**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| --- | --- | --- |
| 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 |

**CONSUMER PROTECTION OBJECTIONS TO THE PUCO STAFF REPORT**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

Bruce Weston (0016973)

Ohio Consumers’ Counsel

Bryce A. McKenney (0088203)

Assistant Consumers’ Counsel

**Office of the Ohio Consumers’ Counsel**

65 East State Street, 7th Floor

Columbus, Ohio 43215-4213

Telephone: McKenney Direct – 614-9585

Bryce.mckenney@occ.ohio.gov

(Will accept service via email)

October 15, 2018

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# I. INTRODUCTION

In this case, Columbia Gas of Ohio, Inc. (“Columbia”) filed an application to charge its 1.3 million customers for certain capital expenditures related to natural gas service. Columbia proposed to add significant monthly charges to customers’ natural gas bills in the amounts of $3.28 in 2018 and 2019, $4.17 in 2020 and 2021, and then $4.92 monthly in 2022. Presently, Columbia has more than $600 million in capital expenditures (i.e., so-called deferrals) in its accounting records that it proposed to charge customers. As proposed by Columbia, the charges for this Capital Expenditure Program (“CEP”) would be for post-in-service carrying costs, incremental depreciation expense, and property tax expense currently deferred by Columbia under its CEP program for the years 2011 through 2017. However, these charges would not cover Columbia’s ongoing CEP capital spending (after 2017). Columbia’s CEP capital spending for years after 2017 would be deferred on Columbia’s accounting books, for later collection from customers plus carrying costs (interest) to be charged to customers.

The Staff of the Public Utilities Commission of Ohio (“PUCO Staff”) conducted an investigation of Columbia’s application to determine if Columbia should be permitted to implement a rider to charge customers for Columbia’s CEP Deferrals and the corresponding assets. The PUCO Staff hired an auditor (Blue Ridge) to assist with a prudence and financial audit of Columbia’s plant in service and CEP spending. The auditor filed its report on September 4, 2018 and the PUCO Staff issued its Staff Report on September 14, 2018. The Office of the Ohio Consumers’ Counsel (“OCC”) appreciates the PUCO Staff’s investigation and files these objections to the PUCO Staff Report on behalf of Columbia’s 1.3 million residential consumers.

OCC supports the following recommendations in the PUCO Staff Report:

* The PUCO Staff properly recommended that Columbia improve its identification of expenses versus capitalized costs as it relates to meter relocations (Staff Report at 7).
* The PUCO Staff properly recommends that Columbia perform a new depreciation study prior to its next base rate case (Staff Report at 7).
* The PUCO Staff properly recommended that Columbia provide non-IRP gross plant and reserve depreciation balances by FERC account (Staff Report at 7).
* The PUCO Staff properly recommended that Columbia adjust its plant balances to remove the cost overruns identified by Blue Ridge in its audit (Staff Report at 7).
* The PUCO Staff properly recommended that Columbia work with Staff (and hopefully the parties) to identify reasonable and meaningful annual caps (spending, revenue requirement, rate, etc.) to protect consumers (Staff Report at 7).
* The PUCO Staff properly recommended that Columbia calculate its annualized depreciation using net plant instead of just plant additions (Staff Report at 8).
* The PUCO Staff properly recommended a depreciation offset of $289.9 million to protect consumers from paying an amount of depreciation expense that no longer reflects the rate base upon which that depreciation expense was established (Staff Report at 8).
* The PUCO Staff properly revised the rate of return to account for the effects of the federal tax cuts (though such rate of return could have been lowered further to be more reflective of current market conditions, as noted below) (Staff Report at 8).
* The PUCO Staff properly recommended that Columbia make an annual filing to account for over/under charges and modifications in the amortization of deferrals (Staff Report at 9).
* The PUCO Staff properly recommended that Columbia work with the PUCO Staff (and hopefully the parties) to determine a filing date for its next base rate case (Staff Report at 9).

