***OCC EXHIBIT NO. \_\_\_\_\_\_***

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation.In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of a Demand Side Management Program for its Residential and Commercial Customers.In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods. | )))))))))))))))) | Case No. 21-637-GA-AIRCase No. 21-638-GA-ALTCase No. 21-639-GA-UNCCase No. 21-640-GA-AAM |

**DIRECT TESTIMONY**

**OF**

**BION C. OSTRANDER**

**On Behalf of**

**Office of the Ohio Consumers' Counsel**

**And**

**Northeast Ohio Public Energy Council**

*65 East State Street, Suite 700*

*Columbus, Ohio 43215*

**May 13, 2022**

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# I. INTRODUCTION

***Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.***

***A1.*** My name is Bion C. Ostrander, my business address is 1121 S.W. Chetopa Trail, Topeka, Kansas 66615.

***Q2. BY WHOM ARE YOU EMPLOYED?***

***A2.*** I am employed and do business as Ostrander Consulting. Ostrander Consulting is a regulatory consulting firm that specializes in matters related to the regulation of public utilities and related matters.

***Q3. WHAT IS YOUR CURRENT POSITION WITH OSTRANDER CONSULTING AND WHAT ARE YOUR DUTIES?***

***A3.*** I am the President of Ostrander Consulting. I am an independent regulatory consultant with a specialization in regulatory utility issues, and particularly revenue requirement/accounting issues regarding energy, alternative energy, telecommunications, and water utilities. Most of my clients are U.S. or international regulatory agencies or other governmental agencies addressing regulatory issues. I have reviewed most major utility revenue requirement/accounting issues impacting rate base, revenues, operating expenses, other taxes, income taxes, affiliate charges/allocations, costs and savings related to mergers/acquisitions (including reorganization and outside business sourcing), cost modeling, and other matters.

I have conducted regulatory training seminars for utility staff and executives from the Ukraine and Russia, I have developed cost allocation manuals and affiliate transaction models for the Eastern Caribbean Telecommunications Authority (“ECTEL”) – island nations of St. Lucia, St. Kitts/Nevis, St. Vincent, Grenada, and Dominica), the Barbados Fair Trading Commission (“FTC”), and for Saudi Arabia. In addition, I assisted in developing regulatory policy and pricing that transitioned the telecommunications industry from a single major incumbent monopoly to a competitive environment on behalf of ECTEL and the FTC. Finally, I have assisted in a review of the telecommunications legal and regulatory policy and regime of the government of Armenia on behalf of U.S. AID.

***Q4. WOULD YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?***

***A4.*** I earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting from the University of Kansas in 1978 and subsequently passed the Certified Public Accounting (“CPA”) examination.

***Q5. PLEASE OUTLINE YOUR WORK EXPERIENCE.***

***A5.*** Upon graduation, I worked for international and regional certified public accounting firms Deloitte, Haskin and Sells (now Deloitte) and Mize, Houser, Mehlinger and Kimes (now Mize CPAs Inc.) for the periods 1978 to 1983. I next worked for the Kansas Corporation Commission (“KCC”) as the Chief Auditor and then the Chief of Telecommunications from the remainder of 1983 to 1990. In October 1990, I started my firm Ostrander Consulting, which has operated for thirty-one years. I have forty-three years of total accounting and regulatory experience and have addressed more than 250 cases in numerous U.S. and international jurisdictions. I have provided Attachment BCO-1 which is a curriculum vitae and a list of major regulatory cases that I have addressed in my career.

***Q6. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO (“PUCO”)?***

***A6.*** In 1986, I provided testimony for the OCC in a telecommunications rate case, regarding United Telephone Long Distance in Case No. 86-2173-TP-ACE. At the time, I was working for the KCC as Chief of Telecommunications and received permission from the Chairman of the KCC to take on this project for the OCC.

***Q7*. *ON WHOSE BEHALF ARE YOU TESTIFYING?***

***A7.*** I am testifying on behalf of the Office of the Ohio Consumers’ Counsel (“OCC”) and the Northeast Ohio Public Energy Council (“NOPEC”).

# II. PURPOSE OF TESTIMONY

***Q8. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

***A8.*** The purpose of my testimony is to present my recommendations, on behalf of OCC/NOPEC, regarding the total revenue requirement and revenue increase in base rates charged by Columbia Gas of Ohio (“Columbia” or “Utility”). More specifically, I will address issues affecting the determination of rate base and adjusted operating income (revenues, operating expenses, income taxes, and other taxes) that will impact the total revenue requirement and revenue increase.

In addition, my testimony explains and supports certain OCC/NOPEC’s Objections (“OCC/NOPEC Objections”)[[1]](#footnote-2) to the Staff Report of Investigation (“Staff Report”)[[2]](#footnote-3) of the Public Utilities Commission of Ohio Staff (“PUCO”) related to the base rate revenue requirement of Columbia and related issues. These Objections include OCC/NOPEC Objections No. 1 on overall revenue requirement and revenue increase, No. 4 through No. 6 on rate base, and No. 7 to 16 on operating income.

My recommended revenue requirement and revenue increase are based on the adjustments that I made to the rate base and operating income, the cost of capital proposed by Dr. Zhen Zhu in his testimony, and other revenue requirement adjustments and issues supported by additional OCC witnesses.

***Q9. PLEASE SUMMARIZE THE REVENUE REQUIREMENTS PROPOSED BY OCC/NOPEC, STAFF REPORT, AND COLUMBIA.***

***A9.*** OCC/NOPEC recommend a total revenue requirement of $846.8 million and a revenue increase of $9.8 million (with a rate of return of 6.59 percent). See Attachment BCO-2.

In contrast, the Staff Report supported a lower bound revenue increase of $35.2 million, (with a rate of return of 6.88 percent) and an upper bound revenue increase of $57.6 million (with a rate of return of 7.39 percent).

 Columbia filed its application to increase rates on June 30, 2021, requesting a revenue increase of $221.4 million with a rate of return (“ROR”) of 7.85 percent, using a test period for the twelve months ending December 31, 2021 (consisting of actual amounts from January to March 2021, and budgeted/estimated amounts for the months April to December 2021). On March 31, 2022, Columbia updated its filing to actual amounts for the period ending December 31, 2021, and the schedules showed a revised revenue increase of $212.3 million (with a rate of return of 7.76 percent).[[3]](#footnote-4)

***Q10. PLEASE SUMMARIZE THE ATTACHMENTS YOU ARE SPONSORING?***

***A10.*** I am sponsoring Attachment BCO-1 which is my curriculum vitae/credentials and a list of major regulatory cases where I have filed testified or prepared other work products for clients in my career.

I am sponsoring Attachment BCO-2 which supports a high level calculation of the OCC/NOPEC revenue deficiency, and compares the OCC/NOPEC proposed revenue deficiency to the Columbia updated revenue deficiency and the Staff Report’s Midpoint revenue deficiency.

I am also sponsoring Attachment BCO-3 which consists of certain schedules showing supporting calculations for each of the revenue requirement adjustments that I propose, many of which were not previously identified or addressed by Columbia or the Staff Report. In addition, I am adjusting from Columbia’s updated revenue requirement (with all of Columbia’s adjustments), and which includes actual December 31, 2021, amounts and data. This is unlike the Staff Report, which adjusts from Columbia’s original filing unadjusted book amounts (before any Columbia adjustments).

Finally, all other subsequent attachments (after Attachment BCO-3) consist of copies of Columbia data request responses and other documents that support my testimony and proposed adjustments.

***Q11. DID YOU PREPARE THESE ATTACHMENTS?***

***A11.*** Yes.

# III. SUMMARY OF CERTAIN STAFF REPORT RECOMMENDATIONS SUPPORTED OR NOT OPPOSED BY OCC/NOPEC

***Q12. DO YOU SUPPORT OR NOT OPPOSE CERTAIN STAFF REPORT RECOMMENDATIONS RELATED TO REVENUE REQUIREMENT, RATE BASE AND OPERATING INCOME?***

***A12.*** Yes. OCC/NOPEC supports many findings and recommendations in the Staff Report.[[4]](#footnote-5) The Staff Report adjustments often adjust from amounts in Columbia’s original filing or use some updated data for months or periods prior to December 31, 2021, but the Staff Report adjustments do not adjust from or consider Columbia’s updated filing and adjustments with actual December 31, 2021, amounts and data. However, in adopting many of the Staff Report adjustments, I have attempted to revise and update Staff’s adjustments for the actual December 31, 2021, data and amounts and I will address these adjustments near the end of my testimony.

