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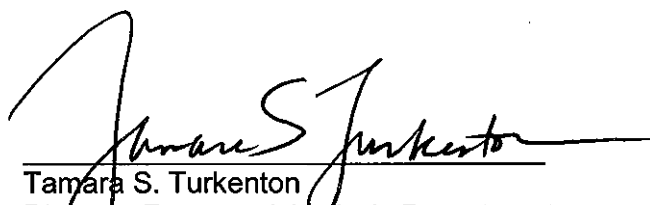
July 15, 2019

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Annual Application Columbia Gas of Ohio, Inc. for Adjustment to the CEP Rider, Case Nos. 19-0438-GA-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation for Columbia Gas of Ohio, Inc.'s application in Case Nos. 19-0438-GA-RDR for approval of authority to adjust the CEP Rider.


Tamara S. Turkenton
Director, Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

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Columbia Gas of Ohio, Inc.
Case No. 19-0438-GA-RDR

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (PUCO or Commission) Opinion and Order in Case No. 17-2202-GA-ALT (Order),¹ on February 28, 2019, Columbia Gas of Ohio, Inc. (Columbia or Company) filed an application to adjust its Capital Expenditure Program (CEP) Rider rate.

On April 17, 2019, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or Auditor) as the auditor to assist the staff of the PUCO (Staff) in performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Columbia's CEP Rider.

On July 10, 2019, Blue Ridge submitted its Audit of the Capital Expenditure Program For the 2018 Annual Adjustment to the CEP Rider Rate for Columbia Gas of Ohio, Inc. (Blue Ridge Report).

This report by Staff provides Staff's conclusion and recommendations to the Commission in regard to Columbia's application to adjust its CEP Rider as filed in Case No. 19-0438-GA-RDR.

BACKGROUND

Under R.C. 4929.111, a natural gas company may file an application to implement a capital expenditure program (CEP) for infrastructure expansion, improvement, or replacement; to install, upgrade, or replace information technology systems; or to comply with rules, regulation, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the Company's obligation to furnish necessary and adequate services and facilities, and finds those services and facilities to be just and reasonable, the Commission shall approve the application and authorize deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on the portion of assets of the CEP placed in service but not reflected in rates as plant in service, and a regulatory asset for the incremental depreciation and the property tax expense directly attributable to the CEP but not reflected in rates.

In 2011, the Company filed an application to implement a capital expenditure program and modify its accounting procedures in Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM. The Commission limited the CEP deferral authority from October 1, 2011, through December 31, 2012. The Commission authorized the Company to accrue CEP Deferral expense until the rates to recover the deferrals for the Small General Service (SGS) class reach \$1.50 per month.²

In 2012, in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM, the Commission authorized the Company to continue its CEP Deferral beyond December 31, 2012, up and to the time where the accrued deferral would generate rates that result in an increased monthly charge of more than \$1.50 per month for the SGS class.³

¹ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 17-2202-GA-ALT, Opinion and Order (Nov. 28, 2018).

² *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 11-5351-GA-UNC, *et al.*, Finding and Order at 12-13 (Aug. 29, 2012).

³ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 12-3221-GA-UNC, *et al.*, Finding and Order at 5 (Oct. 9, 2013).

In 2018, in Case No. 17-2202-GA-ALT, the Commission authorized the Company to implement a new alternative rate plan and create the CEP Rider to recover historic and ongoing CEP costs and CEP deferrals (CEP Investment). The rates for incorporating historic CEP Investments through December 31, 2017 were set for SGS customers at \$3.51 per meter per month.⁴ The rates for recovery of ongoing CEP Investments were capped for SGS customers at \$1.05 as a total rate cap of \$4.56 starting in September 2019.⁵

COLUMBIA'S APPLICATION FOR CEP RIDER

Columbia filed its Application to adjust the CEP Rider rate for SGS to \$4.15 beginning September 2019.⁶ The CEP Rider's revenue requirement for CEP investment through Dec. 31, 2018 is \$88,796,866. The Company calculated a total revenue requirement for 2018 investments of \$16,149,098⁷ and an over recovery from the prior year of \$1,838,486 resulting in a revenue requirement of \$14,310,612. CEP Investments included plant additions of \$122,061,499 and retirements of \$16,117,383 for total plant in service of \$105,944,116; accumulated depreciation of \$59,266,160; and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of \$47,543,038. Annualized operating expenses included depreciation, deferred depreciation amortization, PISCC amortization, property tax expense, and deferred property tax expense amortization.