At the same time, the PUCO Staff Report should have recommended additional changes to Columbia’s CEP Rider Application for the benefit of consumers:

* The PUCO Staff Report failed to examine (but should have examined) a sufficient number of CEP projects (workorders) to verify that there was not additional unnecessary or imprudent spending that should not be passed on to consumers.
* The PUCO Staff Report failed to properly examine (but should have examined) whether the capital expenditures under Columbia’s CEP were necessary for service to consumers.
* The PUCO Staff Report failed to require (but should have required) Columbia to identify any meter relocation costs that should not have been included for ultimate collection from customers in the CEP.
* The PUCO Staff Report failed to recommend (but should have recommended) revenue offsets for each year since Columbia initiated the CEP to help reduce the impact of the spending on consumers.
* The PUCO Staff Report failed to recommend (but should have recommended) operational savings credits be used to help offset the cost of the CEP to consumers.
* The PUCO Staff Report failed to recognize (but should have recognized) that the pre-tax rate of return that was requested and recommended by Blue Ridge should be based on current market conditions.
* The PUCO Staff Report failed to recommend (but should have recommended) that Columbia file its next base rate case as soon as possible to, among other things, reduce Columbia’s return on equity (profit) that was set years ago and is now too high to charge to consumers.
* The PUCO Staff Report failed to recommend (but should have recommended) that Columbia lower its charges to consumers to account for Columbia’s tax savings from the federal tax cuts under the Tax Cuts and Jobs Act of 2017.

These objections are discussed in more detail below. OCC’s recommendations, if adopted, would protect consumers from significant escalations in capital expenditure costs.

# II. OBJECTIONS TO THE PUCO STAFF REPORT

## Objection 1 – The PUCO Staff Report failed to examine (but should have examined) a sufficient number of CEP projects (workorders) to verify that there was not additional unnecessary or imprudent spending that should not be passed on to consumers.

The PUCO Staff adopted a Blue Ridge recommendation that $205,710 in project cost overruns be disallowed for three CEP work orders where the final project costs exceeded the original budget by more than twenty percent.[[1]](#footnote-2) The Blue Ridge disallowance(s) were based on findings of lack of necessity, unreasonableness, or imprudence of these three CEP work orders.[[2]](#footnote-3) Either the PUCO Staff or the auditor (Blue Ridge) should have examined additional CEP projects (workorders) through the audit to verify that there was not additional unnecessary or imprudent spending that should not be passed on to customers. Blue Ridge concluded that Columbia was unable to explain the causes for the overruns or to locate the underlying policies and approvals that are required to support the additional spending.[[3]](#footnote-4) But the sample of CEP work orders that were examined should have been increased due to the relatively high number of work orders that exceeded the original budget by more than 20 percent where Columbia was unable to support the cause for the additional spending.

Columbia provided Blue Ridge with a list of 15,494 work orders/projects for plant additions between January 1, 2008 and December 31, 2017.[[4]](#footnote-5) The list included 7,884 CEP-related work orders (representing over $257 million of the total CEP spending)[[5]](#footnote-6) and 8,767 non-CEP-related work orders (representing over $701 million of the total non-CEP spend).[[6]](#footnote-7) Columbia’s non-CEP-related spending and work orders includes Columbia’s spending under its Infrastructure Replacement Plan (“IRP”). From the 15,494 work orders, Blue Ridge selected a sample of 90 CEP work orders and 99 non-CEP work orders for additional analysis and review.[[7]](#footnote-8) The additional analysis included a review of the project budget and actual costs.[[8]](#footnote-9) In addition, the analysis included a review of explanations and approvals that were provided for cost overruns that exceeded 20 percent.[[9]](#footnote-10)

For the 99 non-CEP (including IRP) work orders that were examined, seventeen were over-budget by more than 20 percent.[[10]](#footnote-11) However, Blue Ridge found that the explanations provided by Columbia for each of the seventeen overrun work orders were not unreasonable.[[11]](#footnote-12) For the 90 CEP work orders that were examined, Blue Ridge found that thirteen were over budget by more than 20 percent.[[12]](#footnote-13) Of the thirteen work orders, Blue Ridge found that the cost overrun for three[[13]](#footnote-14) should not be passed on to customers because Columbia was either unable to explain the cause for the overrun or provide support for the additional spending.

Given that Columbia was unable to explain the cause for the overrun for 23 percent of the sampled CEP-related work orders that exceeded budget by more than 20 percent, Blue Ridge or the PUCO Staff should have performed prudence analysis on additional CEP work orders. This is especially important considering that for non-CEP-related work orders, Columbia was able to provide reasonable explanations for each of the overrun work orders. The PUCO should not approve the CEP until Blue Ridge or the PUCO Staff review all CEP work orders that are overrun by more than 20 percent and have concluded that no unnecessary, unreasonable, or imprudent spending are being passed on to customers.