***Q13. PLEASE IDENTIFY THOSE RECOMMENDATIONS THAT OCC/NOPEC CAN SUPPORT.***

***A13.*** OCC/NOPEC supports the following items included in the Staff Report related to the revenue requirement, rate base and operating income. However, it is necessary to update some of these adjustments to consider Columbia’s updated filing providing actual December 31, 2021, data and amounts. Also, some of these adjustments have already been included in Columbia’s updated filing with December 31, 2021, data and amounts, and because I am adjusting from Columbia’s revenue requirement, it is not necessary for me to include these adjustments in my revenue requirement if already included in Columbia’s revenue requirement. Therefore, for the Staff Report adjustments below, I will show Staff’s original adjustment and the revised Staff adjustment that I propose based on updated December 31, 2021, amounts (and this will be addressed at the end of my testimony). Specifically, I agree that:

* The PUCO Staff correctly removed Cloud Software plant in service costs of $3,582,685 from rate base.[[5]](#footnote-6)
* The PUCO Staff correctly removed plant in service costs of $31,577,272 ($27,180,704 and $4,396,568) from rate base related to assets that could not be identified, lacked supporting documentation, and whose existence could not be verified.[[6]](#footnote-7)
* The PUCO Staff correctly removed plant in service costs of $16,172,902 from rate base related to assets that lacked adequate supporting documentation.[[7]](#footnote-8)
* The PUCO Staff correctly removed plant in service costs of $1,688,266 from rate base related to assets that are no longer located at the related site or are not in service.[[8]](#footnote-9)
* The PUCO Staff correctly excluded the plant in service costs of $2,029,572 from rate base that were identified in the Capital Expenditure Program (“CEP”) audit in Case No. 21-0023-GA-RDR.[[9]](#footnote-10)
* The PUCO Staff correctly reduced rate base by the 13-month average balance of customer deposits of $11,090,577.[[10]](#footnote-11)
* The PUCO Staff correctly reduced NiSource Corporate Services expenses by $124,455 to remove expenses that are not appropriate for ratemaking purposes.[[11]](#footnote-12)
* The PUCO Staff correctly recommended the denial of the COVID-19 deferral balance of $5,170,000 for collection from consumers and its amortization as a test year expense.[[12]](#footnote-13)
* The PUCO Staff correctly removed the environmental remediation deferral balances of $15,781,862 for collection from consumers and the related amortization expense of $2,257,600.[[13]](#footnote-14)
* The PUCO Staff correctly recommends the continuation of the WarmChoice® program and removes the $7.1 million in program funding from base rates.[[14]](#footnote-15)
* The PUCO Staff correctly removed the cross-bore program expense of $10,234,000 including field/system training.[[15]](#footnote-16)
* The PUCO Staff correctly removed the $3,082,376 for annualized fees for residential credit, debit card, ACH and check transactions and fees for residential walk-in transactions.[[16]](#footnote-17)
* The PUCO Staff correctly removed all call center representative (“CSR”) salary increases of $1.6 million.[[17]](#footnote-18)

***Q14. PLEASE IDENTIFY THOSE RECOMMENDATIONS THAT OCC/NOPEC DO NOT OPPOSE.***

***A14.*** OCC/NOPEC do not oppose (as some may be explained further) the following items included in the Staff Report. Specifically:

* OCC/NOPEC do not oppose the PUCO Staff’s rationale to remove incentive expense based on financial metrics. However, OCC will also treat this incentive expense issue as an Objection from the standpoint that the PUCO Staff and OCC use a different percentage of financial metrics to be excluded.
* OCC/NOPEC do not oppose the PUCO Staff’s recommendation that the PUCO should reject the Utility’s request to continue deferral of pension and OPEB expense – regardless of the PUCO Staff’s adjustment to OPEB expenses for the test year.[[18]](#footnote-19)
* OCC/NOPEC do not oppose the PUCO Staff’s recommendations regarding treatment for impact of the Tax Cuts and Jobs Act of 2017 (“TCJA”), that is to increase base rates by $5.68 million beginning in 2024 and reject Columbia’s proposal to increase base rates by an additional $1.2 million beginning in 2024.[[19]](#footnote-20)

**IV. OCC/NOPEC OBJECTIONS TO THE STAFF REPORT**

## OCC/NOPEC Objection No. 1 (Revenue Requirement)

***Q15.*** ***WHY DO YOU OBJECT TO THE BASE RATE REVENUE REQUIREMENT PROPOSED IN THE STAFF REPORT?***

***A15.*** As discussed subsequently in my testimony, the base rate revenue requirement proposed in the Staff Report is higher than a just and reasonable revenue requirement for Columbia consumers to pay, and it should be based on sound regulatory principles and practices. Specifically, the proposed rate base in the Staff Report should be further adjusted and the test year operating income should be increased based on my proposed adjustments. Additionally, the revenue requirement in the Staff Report is calculated from a rate of return of 6.88 percent to 7.39 percent, which are higher than a just and reasonable rate of return of 6.59 percent supported by another OCC/NOPEC witness, Dr. Zhen Zhu.

# V. RATE BASE ADJUSTMENTS

OCC/NOPEC Objection No. 4 - Capitalized Short-Term Incentives – Adjustment BCO-1 (Attachment BCO-3)

***Q16.*** ***PLEASE SUMMARIZE THE POSITIONS OF COLUMBIA, STAFF, AND OCC/NOPEC REGARDING TREATMENT OF*** ***CAPITALIZED SHORT-TERM INCENTIVES (“CSTI”).***

***A16.*** Columbia does not remove any CSTI[[20]](#footnote-21) from rate base.

Staff Report (Schedule B-2) removed $12,046,410 of CSTI from rate base for the period 2018 to present,[[21]](#footnote-22) and this appears to be based on the percent of the Company’s incentive plan driven by the financial-based performance metric of Net Operating Earnings Per Share (“NOEPS”) for the related periods[[22]](#footnote-23). It appears that Staff has not removed 100 percent of CSTI.

I have removed $35,949,589[[23]](#footnote-24) of CSTI from rate base, this consists of 100 percent of CSTI from January 2008 (covering most of the test period back to the prior rate case)[[24]](#footnote-25) through March 2021 (the rate base cut-off date for this rate case) based on the following reasons:

1. I removed 75 percent of CSTI from rate base because the financial performance metric of NOEPS drives 75 percent of short-term incentives financial performance metric of “NOEPS” and financial-based metrics do not provide any significant, meaningful, or tangible benefit to consumers.
2. I removed the remaining 25 percent of CSTI due to a combination of the following reasons:
3. The cumulative significant impact of CSTI in rate base has a compounding negative impact on rates charged to consumers.
4. CSTI promotes intergenerational inequity whereby today’s consumers improperly support the short-term incentive employee performance that is buried in long-term rate base costs charged to consumers.
5. The NOEPS financial incentive metric is flawed from a regulatory perspective because it potentially subsidizes inferior performance by employees or operations of Columbia state operations (and affiliates in other state jurisdictions) because the results of the financial-based metric of NOEPS are measured at the NiSource consolidated level (all affiliate operations combined).

***Q17.******PLEASE ADDRESS THE STAFF AND OCC/NOPEC ADJUSTMENT OF CAPITALIZED SHORT-TERM INCENTIVES (“CSTI”) IN MORE DETAIL?***

***A17.*** Staff removed total CSTI of $12,046,410 from rate base (back to January 2018) and I have removed total CSTI of $35,949,589 from rate base (back to January 2008). In addition, I have removed related depreciation expense of $833,825.[[25]](#footnote-26) For informational purposes, I have removed from rate base 75 percent of CSTI, or $26,692,190,[[26]](#footnote-27) based on the NOEPS financial performance metric that does not provide benefits to consumers, and I have removed from rate base the residual 25 percent of CSTI, or $10,179,524,[[27]](#footnote-28) based on a combination of the other three reasons previously cited, the compounding negative impact on consumers, intergenerational inequity, and NOEPS. In addition, I have proposed companion adjustments at the Operating Income section of my testimony to remove 100 percent of long-term incentive expense of $4,547,699 and to remove 75 percent of short-term incentive expense of $8,531,537[[28]](#footnote-29)

My proposed adjustment to remove CSTI is shown in the table below, and the gross CSTI amounts (not including payroll taxes) that I removed from rate base were provided by Columbia in response to OCC 4-11 and OCC 8-5.[[29]](#footnote-30)

**Table 1 – OCC/NOPEC Adjustment to Remove Capitalized Short-Term Incentives**

***Q18.******WHY IS IT REASONABLE TO REMOVE CSTI THAT ARE RELATED TO FINANCIAL PERFORMANCE METRICS?***

***A18.*** Most incentive plans include a mix of both financial and customer performance metrics. The portion of incentive costs that are driven by customer performance metrics such as service quality, public safety, customer satisfaction, and similar other metrics should be recovered in rates from consumers. However, the portion of incentive costs that are driven by financial performance metrics, such as the Net Operating Earnings Per Share (“NOEPS”) for Columbia, should not be recovered in rates from consumers because these are primarily beneficial to shareholder interests. The financial-based performance metrics do not provide any significant, meaningful, and tangible benefits to consumers.

Also, Columbia’s incentive plans do not formally document any benefits to be passed along to consumers if there is an increase in the financial performance metric of NOEPS – such as rate refunds, permanent rate reduction, or even a freeze of existing rates for some duration. Therefore, incentives related to financial performance metrics should be removed from the cost of service for capitalized short-term incentives, and for both expensed short-term and long-term incentives.

***Q19.******HOW DID YOU DETERMINE IT WAS REASONABLE TO REMOVE AT LEAST 75 PERCENT OF CSTI BASED ON FINANCIAL PERFORMANCE METRICS?***

***A19.*** I reviewed short-term incentive plans, and for years 2017 to 2021, these plans reflect a range of NOEPS financial metric ranging mostly from 70-85 percent for Non-Officers/Participants and 70-75 percent for Officers. Therefore, I have removed 75 percent of CSTI as a reasonable and conservative estimate of the

NOEPS financial performance metric for the years 2008 to 2021.[[30]](#footnote-31)

 I did not review specific short-term incentive plans for years 2008 to 2016, and if the financial performance metrics were significantly less than 75 percent, then I would be willing to consider this in my evaluation.