THE CEP RIDER INVESTIGATION

Staff divided its review into two parts: 1) investigating the application and supporting schedules to determine if Columbia's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company that is used as a basis for the adjustment; and 2) plant investigation performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Columbia's CEP Rider. The Commission selected Blue Ridge as the auditor to assist Staff in conducting the plant investigation.

Staff reviewed the Company's Application and supporting testimony, analyzed documentation associated with expenses and deferrals for depreciation, property tax, and PISCC. Staff also reviewed proposed tariffs, bill impacts, and revenue requirement calculations. As part of its review, Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, and performed independent analysis when necessary. Finally, Staff reviewed the Order and stipulation from Case No. 17-2202-GA-ALT to ensure the Company was in compliance with all recommendations and requirements.

Blue Ridge conducted an audit of Columbia's CEP capital expenditures. The audit reviewed the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2018 through December 31, 2018. The audit also assessed their necessity, prudence, lawfulness, and reasonableness. Blue Ridge reviewed information required by the RFP and provided in response to data requests, conducted interviews,

⁴ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 17-2202-GA-ALT, Opinion and Order at 14 (Nov. 28, 2018).

⁵ *Id.* at 19.

⁶ Application, Att. A (Feb. 28, 2019).

⁷ The Company calculated the revenue requirement by multiplying reported 2018 CEP Investments of \$94,220,993 by the rate of return (9.52% pre-tax) and adding annualized operating expenses of \$7,179,259.

performed field inspections and desk top reviews, reviewed the Company's processes and procedures, and performed various analyses as detailed in the Blue Ridge Report.

STAFF'S RESPONSE AND RECOMMENDATIONS

Staff has completed its investigation of Columbia's proposed CEP Rider application.

Staff fully adopts the Blue Ridge Report. Specifically, Staff recommends that the Company:

- Adjust depreciation balances and the revenue requirement to account for the retirement that was recorded to the incorrect account.
- Remove from Utility Plant in Service the total cost of unused Mobile Data Terminals (\$388,656).
- Formally document its policies and procedures on the preparation and approval of workorders, damage claims, accounting/ journal entries, and allocations.
- Work with Staff to better identify expenses versus capitalized costs associated with meter relocations. More specifically, determine how the activity and costs should be tracked in order to clarify how meter movement should be recorded (capital or expense) in various situations and how to ensure the integrity of the process.
- Track the depreciation offset.
- Track incremental revenues.
- Track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in service are both used and useful and not overbuilt either in length or diameter.
- Ensure retirements and cost of removal are recorded at the same time as the replacement assets.

Blue Ridge further noted that the Company did not reflect incremental revenue in its CEP and recommended that the revenue offset be clarified. Staff believes that the CEP deferral formula authorized in Case No. 12-3221-GA-UNC, *et al.* was meant to be adjusted in Case No. 17-2202-GA-ALT to remove the incremental revenue offset as part of the Stipulation entered into in that case. However, Staff believes incremental revenues are an important component of the CEP deferral formula and, therefore, its removal from the formula should not be indefinite.⁸

The cumulative effect of these adjustments results in a CEP Rider rate for SGS of \$4.10 beginning September 2019. The CEP Rider's revenue requirement for CEP investment through Dec. 31, 2018 is \$87,616,409. A total revenue requirement for 2018 investments is \$14,968,641 and an over recovery from the prior year of \$1,838,486 resulting in and a revenue requirement of \$13,130,155. The revenue requirement was derived by multiplying reported 2018 CEP Investments of \$92,852,531 by the rate of return (9.52% pre-tax) and adding annualized operating expenses of \$6,129,080. CEP Investments included plant additions of \$121,672,839 and retirements of \$16,117,383 for total plant in-service of \$105,555,456; accumulated depreciation of \$59,188,428;

⁸ The stipulation in Case No. 17-2202-GA-ALT states in part: The Signatory Parties recommend that for CEP Investment incurred after December 31, 2017, Columbia should be authorized to defer expenses associated with CEP Investment until such costs are recovered by means of an adjustment to Columbia's CEP Rider rates. The deferrals shall be those authorized by the Commission in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM. Columbia may adjust the CEP Rider rates each year to collect from customers the prior calendar year's CEP Investment and related deferrals. *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 17-2202-GA-ALT, Stipulation at 4 (Oct. 25, 2018).

and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of \$46,485,504.

Based upon the investigation described above, Staff believes that the Company has supported its filing with adequate data and information to ensure that the CEP Rider revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Columbia's Application for the CEP Rider as modified by these comments.