## Objection 2 – The PUCO Staff Report failed to properly examine (but should have examined) whether the capital expenditures under Columbia’s CEP were necessary for service to consumers.

When the PUCO authorized the establishment of the CEP in Case No. 12-3221-GA-UNC, it approved four categories of capital investment upon which the CEP deferrals would be based: (1) replacement/betterment, (2) growth, (3) support services, and (4) information technology.[[14]](#footnote-15) The PUCO Staff Report and the audit report failed to properly analyze and determine whether the investments were needed for the purposes of which the CEP deferral was authorized by the PUCO.

For example, the PUCO Staff and the auditor did not determine whether Columbia had sufficient growth to justify the CEP spending on growth-related projects. Growth is defined as “facilities required to provide service to new customers or to provide increased load capacity to existing customers. This category may include, but is not limited to, costs associated with the installation of and/or improvement to mains and services (including service line installations to new customers served by existing mains), district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated land or land rights.” But the investments made to meet growth (in the number of customers and demand of existing customers) appear to far exceed the growth experienced during 2011-2018.

The following table shows data reported by Columbia on number of customers, consumption and investments made to meet growth requirements:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Change 2011-2017 |
| No of Customers | 1,400,364 | 1,393,943 | 1,399,714 | 1,423,447 | 1,427,440 | 1,433,604 | 1,442,553 | 3.0% |
| Total Consumption (Mcf) | 249,617,603 | 230,519,563 | 256,430,246 | 277,717,989 | 249,883,123 | 235,072,449 | 241,130,164 | -3.4% |
| CEP Investment ($) | $6,463,621 | $32,485,780 | $38,068,779 | $43,127,243 | $48,444,906 | $57,410,409 | $67,052,159 | - |

The PUCO Staff and the auditor failed to consider or determine whether Columbia properly budgeted its capital expenditures. Further, the PUCO Staff Report failed to analyze whether Columbia overestimated and/or overspent on the capital investment needed for each of the four categories (replacement/betterment, growth, support services, and information technology).

## Objection 3 - The PUCO Staff Report failed to require (but should have required) Columbia to identify any meter relocation costs that should not have been included for ultimate collection from customers in the CEP.

The PUCO Staff recommended that Columbia work with the PUCO Staff to better identify proper accounting for meter relocation projects.[[15]](#footnote-16) However, the PUCO Staff failed to identify meter relocation costs that should not have been collected from customers. Blue Ridge reported that when Columbia moves meters from inside to outside a residence, the work is typically charged as an operations and maintenance (“O&M”) expense.[[16]](#footnote-17) However, when relocation of the meter is performed in conjunction with a service line replacement, the entire project is capitalized under the CEP.[[17]](#footnote-18) Therefore, Columbia has an incentive to delay meter relocations until the work can be capitalized as part of a service line replacement. Columbia does not track the number of meter relocations on an annual basis or know the cost for relocated meters that are either expensed or capitalized. [[18]](#footnote-19) Blue Ridge recommended that Columbia track meter relocations more closely in order to demonstrate that the cost of meter relocations are properly included in CEP.[[19]](#footnote-20)

The PUCO Staff Report failed to adopt the Blue Ridge recommendation that Columbia track meter relocation projects to demonstrate that the costs are properly included in the CEP. In addition, the PUCO Staff Report failed to recommend a disallowance for all meter relocation costs that Columbia has included in the CEP if Columbia is unable to demonstrate that the costs should have been capitalized under the CEP. Customers already pay meter relocation expenses in base rates and should not have to pay the same costs again under the CEP.

## Objection 4 –The PUCO Staff Report failed recommend (but should have recommended) revenue offsets for each year since Columbia initiated the CEP to help reduce the impact of the spending on consumers.