***Q20.******WHY IS IT REASONABLE TO REMOVE THE REMAINING 25 PERCENT OF CSTI, SO THAT 100 PERCENT OF CTSI ARE REMOVED FROM RATE BASE?***

***A20.*** The remaining 25 percent of CSTI should be removed for a combination of the following reasons:

1. **Cumulative Significant Impact of CSTI on Rate Base and Rates Charged to Consumers:** The average annual amount of short-term incentives that are capitalized to plant in service is $3.2 million[[31]](#footnote-32) but the cumulative impact of capitalizing these incentives over about fourteen years (2008 to March 2021) is $40.7 million. The cumulative carryforward impact of these capitalized incentives in plant in service over a prolonged time period has a significant and increasing impact on the rates consumers pay, due to a rate of return being applied to the increasing rate base amount and due to the related depreciation expense that is recorded on this amount. The significant cumulative impact of short-term incentive costs in rate base should not be collected from consumers in rates.
2. **Intergenerational Inequity with Short-Term Employee Performance Reflected in Long-Term Costs Charged to Consumers:** Short-term incentives are considered a period cost, that is why the primary amount of incentives are “expensed” each year on the operating income statement, because the costs are intended to reward current employee performance in attaining certain recent financial and customer performance metrics. For regulatory purposes,[[32]](#footnote-33) the current level of employee performance via incentive costs should not continue to be capitalized and carried forward for 30 to 40 years[[33]](#footnote-34) on the books because today’s employee performance quickly becomes irrelevant in the short-term, and the incentive cost of this current employee performance especially has no value or relevance to consumers 30 to 40 years later.

This is why this group of incentives are called “short-term” incentives, because they are based on short-term financial metrics, such as Net Operating Earnings Per Share, and not based on long-term performance metrics such as stock price. For regulatory purposes, it is not reasonable to require consumers to pay for the “long-term” accumulation of incentive costs that are related to “short-term” performance incentives. Also, it is not reasonable to expect today’s consumers to pay for the short-term incentive performance of Company employees 30 to 40 years ago, via the accumulation of these capitalized short-term incentive costs in rate base. Therefore, it is reasonable to mitigate this negative impact on consumer rates by removing 100 percent of these capitalized short-term incentives.

1. **NOEPS Financial Incentive Metric Flawed from a Regulatory Perspective** - The Net Operating Earnings Per Share financial performance metric is based on the consolidated financial operations of all NiSource affiliates, which results from the performance of employees at all affiliates – thus NOEPS is not based on the singular performance of Columbia or any other individual affiliate (because NiSource is the only entity with traded stock “shares”). However, the “earnings” part of the NOEPS metric is based on the consolidated financial operations of all affiliates. Thus, it is possible for Columbia (Ohio operations) to perform financially inferior to its other affiliates (and compared to consolidated NiSource operations), yet Columbia employees could be rewarded with incentive payments at the same level of other better performing affiliates under the NOEPS financial metric.

One of the basic underlying principles of incentive pay is the concept of “pay-for-performance.” And “pay for performance” means that if an employee performs well and achieves individual and company incentive performance goals/targets, that employee is rewarded for their performance via increased incentive payments. Likewise, if an employee does not perform well and does not achieve individual and company incentive performance goals/targets, that employee receives a lower level of incentive pay (or no incentives). For regulatory purposes, it is unreasonable that the current NOEPS financial metric allows employees of under-performing affiliates to achieve the same level of incentive pay as employees of affiliates that are performing well. This is not consistent with the “pay for performance” concept and I do not believe consumers should have to pay for significant capitalized incentives that are accumulated over numerous years under this approach. I am not proposing that Columbia changes its method of incentive pay. That decision is management’s discretion. However, I do not believe that consumers should bear this type of cost in rate cases.

***Q21.******WHY DO YOU PROPOSE TO REMOVE CSTI BACK TO JANUARY 2008, THE APPROXIMATE TEST PERIOD OF THE LAST COLUMBIA RATE CASE?***

***A21.*** I believe that a reasonable argument can be made to remove all cumulative CSTI that is included in rate base. However, I am proposing that CSTI be removed back to January 2008.[[34]](#footnote-35) I believe that a cut-off point of the last rate case is reasonable because this provides for a definitive time frame that can be tied to the most significant rate setting event.

 The Staff Report proposes to remove CSTI back to January 2018, but the Staff Report does not provide a reason for this time period.[[35]](#footnote-36) Thus, I cannot address PUCO Staff’s reasons. However, only removing CSTI costs back to January 2018 leaves an unreasonable and significant amount of CSTI costs in rate base to be recouped from consumers.

OCC/NOPEC Objection No. 5 - Pipeline Safety Program Deferred Costs/Capitalized Costs – Adjustment BCO-2 (Attachment BCO-3 and Columbia Schedule C-3.26)

***Q22.*** ***PLEASE SUMMARIZE THE POSITIONS OF COLUMBIA, STAFF, AND OCC/NOPEC REGARDING DEFERRED PSP COSTS, INCLUDING OCC’S OBJECTION TO THE STAFF REPORT’S POSITION ON DEFERRED PSP COSTS.***

***A22.*** The deferred PSP cost issue impacts adjustments to both this Rate Base section (amounts included in the deferred account or proposed to be capitalized by OCC/NOPEC) and the Operating Income section (amounts included in amortization expense or proposed to be depreciated by OCC/NOPEC, the proposed conversion of the annual deferred PSP amounts to an annual expense, and Public Awareness expenses). This Rate Base section focuses on the objection related to Staff (and Columbia) treatment of deferred PSP costs, although the table below will identify each party’s position for all component of the PSP adjustment.

Columbia proposes to amortize its $149.4 million[[36]](#footnote-37) of deferred PSP costs over 10 years and recover annual amortization expense of $14.9 million, convert its $25 million annual PSP deferral allowance to an annual expense allowance to reflect in permanent rates going forward, and recover PSP Public Awareness expense of $343,000.

The Staff Report[[37]](#footnote-38) essentially proposes to allow Columbia to collect all deferred PSP costs of $149.1 million[[38]](#footnote-39) and collect the related amortization expense of $14.9 million from consumers. The Staff Report allows Columbia to recover $15 million of Columbia’s proposed $25 million annual PSP expense allowance going-forward,[[39]](#footnote-40) and disallows the PSP Public Awareness expense of $343,000. I strongly disagree with the PUCO Staff’s position allowing recovery of all PSP costs of $149.1 million (and recovering $15 million of the $25 million PSP expense allowance, which I will address in the Operating Income section of this testimony).

I propose to disallow $89.0 million of PSP deferred costs, and allow Columbia to recover $60.0 million[[40]](#footnote-41) of PSP costs in rate base (by reclassifying these deferred PSP costs to plant in service) and depreciating these costs over 40 years[[41]](#footnote-42) (instead of the Columbia and Staff proposed 10 year amortization period).

The PUCO’s August 26, 2016, Order in Case No. 16-552-GA-AAM approved a Stipulation that does not allow Columbia to include deferred PSP costs in rate base or earn a rate of return (“ROR”) on these costs, but I am proposing that Columbia be allowed to include PSP costs of $60 million in plant in service and earn a ROR on these costs.

Also, I have removed the Columbia proposed 10-year amortization expense of $14.9 million on deferred PSP costs and replace this with the 40 year (2.48 percent) depreciation expense of $1.5 million on the $60 million of PSP costs that I propose to include in plant in service. Regarding my recommendation to disallow $89.4 million of PSP costs, $58.7 million is disallowed because it is absorbed by excess earnings in prior years,[[42]](#footnote-43) and the remaining $30.6 million is disallowed for other reasons. These PSP cost disallowances will be addressed in more detail within this section of my testimony.

My proposed adjustment to PSP costs is summarized in the table below, and all amounts are adjusted from Columbia’s updated actual balances in the rate case (and not adjusted from the PUCO Staff Report amounts.).

**Table 2 – Summary of PSP Costs and O&M Expense by Party**

***Q23.*** ***PLEASE SUMMARIZE COLUMBIA’S DEFERRED PSP COSTS.***

***A23.*** The PUCO’s Order in Case No. 14-1615-GA-AAM allowed Columbia to establish a regulatory asset and begin deferring up to $15 million of PSP costs per year[[43]](#footnote-44) beginning in 2015, along with related carrying costs.[[44]](#footnote-45) Columbia included the PSP costs in four separate “initiative” cost categories, consisting of: 1) Damage Prevention Technology Initiative (“DPTI”); 2) Cross-Bore Safety Initiative (“CBSI”); 3) Enhanced Public Awareness Initiative (“EPAI”); and 4) Advanced Workforce Training Initiative (“AWTI”) – and carrying charges are recorded in a separate account also.[[45]](#footnote-46)

The PUCO’s Order in Case No. 16-552-GA-AAM, allowed Columbia to increase PSP annual deferral to $25 million per year (with the additional $10 m per year related to the DPTI), and the $10 million additive due to expire no later than December 31, 2023).[[46]](#footnote-47)

The table below summarizes the deferred PSP costs by year and by initiative (and carrying costs), and the amount of costs by vendor (and other information) is provided in response to Staff 1-21 (Columbia’s response to OCC 2-39 cites to Staff 1-21 regarding similar information requested).

**Table 3 – Columbia Deferred PSP Costs**

***Q24. ARE YOU CONCERNED THAT COLUMBIA SEEKS TO RECOUP PSP COSTS THAT EXCEED THE AUTHORIZED $25 MILLION ANNUAL ALLOWANCE?***

***A24.*** Yes. The PUCO’s prior Orders allow Columbia an annual allowance of $25 million for deferred PSP costs. However, Columbia is seeking recovery of amortization expense on deferred PSP costs of $4.92 million (from January to March 31, 2021)[[47]](#footnote-48) and is seeking to recover annual PSP expenses of $25 million going forward, and the combined PSP amounts of $29.92 million exceed the $25 million PUCO-authorized annual allowance by $4.92 million.

