controlling for this proceeding and any enforcement of the Stipulation in this or any future proceeding:

1. On January 10, 2018, the Commission issued an Entry in the *Tax Investigation Case* that directed rate regulated utilities to record on their books a deferred liability for the estimated reduction in federal income tax expense resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA").

2. On October 24, 2018, the Commission issued a Finding and Order in the *Tax Investigation Case* that further ordered rate regulated utilities, with some exceptions, to file applications not for an increase "to pass along to consumers the tax savings resulting from the TCJA." In that Finding and Order, the Commission also stated that "the Commission is open to any alternative proposals by utilities, provided such proposals pass all tax savings on to customers, have the full agreement of Staff and provide for input from other interested stakeholders."

3. The Company previously agreed to reduce its revenue requirement in its base distribution rate case, Case Nos. 17-1139-GA-AIR, *et al.* ("*Rate Case*"), to incorporate the effect of a reduction in the federal income tax rate under the TCJA. In the stipulation in the *Rate Case*, the Company also agreed that it would not implement an increase in rates for any unaddressed changes resulting from the TCJA. The Commission approved the stipulation from the *Rate Case* without modification.

4. The Company filed an application in this matter on December 27, 2018 in response to the Commission's decisions from the *Tax Investigation Case*.

5. The Company collected revenue based on rates that included tax expense set at the prior tax rate from January to March 2018 (“2018 Tax Savings”) of $463,257.

6. Unlike many utilities, which, as a result of the TCJA, owe a credit to customers for EDIT, the Company has Non-Normalized EDIT of ($478,722), which would result in a rate increase of $478,722.

7. Offsetting the 2018 Tax Savings against the Non-Normalized EDIT would result in an increase in the revenue requirement (*i.e.*, a benefit for the Company) for the first year.

8. The Company has Normalized EDIT of $2,630,467.

9. Amortization of the Normalized EDIT in accordance with federal income tax law requirements would result in a decrease in the revenue requirement (*i.e.*, a benefit for consumers) approved in the Rate Case for approximately the first eleven years of the amortization period (2019 through 2029), but would result in an increase in the revenue requirement (*i.e.*, benefit for Company) for the remaining 16 years (2030 through 2045). Over the entire 27-year amortization period, there would be a revenue increase of approximately $983,712, as set out in Schedule D of the Application.

10. Thus, any further changes to implement the effects of the TCJA in rates, beyond what was implemented through the Stipulation in the *Rate Case*, would result in a revenue increase.

IV. TERMS AND CONDITIONS

The Signatory Parties agree and stipulate as follows:

A. Based on the foregoing stipulation of facts, the Signatory Parties recommend the Commission approve a waiver of the requirement from the October 14, 2018 Finding and Order in the *Tax Investigation Case* that the Company file an application to address the remaining effects of the TCJA on the Company as such an application would result in an increase in rates contrary to the requirement in that Finding and Order and the Stipulation in the *Rate Case*.

B. The Signatory Parties agree and recommend that customers shall be protected such that the Normalized EDIT resulting from the TCJA including the subsequent amortization thereof, shall not be used as the basis to increase the revenue requirement calculation in this proceeding or any future proceeding under R.C. 4909.15, R.C. 4909.18, R.C. 4905.26, or under any provision of Chapter 4929 of the Ohio Revised Code, or any successor to the foregoing statutory provisions. Exhibit 1 provides examples of the Signatory Parties' understanding of the operation of this paragraph in any future rate case.

C. For purposes of the next base rate case, Company will maintain records of the actual annual amortization and accumulated amortization of the balance of the Normalized EDIT of $2,630,467 indicated in Section III, E.8 of the stipulation.

V. CONCLUSION

The undersigned hereby stipulate and agree that it is authorized to enter into this Stipulation on this 25th day of April 2019.

OHIO GAS COMPANY

By: /s/ Frank P. Darr
Frank P. Darr

STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

By: /s/ Jodi Bair (per approval)
Jodi Bair, Assistant Attorney General

THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

By: /s/ Christopher Healey
Christopher Healey, Assistant Consumers' Counsel

Exhibit 1

EXAMPLES OF HYPOTHETICAL RATE IMPACTS IN FUTURE RATE CASE			
Source: Application Schedule D			
Assume Rate Case - use Year 15 amounts		Rev. Req.	
Assume revenue requirement increases		Impact	
Rate Base Impact:			
Beg. Balance normalized EDIT	$2,630,467		
Accum. Amortization thru Yr. 15	$1,550,660 rate base add.		
Unamort. Balance	$1,079,807		
Assumed grossed up ROR	11.96%		
Rate base rev. requirement impact	$185,459	$185,459	
Amortization Impact:			
Continued amortization of EDIT	$101,536		
Gross up to revenue level	$134,936	($134,936)	
Net rev. req. impact		$50,523	Company foregoes this increase
			(excludes from rev. req.)
Assume Rate Case - use Year 5 amounts		Rev. Req.	
Assume revenue requirement decreases		Impact	
Rate Base Impact:			
Beg. Balance normalized EDIT	$2,630,467		
Accum. Amortization thru Yr. 5	$523,463 rate base add.		
Unamort. Balance	$2,107,004		
Assumed grossed up ROR	11.96%		
Rate base rev. requirement impact	$62,606	$62,606	
Amortization Impact:			
Continued amortization of EDIT	$104,166		
Gross up to revenue level	$138,432	($138,432)	
Net rev. req. impact		($75,826)	Customers get this rate decrease
			in rev. requirements

Step 7
E-Filing Confirmation

Filings received after 5:30 p.m. Eastern Time will be deemed to be filed the following business day. All filings and document information is subject to review by the PUCO Docketing Division.

Please click on the link below to ensure that your document has been filed. Call (614) 466-4095, during business hours, if you have questions, have problems viewing your filed document, or need assistance. Do not reply to this message. Send any correspondence to **docketing@puc.state.oh.us**.

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URL: **http://dis.puc.state.oh.us/DocumentRecord.aspx?DocID=68dad547-5bfa-4ba5-ada2-3e54e7178bde**
Date & Time: 4/25/2019 at 12:14:40.4942762 EST
Case Number(s): 18-1903-GA-WVR
Summary: Stipulation Stipulation and Recommendation electronically filed by Mr. Frank P Darr on behalf of Ohio Gas Company
Confirmation Number: 613220b9-b31a-4bfc-8b96-28922e3c8f12
Official PDF File: 613220b9-b31a-4bfc-8b96-28922e3c8f12_Official_fdarr4252019120940PM_Stipulation and Recommendation.pdfSecure.pdf
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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Testimony of Joseph G. Bowser on Behalf of Ohio Gas Company in Support of the Stipulation and Recommendation*, as sent by, or on behalf of, the undersigned counsel for Ohio Gas to the following parties of record this 7th day of May 2019, *via* electronic transmission.

/s/ Frank P. Darr
Frank P. Darr

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