The Blue Ridge analysis included an analysis of the CEP work orders that were part of a sample to determine if the work order should generate revenue and if so, is the CEP offset by the revenue produced.[[20]](#footnote-21) Several of the work orders involved projects that were categorized as growth-related or betterment-related and had the potential to generate revenue.[[21]](#footnote-22) Growth related projects include facilities that are needed to provide service to new customers or to provide increased load capacity to existing customers.[[22]](#footnote-23) Betterment-related projects include replacement of facilities due to physical deterioration, meeting governmental authority requirements, accommodating customer requests for facility relocations, and improving system operating conditions and ensuring adequate distribution capacity and/or reliability.[[23]](#footnote-24)

Columbia’s spending in growth-related projects increased from $32.6 million in 2012 to $81.4 million in 2017.[[24]](#footnote-25) Columbia spending in betterment-related projects increased from $2.2 million in 2012 to $13 million in 2017.[[25]](#footnote-26) Despite the additional CEP spending in growth-related and betterment-related projects, Columbia has not provided any revenue-offset since the program began in 2012.[[26]](#footnote-27) Columbia calculates the incremental revenue by identifying increases/decreases in the average number of customers served by rate schedule since the last distribution rate case.[[27]](#footnote-28) Blue Ridge requested more precise calculations from Columbia based on number of customers served by rate schedule over time. The revised calculations revealed a potential revenue offset of $443,539 in 2015. [[28]](#footnote-29)

The PUCO Staff Report failed to recommend that the PUCO require Columbia to offset 2015 CEP spending by the revenue offset of $443,539. In addition, the PUCO Staff Report failed to recommend a methodology that results in revenue offsets being provided to help pay for the additional CEP spending especially for growth and betterment related projects

## Objection 5 – The PUCO Staff Report failed to recommend (but should have recommended) operational savings credits be used to help offset the cost of the CEP to consumers.

The PUCO Staff Report failed to recommend that operational savings that Columbia must be obtaining through the CEP spending be credited towards the cost of the CEP. A large segment of the CEP is related to replacing aging infrastructure based on age and condition. Between 2008 and 2017, the level of capital spending for age and condition-related projects has increased from $90.5 million in 2008 to $220.4 million in 2017. Large spending on infrastructure should also be contributing to lowering Columbia’s maintenance and other costs and should ultimately lower distribution rates. However, customers who are paying for the CEP will not realize the benefits of the lower rates until base rates are adjusted in a future distribution rate case. To help avoid this delay, Columbia should be crediting the savings that it is obtaining in lower maintenance costs towards the cost of the CEP. This will help reduce the ultimate CEP costs that are paid by customers. Finally, the Commission has recognized the importance of operational cost savings credits in the Columbia infrastructure replacement program (IRP). Given that many of the CEP funded investments are similar in nature to the IRP, an operational cost savings credits helps ensure that reductions in maintenance costs that Columbia is benefiting from are being shared with customers

## Objection 6 – The PUCO Staff Report failed to recognize (but should have recognized) that the pre-tax rate of return that was requested and recommended by Blue Ridge should be based on current market conditions.

Columbia requested to use the same rate of return as was approved in its last base rate case, which was filed and approved in 2008 (Case No. 08-0072-GA-AIR). In its original application in this case, Columbia requested a pre-tax rate of return was 10.95%. However, due to the lower tax rate, this was lowered in the amended application to 9.52%. The 9.52% rate of return was calculated based on a return on equity of 10.39% and a cost of debt of 5.78% and produced an after-tax rate of 8.12%, the same as those approved in the last rate case approved in 2008. Blue Ridge and the PUCO Staff should have recommended a revised return on equity based on current economic and financial market conditions.

## Objection 7 – The PUCO Staff Report failed to recommend (but should have recommended) that Columbia file its next base rate case as soon as possible to, among other things, reduce Columbia’s return on equity (profit) that was set years ago and is now too high to charge to consumers.

The PUCO Staff Report failed to recommend that Columbia file a base distribution rate case as soon as possible to, among other things, lower its return on equity (profit). While the PUCO Staff Report recommends that Columbia perform a new depreciation study prior to its next base rate case and to work with Staff regarding the filing of the next rate case application, it should have recommended that Columbia file its next base rate case as soon as possible. A base rate case would limit the growth of the deferral that is causing the increasing charges to customers, including the increase in carrying costs. Further, a base rate case would assist consumers by identifying operational savings that are currently included in Columbia’s base rates. Columbia’s last base rate case was in 2008, with the CEP then beginning in 2011. It has been over 10 years since Columbia last filed a base rate case, it is now long past time for the utility to open its books. The PUCO Staff Report should have recommended that Columbia file its next base rate case as soon as possible with a test year of calendar year 2019.