As I will address in the Operating Income section of this testimony, I oppose the entire $25 million expense allowance (and I am also proposing to disallow other deferred PSP costs (for the period 2015 through March 31, 2021), but at the very minimum, the PUCO should disallow all amortization expense on the PSP costs of $4.92 million that exceed the $25 million annual allowance for the test period.[[48]](#footnote-49)

***Q25. PLEASE SUMMARIZE THE PSP COSTS THAT YOU HAVE ALLOWED AND DISALLOWED BY INITIATIVE (DUE TO EXCESS EARNINGS AND OTHER REASONS)?***

***A25.*** As supported by Table 4 below, I am proposing that the following PSP costs, by initiative, be allowed and disallowed. To summarize, for total PSP costs in all initiatives, I have allowed $60.03 million to be collected from consumers (which are all DPTI costs) and I have disallowed $89.34 million – with this consisting of $58.73 million disallowed due to excess earnings (for years 2015, 2016, and 2018) and $30.61 million disallowed (related to “Other” initiatives) for other reasons.

**Damage Prevention Technology Initiative (DPTI) Explanation**:

The DPTI costs include the significant, comprehensive, and first-time ever GPS mapping/surveying of location data for new and legacy mains, service lines and curb valves, which improves the accuracy and completeness of Columbia’s infrastructure records and improves system reliability.[[49]](#footnote-50)

 **OCC/NOPEC Recommendation for DPTI Cost Treatment:**

DPTI (GPS surveying/mapping) total costs of $93.58 million[[50]](#footnote-51) are by far the single largest category of PSP costs, comprising 63% of total PSP costs of $149.4 million – and this is the only initiative for which I am allowing some recovery of PSP costs. I have reclassified $60.03 million of PSP costs from the deferred account to the plant in service account subject to depreciation using a 2.48 percent depreciation rate. I have also disallowed $33.48 million of PSP costs that could have been expensed in prior years 2015, 2016, and 2018, while still allowing Columbia to earn its authorized ROE of 10.50 percent. I will sometimes refer to this issue as Columbia’s ability to offset PSP costs by excess earnings in years 2015, 2016, and 2018.

**Advanced Workforce Training Initiative (AWTI):**

The AWTI costs include the costs related to the 2016 constructed Gahanna Training Center (“GTC”), along with related training costs for new and existing employees. Columbia states that these AWTI costs are new and result in 100 percent incremental costs, but I disagree.[[51]](#footnote-52)

**OCC/NOPEC Recommendation for AWTI Cost Treatment:**

AWTI (Training) total costs of $32.24[[52]](#footnote-53) are the second largest category of PSP costs, comprising about 22% of total PSP costs of $149.4 million. I am disallowing all of these PSP costs, including disallowing $14.0 million of PSP costs that were offset by excess earnings in 2015, 2016, and 2018, along with removing the remaining approximate costs of $18.24 million for various other reasons.

 **Enhanced Public Awareness Initiative (EPAI):**

The EPAI costs were used to engage a third-party marketing firm (Fahlgren Mortine) to identify the most effective means of communicating safety messages to the general public, government officials, construction contractors, and others about 811 one call procedures, the smell and tell messaging of natural gas identification, and educating kids on natural gas safety through Digger Dog. Columbia’s response to OCC 9-1 states that EPAI is the exception to other initiatives and its costs are not new or 100 percent incremental, that Columbia spends about $343,000 annual on public awareness pipeline safety and the EPAI represents increased spending, and Columbia is deferring EPAI PSP costs in excess of normal advertising spending.[[53]](#footnote-54)

 **OCC/NOPEC Recommendation for EPAI Cost Treatment:**

EPAI (Advertising) total costs of $8.17 million[[54]](#footnote-55) are the smallest category of PSP costs (about the same as Cross Bore costs of $9.93 million), comprising about 5% of total PSP costs of $149.4 million. I am disallowing all of these PSP costs, including disallowing $4.59 million of PSP costs that were offset by excess earnings in 2015, 2016, and 2018, along with removing the remaining approximate costs of $3.58 million for various other reasons.

 **Cross Bore Safety Initiative (CBSI):**

 The CBSI identifies, investigates, and remediates potentially dangerous legacy cross bores using a targeted camera program, remediates cross bores identified by third parties, and develops education materials to contractors and consumers that discuss the risks associated with cross bores.[[55]](#footnote-56)

**OCC/NOPEC Recommendation for CBSI Cost Treatment:**

CBSI (Cross Bore) total costs of $9.93 million[[56]](#footnote-57) are the second smallest category of PSP costs, comprising about 7% of total PSP costs of $149.4 million. I am disallowing all of these PSP costs, including disallowing $5.04 million of PSP costs that were offset by excess earnings in 2015, 2016, and 2018, along with removing the remaining approximate costs of $4.89 million of PSP costs for various other reasons.

**Table 4 – OCC/NOPEC Disallowed and Allowed Costs by Initiative**

***Q26. WHY IS IT IMPORTANT TO DETERMINE IF COLUMBIA HAD SUFFICIENT EARNINGS IN PRIOR YEARS TO EXPENSE THE DEFERRED PSP COSTS (AND STILL EARN ITS AUTHORIZED ROE)?***

***A26.*** It is reasonable and important regulatory policy to determine if Columbia should have expensed part or all its annual deferred PSP costs in prior year’s earnings (2015 to 2020) up to the point where Columbia is still earning its authorized ROE of 10.50 percent. In other words, if Columbia had excess earnings (in excess of its 10.50 percent ROE) for any particular year 2015 to 2020, it should have expensed the PSP costs in those years up to the point where it was still earnings its authorized ROE - instead of recording the PSP cost in a deferred account.

I have determined that Columbia could have expensed all PSP costs in prior years 2015, 2016, and 2018, and still earned in excess of its authorized ROE of 10.50 percent. However, because Columbia did not expense these PSP costs in the prior year earnings (and instead deferred these PSP costs to this rate case) for years 2015, 2016, and 2018, this means NiSource shareholders received a windfall benefit in those years because they retained all Columbia excess earnings. Also, Columbia and NiSource will continue to receive a windfall benefit via retaining excessive earnings, that will also result in corresponding excessive consumer rates going forward, unless these PSP costs (for years 2015, 2016, and 2018) are properly removed from the revenue requirements in this case as I have proposed.

Columbia’s Application to receive authorization to defer these PSP costs [[57]](#footnote-58) stated, “The occurrence of these costs may result in a significant and unavoidable negative impact on Columbia’s earnings.” In the 2014 deferred PSP costs proceeding, it was not possible to determine in advance if the PSP costs would have a significant or unavoidable impact on Columbia’s future earnings for years 2015 to 2020. However, because this historical earnings data is now available, I was able to determine that if all PSP costs were expensed for years 2015, 2016, and 2018, Columbia would have still earned in excess of its authorized ROE of 10.50 percent – and so Columbia would not have incurred significant unavoidable negative impacts on its earnings for those specific years.

***Q27. HOW DID YOU DETERMINE COLUMBIA WOULD HAVE STILL EARNED ITS AUTHORIZED ROE IF IT WOULD HAVE EXPENSED ALL OF ITS ANNUAL PSP COSTS IN YEARS 2015, 2016, AND 2018?***

***A27.*** My supporting calculations are included at Attachment BCO-3 regarding this Adjustment BCO-2, and all of my calculations rely on earnings and capital structure data provided by Columbia in this proceeding. First, I began with Columbia’s proprietary capital and net income from Schedule C-10.1 and 10.2 for years 2016 to 2020, and I used 2015 data from S&P Global Intelligence, and calculated Columbia’s actual ROE per books for all years 2015 to 2020.[[58]](#footnote-59)

Second, I deducted the after-tax PSP costs for each year from both the net income and the average proprietary capital balance, to arrive at revised lower net income and proprietary capital balances (and re-calculated the averaged proprietary capital balances). I then divided the revised net income by the revised average proprietary capital balance, and if the resulting ROE was equal to or greater than the authorized ROE of 10.50 percent, then I determined that the earnings for that particular year were not negatively impacted by expensing all of the PSP costs for that year.

The resulting adjusted ROE’s for each year, after expensing the full impact of the PSP costs for that year, are as follows:

* 2015 – adjusted ROE of 12.29 percent exceeds authorized ROE of 10.50 percent, so the related deferred PSP costs of $11,589,296 were disallowed in my PSP adjustment for this rate case.
* 2016 – adjusted ROE of 10.69 percent exceeds authorized ROE of 10.50 percent, so the related deferred PSP costs of $20,477,188 were disallowed in my PSP adjustment for this rate case.
* 2017 – adjusted ROE of 7.29 percent is less than the authorized ROE of 10.50 percent, so the related deferred PSP costs were not disallowed for reasons relate to excess earnings in my PSP adjustment for this rate case.
* 2018 – adjusted ROE of 17.32 percent exceeds authorized ROE of 10.50 percent, so the related deferred PSP costs of $26,671,835 were disallowed in my PSP adjustment for this rate case.
* 2019 – adjusted ROE of 7.93 percent is less than the authorized ROE of 10.50 percent, so the related deferred PSP costs were not disallowed for reasons related to excess earnings in my PSP adjustment for this rate case.
* 2020 – adjusted ROE of 8.10 percent is less than the authorized ROE of 10.50 percent, so the related deferred PSP costs were not disallowed for reasons related to excess earnings in my PSP adjustment for this rate case.

The calculation of the amount of PSP costs that were disallowed is based on a conservative and reasonable methodology. For example, I only removed PSP costs if expensing the entire balance for a year resulted in a ROE that exceeded the authorized ROE. However, for other years 2017, 2019, and 2020, I could have removed a partial amount of PSP costs until the authorized ROE of 10.50 percent was met, but I did not use this approach. Thus, I could have disallowed additional PSP costs if I would have used this method for removing partial PSP costs in the other years – therefore I believe my methodology is very fair and reasonable in balancing the interests between customer and shareholders.

***Q28. DID COLUMBIA PROVIDE REQUESTED DOCUMENTATION IN THIS PROCEEDING SHOWING ITS PSP COSTS CAUSED SIGNIFICANT AND UNAVOIDABLE NEGATIVE IMPACTS ON EARNINGS FOR PRIOR YEARS?***

***A28*.** No. OCC has asked for this documentation and Columbia has not provided responsive information. Data request OCC 8-13 referred to the PSP cost deferral proceeding in 2014 and Columbia stated that PSP costs may result in significant and unavoidable negative impacts on the Company’s earnings. [[59]](#footnote-60) OCC asked Columbia to provide and explain: a) documentation and calculations showing the impact of PSP costs on earnings for each of the years 2015 to 2021; b) all documentation supporting Columbia’s statements in 2014 about significant and unavoidable negative impacts on earnings; c) the amounts or range of impacts on earnings that is covered by the terminology “significant and unavoidable negative impacts”; and d) all information showing why Columbia could not have written off part of PSP costs up to the point where such costs began to have a “significant and unavoidable negative impact on earnings.”

 Columbia objected to the entire data request and did not provide any of the requested information. Columbia claimed the information is not relevant to the subject matter of these proceedings and that the data request is not reasonable calculated to lead to the discovery of admissible evidence.

I am concerned that Columbia posited this “significant and unavoidable negative impact on earnings” argument when it was beneficial to their interests and argument in seeking deferral of these PSP costs in 2014 – but now seven years down the road after the PSP costs have been incurred the Company objects to providing any documentation to support its arguments then and now, and to show if PSP costs could have been expensed while still allowing Columbia to earn its authorized ROE of 10.50 percent for the periods 2015 to 2020. A certain level of professional skepticism[[60]](#footnote-61) could allow one to conclude that if Columbia’s earnings for the period 2015 to 2020 would have been significantly impaired by the PSP costs, then Columbia would have volunteered this information to readily gain regulatory approval for collection of these costs from consumers in this proceeding. Likewise, Columbia’s objection and failure to provide this requested information can also support professional skepticism that Columbia’s earnings levels were not significantly impaired by PSP costs for every year and that some level of PSP costs should have been expensed in certain years which would have still allowed Columbia to earn its authorized ROE of 10.50 percent.

Columbia’s objection to providing important requested information means it has not met a reasonable burden of proof to support recovery of all PSP costs in this proceeding, and the Commission should adopt my position to disallow a significant amount of PSP costs that could have been expensed in prior years 2015, 2016, and 2018, and still allowed Columbia to earn its authorized ROE. Also, Columbia’s failure to meet a reasonable burden of proof for this issue could justify disallowing additional PSP costs in this proceeding for other reasons.

***Q29. PLEASE SUMMARIZE THE REASONS FOR ALLOWING (AND DISALLOWING PSP COSTS FOR THE VARIOUS PSP INITIATIVE?***

***A29.*** The reasons for allowing some DPTI PSP costs to be recovered (as PSP costs capitalized to plant in service), along with the reasons for disallowing the remaining PSP costs included in AWTI, EPAI, and CBSI are addressed below.

1. **Excess Earnings in 2015, 2016 and 2018**:

I have disallowed significant PSP costs because Columbia could have expensed these costs in some of the prior years and still earned its authorized ROE of 10.50 percent, and I have previously addressed this issue.

1. **DPTI Costs Should be Capitalized and Allowed:**

DPTI (GPS survey/mapping costs) are new, unique, incremental, and nonrecurring costs that should be subject to recovery via capitalizing to plant in service and depreciating (subject to offsets of costs for excess earnings in prior years 2015, 2016, and 2018). Columbia’s response to OCC 8-1(i) and(ii) states this is the first time the Company has ever performed a significant or comprehensive GPS data collection process for mapping/surveying of legacy and new pipeline location/coordinates. Columbia does not make this first time ever claim for costs of the other initiatives CBSI, AWTI, and EPAI, and this justifies disallowing the PSP costs of these other initiatives.

DPTI costs have long-term direct and concrete value to Columbia and customers in regards to reliability and service quality, and this justifies capitalizing these costs to the pipeline asset account (and depreciating these costs). These costs were incurred for the first time and will not likely be incurred at this comprehensive level again for a long period of time. However, the PSP costs for AWTI and EPIA do not meet the above criteria because they are largely discretionary types of costs from year-to-year, do not have the significant long-term direct and concrete continuing value, and similar types of costs have occurred in prior years and will be incurred in future years – thus no special deferred treatment and recovery is justified for these PSP costs and these related PSP costs should be disallowed.

The CBSI costs come the closest to being similar in nature to DPTI costs, but these total PSP costs of $9.9 million (from 2015 to March 2021) are not near as significant as the DPTI GPS surveying/mapping costs of $82.8 million, and Columbia never states that the CBSI costs were incurred for the first time (such as Columbia’s statement about DPTI costs), and these CBSI costs will continue to be incurred in the future so they should not be subject to accounting deferral treatment or recovery in this rate case.

1. **All Other Initiative Costs (besides DPTI) are Mostly Elevated Levels of Costs for Similar Historical Services:**

The AWTI Training costs and EPAI Advertising costs are not new, unique, or incremental costs that justify deferral and recovery – these costs are merely elevated levels of similar historical costs for training and advertising. Columbia and all utility companies incur training and advertising costs on a regular basis, although the types and emphasis of training or advertising is subject to change each year – depending on changing priorities and new concerns. However, Columbia’s elevated level of training and advertising costs do not merit unique deferral accounting treatment and recovery. Columbia has not provided documentation to show the current type of training or advertising is new, unique and will never occur again in the future (or at least not for a long period of time) - most of it appears to be just an emphasis upon different issues that will continue into the future. Columbia was unable to prove that AWTI Training and EPAI Advertising costs are nothing but elevated levels of similar historical training costs.

As an example, regarding EPAI Advertising, Columbia introduced a new advertising campaign such as Digger Dog for children, but the bottom-line message is the same as historical advertising which emphasizes call before you dig and similar other safety programs. As evidence of this, Columbia’s response to OCC 2-48(f) and (g), along with related invoices at Attachment B,[[61]](#footnote-62) shows that Columbia is expenses costs related to the children’s call before you dig (and other one-call advertising), which is the same type of cost being deferred in the EPAI PSP deferred account, so there is not distinction between these costs.[[62]](#footnote-63)

Advertising is a “discretionary” expense, which means it is a controllable cost with annual spending at the discretion of Columbia – and Columbia made the decision to increase spending in this area for the time frame 2015 to 2021. Columbia’s AWAI Training and EPAI Advertising PSP costs should be disallowed for these reasons.

1. **AWTI Gahanna Training Center (“GTC”) Costs Do Not Justify Deferral Accounting:**

The $32.3 million of AWTI Training PSP costs includes $4.6 million of rent costs (and utilities and overheads) paid by Columbia to a third-party lessor for the GTC, from January 2017 to March 2021.[[63]](#footnote-64) The GTC costs are not unique, new, or an incremental type of cost that justify deferral accounting treatment or recovery in this rate case. It is not typical accounting practice to defer the costs of a training center or any other routine-type building in a regulatory asset account – these costs should have been expensed each year.

In a recent rate case before the Pennsylvania Public Utility Commission in R-2021-3024296, Columbia Gas of Pennsylvania witness Mr. C.J. Anstead (page 34) states that Columbia constructed a new training center that opened mid-2016,[[64]](#footnote-65) and he does not explain any unique or deferral treatment accorded this training center (such as Columbia requests for the GTC). OCC 2-43 asked Columbia why the accounting treatment of the Ohio Gahanna training center (deferred rent included in PSP account) should be different than accounting treatment of the Pennsylvania training center, but Columbia objected to answering this data request and did not provide a response.

Similarly, in another recent rate case before the Commonwealth of Kentucky Public Service Commission in Case No. 2021-00183, Columbia Gas of Kentucky witness Mr. David Roy (page 38) refers to new training centers being built in Ohio, Virginia, and Pennsylvania, but he does not describe any new or unique deferral treatment for these costs. There is no precedent cited by Columbia in other jurisdictions or its gas company affiliates in other jurisdictions that supports its proposed deferral accounting treatment of GTS rent costs in this rate case.

Finally, OCC 2-44 asked Columbia for the amount of GTC costs that it allocated to Columbia Gas of Kentucky, because Kentucky personnel use the GTC for training.[[65]](#footnote-66) However, Columbia did not provide the amount of costs allocated from Columbia to Kentucky operations. It is not clear if Columbia is being properly reimbursed for the use of its facilities by Kentucky personnel because Columbia will not provide this information, and this justifies disallowance of GTC costs also.

1. **Concerns with PSP Vendor Cost and Quality:**

OCC 4-34 requested: a) copies of Columbia’s periodic evaluation of PSP vendors, and identifying those vendors whose contracts were discontinued because of dissatisfaction with results and work product; and b) copies of status/progress reports, budget versus actual variance cost reports, and other reports provided to management regarding PSP costs and vendors. Columbia objected to this data request, indicating it was duplicative of OCC 4-31, and referring to the response for OCC 4-31. The response to OCC 4-31 did not address any of the issues and concerns raised in OCC 4-34 or OCC 4-31, and it merely referred to Columbia’s Annual Reports filed in Case No. 14-1615-GA-AAM. The Annual Reports are not responsive to the above-cited OCC data requests that seek information regarding periodic vendor evaluation and problems with vendor service quality and costs. Columbia’s failure to address these issues raise concerns about PSP costs, quality, and efficiency, and do not support recovery of PSP costs.

Columbia’s response to OCC 4-33 states that it no longer uses vendors Michael Baker (DPTI costs), Utiliquest (DPTI costs), and Woolpert (DPTI costs) because their costs are prohibitive. Also, Columbia states it no longer uses SBC Advertising (EPAI) due to performance issues. Because these vendors reflect some of the largest deferred PSP costs, OCC issued data request OCC 13-1 to determine if some excessive or inefficient costs were included in the PSP costs, but this data request remained outstanding just shortly before this testimony was due, so the impact could not be determined.