## Objection 8 – The PUCO Staff Report failed to recommend (but should have recommended) that Columbia lower its charges to consumers to account for Columbia’s tax savings from the federal tax cuts under the Tax Cuts and Jobs Act of 2017.

The PUCO Staff Report failed to recommend that Columbia lower its charges to consumers to account for the benefits of the federal tax cuts. While the PUCO Staff properly noted that Columbia’s rate of return should be lowered to account for the effects of the federal tax cuts, such rate of return could have been lowered further to be more reflective of current market conditions. Additionally, Columbia continues to charge customers base rates established based upon the previous 35 percent corporate tax rate. The PUCO Staff Report should have recommended that Columbia lower its charges to consumers in the CEP, base rates, and other riders to provide the benefits of the lower federal tax rate to consumers.

# III. CONCLUSION

OCC’s recommendations, if adopted, would protect consumers from run-away capital spending costs by Columbia. The PUCO Staff Report should have included numerous provisions to protect consumers from capital spending in excess of what was actually needed. Further, any operational and maintenance savings resulting from the additional capital spending should be credited to customers to offset the costs of the CEP. Customers should not be forced to pay more than what is needed.

Respectfully submitted,

Bruce Weston (0016973)

Ohio Consumers’ Counsel

*/s/ Bryce A. McKenney*

Bryce A. McKenney (0088203)

Assistant Consumers’ Counsel

**Office of the Ohio Consumers’ Counsel**

65 East State Street, 7th Floor

Columbus, Ohio 43215-4213

Telephone: McKenney Direct – 614-9585

Bryce.mckenney@occ.ohio.gov

(Will accept service via email)

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of these Objections was served on the persons stated below via electronic transmission, this 15th day of October 2018.

*/s/ Bryce McKenney\_\_*

Bryce A. McKenney

Assistant Consumers’ Counsel

**SERVICE LIST**

|  |  |  |
| --- | --- | --- |
| Robert.eubanks@ohioattorneygeneral.gov  Jodi.bair@ohioattorneygeneral.gov  bojko@carpenterlipps.com  dressel@carpenterlipps.com  paul@carpenterlipps.com  Attorney Examiners:  Patricia.schabo@puc.state.oh.us  Greta.see@puc.state.oh.us |  | sseiple@nisource.com  josephclark@nisource.com  egallon@porterwright.com  mstemm@porterwright.com  etaylor@porterwright.com  fdarr@mwncmh.com  mpritchard@mwncmh.com |

1. Staff Report at 7 [↑](#footnote-ref-2)
2. Audit Report at 23 [↑](#footnote-ref-3)
3. Audit Report at 39-40 [↑](#footnote-ref-4)
4. Audit Report at 29 [↑](#footnote-ref-5)
5. Audit Report at 32 [↑](#footnote-ref-6)
6. Id. [↑](#footnote-ref-7)
7. Id. [↑](#footnote-ref-8)
8. Id. [↑](#footnote-ref-9)
9. Audit Report at 33. [↑](#footnote-ref-10)
10. Audit Report at 39 [↑](#footnote-ref-11)
11. Id. [↑](#footnote-ref-12)
12. Audit Report at 39-42 [↑](#footnote-ref-13)
13. Audit Report at 40-41 [↑](#footnote-ref-14)
14. *In re Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 12-3221-GA-UNC, et al., Finding and Order (Oct. 9, 2013) at 5. [↑](#footnote-ref-15)
15. Staff Report at 7. [↑](#footnote-ref-16)
16. Audit Report at 35. [↑](#footnote-ref-17)
17. Id. [↑](#footnote-ref-18)
18. Id. [↑](#footnote-ref-19)
19. Id. [↑](#footnote-ref-20)
20. Audit Report at 35. [↑](#footnote-ref-21)
21. Id. [↑](#footnote-ref-22)
22. Audit Report at 69. [↑](#footnote-ref-23)
23. Id. [↑](#footnote-ref-24)
24. Audit Report at 54. [↑](#footnote-ref-25)
25. Id. [↑](#footnote-ref-26)
26. Audit Report at 36. [↑](#footnote-ref-27)
27. Id. [↑](#footnote-ref-28)
28. Id. [↑](#footnote-ref-29)