1. **Lack of supporting documentation for deferred treatment of PSP costs:**

Based on a combination of all issues addressed above, Columbia has not met a reasonable burden of proof to support the recovery of amortization expense for PSP costs in this rate case related to AWTI, EPAI, and CGSI.

OCC/NOPEC Objection No. 6 (Management Audit Related to Unlocated and Unsupported Assets in Rate Base)

***Q30.*** ***DO YOU AGREE WITH THE STAFF REPORT’S VARIOUS ADJUSTMENTS RELATED TO ASSETS THAT WERE UNLOCATED, UNSUPPORTED, NOT USED AND USEFUL, AND RELATED OTHER CONCERNS?***

***A30.***Yes, I agree with and support these adjustments, and I have listed them below:

1. Staff could not identify or locate assets - $27,180,704 per Schedule B0-2.2 (Staff Report at 10).
2. Staff was unable to perform site inspections to confirm existence of assets - $4,396,568 per Schedule B-2.2 (Staff Report at 10).
3. Columbia was unable to explain the source or provide support for PISCC charges - $9,214 per Schedule B-2.2 (Staff Report at 10).
4. Columbia could not provide adequate invoices and/or picture level supporting documentation - $16,172,902 per Schedule B-2.2 (Staff Report at 11).
5. Permit invoice paid twice - $1,788 per Schedule B-2.2 (Staff Report at 11).
6. Columbia was unable to locate assets for Staff’s inspection - $610,703 per Schedule B-2.2 (Staff Report at 11).
7. Staff identified certain assets that were not used and useful in providing gas distribution service and costs which COH is unable to identify - $304,254 per Schedule B-2.2 (Staff Report at 11).
8. Staff identified assets no longer in service or no longer at the site - $1,688,266 per Schedule B-2.2 (Staff Report at 11).
9. Assets used to service Ohio and other NiSource jurisdictions - $510,581 at Schedule B-2.2 (Staff Report at 11).

***Q31.*** ***DO YOU BELIEVE THAT STAFF SHOULD HAVE TAKEN ADDITIONAL REASONABLE ACTIONS TO ADDRESS THESE SUBSTANTIAL PROBLEMS ON A MORE GLOBAL AND PERMANENT BASIS?***

***A31.***Yes. I recommend the following additional reasonable and necessary regulatory actions to protect consumers and address concerns regarding assets that were unlocated, unsupported, not used and useful, along with other concerns:

1. All of the assets that could not be located or identified should be permanently written off and removed from Columbia’s plant in service, and not just subject to a one-time rate case adjustment in this proceeding.
2. The Commission should require a management audit (to be paid by Columbia and not collected from consumers) be conducted by a property records expert firm to perform a global review of COH property (and related records) in order to identify all assets that cannot be physically located, cannot be identified in continuing property records (and other accounting records), and are not adequately supported by invoices and other documentation. The level or degree of unidentified or inadequately supported assets needs to be further evaluated to determine if this is a systemic or internal control problem that has existed for a substantial time period (and is continuing) and envelops significant asset costs, or if this is a problem that covers a more defined shorter time period and which has been subsequently cured to some degree. A thorough and independent investigation of these problems are clearly justified by Staff’s findings.
3. If it is possible as part of this rate case, the unlocated or undocumented assets identified by Staff need to be subject to statistical analysis to determine an enlarged and statistically valid adjustment that is applied to all of Columbia’s physical assets in rate base. At the very minimum, this could be part of the management audit addressed in the previous bullet point (by the same or different consultants). It is not uncommon for auditors to use this statistical approach when they find errors in financial statements based on a smaller sample size, and to calculate a statistically valid adjustment that would apply to the entire data base or amounts that are subject to error.
4. The findings of the management audit should be used to adjust costs that are included in existing riders, and appropriate adjustments should be made to rates charged to consumers for these findings.

# VI. OPERATING INCOME ADJUSTMENTS

## OCC/NOPEC Objection No. 7 - Conversion of $15 Million Annual Deferral Allowance to a $15 Million Annual PSP Expense Allowance – Adjustment BCO-3 (Attachment BCO-3)

***Q32.*** ***PLEASE COMPARE THE POSITIONS OF COLUMBIA, STAFF AND OCC/NOPEC REGARDING THIS ADJUSTMENT?***

***A32.***Columbia currently has the authority to defer up to an annual allowance of $25 million into the deferred (capitalized) PSP account, and the additional DPTI allowance of $10 million (included in the $25 million) expires December 31, 2023.

 Columbia proposes to convert its $25 million annual PSP deferral allowance to an $25 million annual PSP expense allowance so these expenses can be collected in permanent base rates going forward. The only adjustment proposed by the Staff Report is to remove the $10 million DPTI additive from this rate case (that expires December 31, 2023), such that Columbia would be allowed to expense $15 million per year for PSP costs.

 I propose to remove the entire $25 million PSP expense allowance proposed by Columbia. Many of the same reasons that support my adjustment to the capitalized PSP costs of $149.4 million at the Rate Base section of my testimony on this issue, also support removal of the $25 million PSP expense allowance.

***Q33.*** ***WHY SHOULD COLUMBIA’S PROPOSED $25 MILLION ANNUAL PSP EXPENSE (TO BE COLLECTED THROUGH BASE RATES) BE DENIED?***

***A33.***Columbia’s proposal to convert the current $25 million annual PSP deferral allowance to a $25 million annual expense allowance is unreasonable and should not be approved. Specifically, the reasons that support removal of Columbia’s proposed $25 million PSP expense allowance include:

1. **Columbia’s $25 million annual PSP expense allowance has a significant increased impact on revenue requirements and consumer rates:**

The Columbia revenue requirement includes about $15 million ($14.9 million) of PSP amortization expense, and the Company is not allowed to earn a rate of return on the $149.4 million of deferred PSP costs. Thus, the revenue requirement impact is roughly this same $15 million impact. However, if Columbia is allowed to recoup the $25 million annual PSP deferral as an operating expense going forward, the revenue requirement impact per year will increase by this same $25 million, and the total revenue requirement impact will be substantial at $40 million (the on-going annual PSP amortization expense of $15 million plus the new $25 million PSP expense allowance). This $40 million revenue requirement impact for one issue is oppressive and will have a substantial negative impact on consumer rates, and all reasonable measures should be taken to minimize this impact on consumer rates. Columbia’s filing is deficient in this regard and the $25 million annual PSP expense allowance should be rejected.

1. **Columbia’s $25 million annual PSP expense allowance is not supported by any explanation or supporting documentation:**

Columbia has not provided any supporting documentation for the proposed $25 million annual PSP expense allowance, it is merely a number plugged into the revenue requirement without any supporting documentation. For example, Columbia did not provide copies of invoices, contracts, or other actual cost support information to show that it actually expended $25 million, or any part of the $25 million proposed future expense allowance in the 2021 test period. Just because Columbia was allowed to spend $25 million per year for deferred PSP-related issues in prior years does not mean that such costs are automatically justified in the future as an annual expense allowance. Columbia should not receive a blank check for $25 million of PSP spending per year that it collects from consumers in rates. It appears that Columbia had no formal or detailed budget or related oversight for PSP spending in prior years, other than a goal to spend the $25 million of PSP allowance each year, and this course of action should not continue in the future.

At the very minimum, Columbia’s testimony should have provided supporting documentation explaining or addressing:

1. the new initiatives/programs it plans by the related forecasted cost;
2. which current PSP initiatives are completed (or when they will be completed);
3. how or if future PSP costs will be new or incremental to existing similar O&M expenses for locates, cross-bore, training, advertising and other costs;
4. the efficiency of the PSP costs and the cost versus the benefit of such expenditures;
5. which PSP costs will result in cost savings to consumers and how these cost savings will be returned to consumers;
6. how the PSP costs will substantially improve service quality and reliability (and how this can or will directly be quantified and reflected in measurable statistics that can be monitored);
7. the internal controls and quality control measures over the vendors in regard to monitoring for cost increases and quality work product. Columbia’s filing is deficient regarding the above issues and concerns, and the $25 million annual PSP expense should be rejected.
8. **Columbia’s $25 million annual PSP expense allowance is not justified by the lack of similar proportionate increased spending in jurisdictions of affiliate gas companies:**

Columbia’s testimony does not explain why a $25 million PSP expense allowance is reasonable and efficient in Ohio, although similar proportionate increased PSP spending is not occurring in other affiliate gas company jurisdictions (and Columbia has not explained why the related affiliate company has not attempted to get approval for deferred or expense treatment of any significant PSP costs in these other jurisdictions). Columbia has not justified continued or increased spending levels compared to the actions of their gas affiliates in other jurisdictions. Columbia’s filing is deficient in this regard and the $25 million annual expense allowance should be rejected.

 For all of the above reasons, Columbia’s request for a $25 million annual PSP expense allowance should be rejected by the Commission.

 Finally, as part of its PSP expense adjustment at Schedule C-3.26, Columbia seeks to recover $343,000 related to PSP public awareness expense. I have removed this entire amounts because Columbia has not provided adequate supporting documentation foremost of the actual costs it has incurred for these public awareness expenses. Columbia’s response to OCC 2-48 Attachment B shows invoices supporting water bills and utility service at the Gahanna location, and these are not advertising costs that should be included in public awareness expenses. It appears that the $343,000 was a projected amount, and it is not shown to be known and measurable. Also, Columbia has not adequately explained why these costs are necessary and beneficial to consumers – especially with similar other significant EWAI advertising costs being deferred to the PSP account. The PSP awareness expenses should be disallowed.

OCC/NOPEC Objection No. 8 -Deferred PSP Costs and Related Depreciation Expense on PSP Costs Reclassified to Plant in Service – Adjustment BCO-4 (Attachment BCO-3)

***Q34.*** ***PLEASE EXPLAIN THE DEPRECIATION EXPENSE ON PSP COSTS THAT YOU ARE CAPITALIZING AND DEPRECIATING?***

***A34.***As I explained at the companion adjustment addressed at Objection 5 (Adjustment BCO-2) in the Rate Base portion of this testimony, I propose to reclassify $60,029,314 million of the DPTI-related deferred PSP costs to plant in service and depreciate these costs at 2.48 percent, resulting in an increase in depreciation expense of $1,487,614.

OCC/NOPEC Objection No. 9 -Long-Term Incentives – Adjustment BCO-5 (Attachment BCO-3)

***Q35.*** ***PLEASE SUMMARIZE THE POSITIONS OF COLUMBIA, STAFF, AND OCC/NOPEC REGARDING TREATMENT OF LONG-TERM INCENTIVE EXPENSE (“LTI”)?***

***A35.***Columbia did not remove any LTI expense from the revenue requirement. It is unclear if Staff removed any LTI expense, it is not specifically addressed in the Staff Report. I am removing all of LTI expense of $4,547,699, because the entire amount is driven by financial performance metrics which do not provide benefits to consumers.

***Q36.*** ***WHY ARE YOU REMOVING ALL OF LTI EXPENSE AND HOW DID YOU DETERMINE THE RELATED FINANCIAL PERFORMANCE METRICS?***

***A36.***The amount of LTI expense that I am removing consists of $425,000[[66]](#footnote-67) for Ohio Direct plus $4,122,699[[67]](#footnote-68) for NiSource allocated to Ohio, for a total LTI expense adjustment of $4,547,699. I was unable to locate an updated actual amount at December 31, 2021, for the LTI expense allocated from NiSource to Ohio, so I am receptive to updating this amount to actual.

The reason for removing all of the LTI expense is because it consists entirely of financial performance metrics[[68]](#footnote-69) and these do not provide any significant, meaningful or tangible benefits to consumers – additional explanation of this issue is included at my testimony addressing capitalized short-term incentives in the Rate Base section of my testimony. I have reviewed the discovery responses provided by Columbia to OCC and Staff and they confirmed that the LTI consisted entirely of financial performance metrics.[[69]](#footnote-70)

OCC/NOPEC Objection No. 10 -Columbia’s Ohio Payroll Expense – Adjustment BCO-6 (Attachment BCO-3 and Columbia updated workpaper WPC-3.14a-e))

***Q37.*** ***PLEASE COMPARE THE OHIO DIRECT PAYROLL ADJUSTMENTS OF COLUMBIA, STAFF, AND OCC/NOPEC.***

***A37.***The Ohio Direct payroll adjustments are shown in the table below.

 **Table 5 – Comparison of Ohio Direct Payroll Adjustments**

Per the table above, column A shows Columbia’s payroll adjustment in its original filing[[70]](#footnote-71) which increased payroll expense by $3.6 million and resulted in adjusted payroll expense of $59.2 million. The Staff Report at column B begins with the same Staff test period payroll and increases it by $.3 million, resulting in adjusted payroll expense of $55.9 million, and Staff used actual employee levels and hourly rates as of October 2021.[[71]](#footnote-72) Columbia’s payroll adjustment at column C uses updated actual payroll information at December 31, 2021, and begins with a test period payroll expense of $52.5 million that is less than its original filing, which means that Columbia overstated its original payroll expense of $55.6 million in column A. Columbia then increases payroll expense by $9.0 million (which is a significantly larger adjustment than its original filing of $3.6 million), and adjusts its test period payroll expense to $61.5 million. The final Columbia payroll adjustment includes post-test period 2022 annualized for pay raises related to union and non-union employees, increases the percent of payroll expensed by adding back payroll that was deferred in the PSP account, using a 3-year average “payroll expense” factor, and increasing overtime costs by using a 3-year “payroll overtime” factor.

My adjustment at column D begins with COH’s adjusted payroll of $61.5 million and reduces payroll expense by $6.5 million using actual December 31, 2021, payroll information, and this results in test period adjusted payroll expense of $55.0 million. Although I used the most recent actual December 31, 2021, payroll information (with revisions to Columbia’s pay raises, payroll expense factor, and payroll overtime factor) and Staff’s Report used October 2021 payroll information, my adjusted payroll expense of $55.0 million is fairly close to Staff’s adjusted payroll expense of $55.9 million.

***Q38.*** ***WILL YOU EXPLAIN THE CHANGES YOU MADE TO COLUMBIA’S PAYROLL ADJUSTMENT?***

***A38.***I will explain my payroll adjustment in more detail, and the changes I made to Columbia’s payroll adjustment, which include the following:

1. **Reduce Ohio Direct Gross Payroll and Related Headcount Impact by $2,880,400 (WPC-3.14e):**

Columbia uses the annualized Ohio Direct payroll costs of $104,392,703 at December 31, 2021, based on December 31, 2021, employee headcount of 1,196. I started with Columbia’s December 31, 2021, total payroll costs of $104,392,703 and divided by the December 31, 2021, employee headcount of 1,196, to arrive at average employee payroll costs of $87,285 – and I multiplied average payroll costs by the test period average employee headcount level of 1,163[[72]](#footnote-73) instead of using Columbia’s year-end headcount of 1,196, and this resulted in annualized base payroll costs at December 31, 2021 of $101,512,303. My annualized base payroll costs of $101,512,303 is $2,880,400 less than Columbia’s base payroll costs of $104,392,703.

In addition, my adjustment method achieves the same intent of Columbia’s “headcount complement” adjustment at Schedule C-3.17, so the Columbia headcount complement adjustment that increases payroll expense by $183,000 can be removed in its entirety.[[73]](#footnote-74)

I used test period average employee headcount of 1,163 instead of Columbia’s headcount of 1,196 at December 31, 2021, because the average headcount is more indicative of the up and down fluctuation of Columbia’s headcount from year-to-year – compared to the year-end headcount which is just a single snapshot of one month of headcount that is not proven to be indicative of future trends based on historical information. For example, during the 2021 test period, Columbia’s headcount fluctuated significantly, beginning with 1,171 employees in January 2021, followed by some up and down fluctuation but an overall reduction in employees to a headcount of 1,137 in August 2021. Beginning in August 2021, employees increased by 20 to a headcount of 1,157 in October 2021, and then another 39 employee increase through December 31, 2021.

Columbia has not provided adequate supporting documentation to explain the significant increase in headcount the last several months of 2021 and Columbia has not provided documentation to show that this headcount trend is continuing through 2022.[[74]](#footnote-75) It is not reasonable to rely on only three to four months of increases in headcount at the end of the test period. For example, the four month period from January to April 2019 showed an increase in headcount from 1,053 to 1,072, but headcount subsequently declined to a much lower range of 1,113 to 1,132 from July to December 2019, so the increased headcount at the beginning of the year was not necessarily reliable.

Also, Columbia has not amortized or reflected the 2022 anticipated significant payroll cost savings from the NiSource Next Initiative in this rate case (and for 2022 and future years) to offset any potential increases in headcount for 2022. In addition, Columbia has not removed from the revenue requirement the significant amount of one-time nonrecurring Costs to Achieve, which are the expenses that are incurred in order to implement anticipated significant payroll cost savings from the NiSource Next Initiative. I will address the NiSource Next Initiative in subsequent sections of my testimony.

1. **Remove Non-Union Post-Test Period 2022 Pay Raises of $2,834,664 (WPC-3.14b):**

I have removed non-union 2022 estimated pay raises of $2,834,664 at 3 percent. Given the history of fluctuating headcount, the pay raises are not known and measurable because the related employees and payroll costs to which they are related is not known and measurable. Also, Columbia has not amortized or reflected the 2022 anticipated significant payroll cost savings from the NiSource Next Initiative in this rate case (and for 2022 and future years) to offset any potential increases in pay raises for 2022. I will address the NiSource Next Initiative in subsequent sections of my testimony.

1. **Decrease the Payroll Expense Factor from Columbia 51.05 Percent to OCC/NOPEC proposed 48.75 Percent (WPC-3.14c):**

The actual percent of payroll that was expensed for the 2021 test period was 48.53 percent, but Columbia has increased this to 51.05 percent using two methods: a) Columbia added back the PSP-related labor costs that have been deferred from 2018 to 2021, which causes Columbia’s estimate of future payroll expense to increase; and b) Columbia used a 3-year average of payroll expense factors from 2019 to 2021.

I used a 3-year average payroll expense factor for 2019 to 2021, but I did not add back the PSP-related labor costs that have been deferred from 2018 to 2021, in order to arrive at my adjusted payroll expense factor of 48.75 percent per WPC-3.14c. Even if the PSP-related deferred labor costs are added back there is justification for adopting the 2021 payroll expense factor of 48.53 percent (without a 3-year average), because the payroll expense factor has been declining significantly every year from 2018 to 2021. Because of a consistent downward trend it may be reasonable to use the actual 2021 payroll expense factor instead of a 3-year average. The payroll expense factor has declined steadily, from: a) 50.65 percent in 2019 including PSP costs (or 53.58 percent excluding PSP costs); b) 48.35 percent in 2020 including PSP costs (or 51.27 percent excluding PSP costs); and c) 47.36 percent in 2021 include PSP costs (or 48.53 percent excluding PSP costs).

Finally, it does not appear reasonable or consistent that Columbia includes payroll costs in the deferred PSP account to increase the cost of service in this rate case, but then also removes these same PSP costs from the payroll expense ratio calculations in order to arrive at a greater payroll expense ratio that also increases the cost of service in this rate case.

1. **Decrease the Overtime Expense Factor from Columbia 12.02 Percent to OCC/NOPEC of 10.77 Percent (WPC-3.14c):**

Columbia uses an overhead factor to calculate the amount of overtime to include in payroll costs. Columbia’s actual overhead factor for the 2021 test period was 11.84 percent, but Columbia used a 3-year average (2019 to 2021) to increase this overhead factor to 12.02 percent.

I used an overhead factor of 10.77 percent, which is a 2-year average for 2020 and 2021. There is an overall downward trend in the overhead factor of 16.44 percent in 2018, 14.91 percent in 2019, 9.66 percent in 2020, and 11.84 percent in 2021 – and I believe this downward trends supports a 2-year average to remove the outlier overhead factors of 16.44 percent for 2018 and 14.91 percent for 2019. Columbia has not otherwise provided adequate supporting documentation to show that overhead payroll costs will increase in 2022 as reflected by an increasing overhead factor.

The Commission should adopt my adjustment to reduce payroll expense to a reasonable and proper level.

## OCC/NOPEC Objection No. 11 -Amortization Expense on Fully Amortized Software Adjustment BCO-7 (Attachment BCO-3)

***Q39.*** ***PLEASE EXPLAIN YOUR ADJUSTMENT TO REMOVE AMORTIZATION EXPENSE ON SOFTWARE THAT WILL BE FULLY AMORTIZED AT DECEMBER 31, 2021 (TEST PERIOD), AND DECEMBER 31, 2022?***

***A39*.**Columbia and Staff do not propose an adjustment to remove amortization expense on fully amortized software, but my review shows that such an adjustment is reasonable and necessary to reflect a proper revenue requirement. OCC 2-71 asked Columbia to identify all software balances that will be fully amortized by December 31, 2021 and December 31, 2022, along with the related annual amortization expense, and to provide supporting workpapers and calculations. Columbia’s response to OCC 2-71 provided Attachment A (Excel workpaper) which included information that I used to calculate the amount of amortization expense on fully amortized software at December 31, 2021 and December 31, 2022, which is shown in the table below.

 **Table 6 - Amortization Expense on Fully Amortized Software**



I recommend the removal of amortization expense through December 31, 2022. This adjustment removes amortization expense of $1,091,496 (column B) on software that was fully amortized at test year end December 31, 2021, and removes amortization expense of $1,382,220 (column B) on software that will fully amortized at December 31, 2021 (one year beyond the test period), for a combined adjustment of $2,473,716 (column B). I have also reduced the corresponding accumulated amortization reserve by the same amount of $2,473,716 (column C), which causes an increase in rate base.

I am not proposing to remove the entire cost of the software asset and related accumulated amortization reserve from the books because this software is still being used (or that is my understanding). I am only proposing to remove amortization expense because this software will be fully amortized, and no further amortization expense should be recorded on the books for software that is fully amortized and still being used.

***Q40.*** ***why did you remove amortization expense for software that becomes fully amortized beyond the December 31, 2021, Test Period?***

***A40.***The amortization expense on the software that will be fully amortized through December 31, 2022, is known and measurable – and Columbia’s response to OCC 2-71 Attachment A was able to identify this software expense. Also, if amortization expense for the post test period is not removed from the revenue requirement, Columbia’s consumers will be paying rates based on amortization expense that will not be recorded on the books from January 1, 2022, until Columbia files its next rate case.

***Q41.*** ***Is the removal of amortization expense on fully amortized software consistent with coLUMBIA’S accounting practices?***

***A41.***Yes. Columbia’s response to OCC 2-70 states that it does not have a written software policy on this matter, but Columbia does stop recording amortization expense when the software asset is fully amortized. However, it is important to remove amortization expense on the fully amortized software that I have identified because Columbia’s adjustment to annualize depreciation and amortization expense (Schedule C-3.28) does not account for, or remove, this amortization expense on software that is, or will be, fully amortized. My adjustment will properly remove this amortization expense from the revenue requirement.

***Q42.*** ***did you propose this same type of adjustment in A wASHINGTON GAS LIGHT rate case in maryland THAT was adopted by the Maryland Commission?***

***A42.***Yes. While testifying on behalf of the Staff of the Maryland Commission, I proposed to remove amortization expense on fully amortized software in a 2018 Washington Gas Light (“WGL”) rate case, and the Maryland Commission adopted my adjustment. The Maryland Commission stated it “accepts Staff’s adjustment to remove amortization expense on fully amortized software.”[[75]](#footnote-76) I understand the PUCO is not bound to precedent from other jurisdictions. I reference the Maryland Commission’s decision for the PUCO’s consideration and as further support for the appropriateness of my recommended amortization adjustment.

OCC/NOPEC Objection No. 12 - Costs to Achieve related to the NiSource Next Initiative – Adjustment BCO-8 (Attachment BCO-3)

***Q43.*** ***PLEASE SUMMARIZE YOUR ADJUSTMENT TO REMOVE COSTS TO ACHIEVE (“CTA”).***

***A43.***Columbia and Staff’s Report did not address this issue or propose an adjustment. However, I am proposing an adjustment to reduce CTA expense by $11,705,738, that includes CTA expense for Ohio Direct of $496,371 and NCSC allocated to Ohio of $11,209,367.[[76]](#footnote-77). CTA expenses are mostly one-time nonrecurring expenses resulting from implementing and addressing the NiSource Next Initiative (“NNI”) reorganization plan, which began third quarter 2020 and will continue to at least 2024. The NNI is incurring significant one-time CTA and is projected to produce savings that significantly exceed the CTA. The one-time significant CTA expenses include the costs paid to consultants for addressing the NNI, along with severance expenses that are paid to severed employees as part of the rightsizing/downsizing reorganization.

***Q44.*** ***CAN YOU CITE TO INFORMATION THAT NISOURCE HAS FILED WITH THE SEC TO DESCRIBE THE NNI?***

***A44.***Yes, below are a summary of citations to various NiSource descriptions about the NNI in SEC-filed reports. These reports also identify the significant amount of CTA-type costs to be incurred, although none of the reports cite to related offsetting significant savings that were provided in Columbia responses to OCC data requests (and which I will subsequently address in this testimony).

**Footnote 3 of September 30, 2021 Form 8-K – NiSource Next Initiative** – The incremental severance and third-party consulting costs incurred in connection with the NiSource Next initiative are $22.1 million at September 31, 2021 (and $26.6 million for September 30, 2020).

**September 30, 2021 Form 10-Q (page 34) and June 30, 2021 Form 10-Q (page 35) – NiSource Next Initiative -** Under the NiSource Next Initiative, the Company launched a program to evaluate its organizational structure, which began third quarter of 2020 and continued into 2021, with a majority of the severance expense occurring in 2020 when employees accepted severance offers absent a retention period. For employees that had a retention period, expense was recognized over the remaining service period. The estimated total severance expense is $41 million, with most of it incurred and paid to date, and with related separation benefits and costs of $5.9 million at June 30, 2021.

**September 30, 2021 Form 10-Q Executive Summary (page 39) and the June 30, 2021 Form 10-Q, Executive Summary (page 39) – NiSource Next Initiative** – “We are executing on a defined, comprehensive, multi-year program designed to deliver long-term safety, sustainable capability enhancements and cost optimization improvements. This program is advancing the high priority we place on safety and risk mitigation, further enabling our safety management system, and enhancing the customer experience. NiSource Next is designed to (i) leverage our current scale, (ii) utilize technology, (iii) define clear roles and accountability with our leaders and employees, and (iv) standardize our processes to focus on operational rigor, quality management and continuous improvement.”

**September 30, 2021 Form 10-Q (page 45) – NiSource Next Initiative –** For NiSource consolidated operations, the Initiative resulted in lower expenses of $12.3 million for the 3 months ending September 30, 2021 compared to 2020 but resulted in higher expenses for the nine months ending September 30, 2021 compared to 2020.

***Q45.*** ***HOW DID YOU DETERMINE THE AMOUNT OF CTA EXPENSE FOR YOUR ADJUSTMENT, AND WILL YOU EXPLAIN THE DIFFERENT AMOUNTS OF CTA EXPENSES PROVIDED BY COLUMBIA?***

***A45.***Columbia’s response to OCC 4-1, Attachment A, is not confidential information and it shows total Columbia Non-GAAP CTA expense at September 30, 2021 of $6,178,088 ($480,030 Ohio Direct CTA and $5,698,058 NCSC CTA allocated to Ohio). Regarding the Ohio Direct CTA expense of $480,030, this consists of severance expense of $465,582 and remaining lesser amounts of payroll taxes. Regarding the NCSC CTA allocated to Ohio amount of $5,698,058, at least $2.3 million is related to outside consulting costs and the remainder are various other NCSC expenses that may also include some outside consulting costs. The response to this data request shows the significant amount of one-time CTA expenses related to NNI that was incurred in the test period.

 Columbia’s response to Confidential OCC 9-3 Attachment C provided updated CTA expenses through December 31, 2021, and shows December 31, 2021 total Columbia CTA GAAP expense of $11,705,738 (consisting of Ohio Direct of $496,371 and NCSC allocated to Ohio of $11,209,367).[[77]](#footnote-78) Columbia’s response to Confidential OCC 13-2(f) confirms that it is proper to use the “GAAP” CTA expense (at OCC 9-3 Attachment C) amount in this proceeding, instead of using the Non-GAAP amounts[[78]](#footnote-79), although this is not an indication that Columbia agrees with this adjustment.

***Q46.*** ***WHY ARE YOU REMOVING THESE NNI CTA EXPENSES FROM THE TEST PERIOD, INSTEAD OF ALLOWING THESE COSTS IN FULL OR AMORTIZING THESE COSTS OVER A CERTAIN NUMBER OF YEARS?***

***A46.***It is very clear that these NNI CTA costs are unique and extraordinary in terms of the amount and the event/issue they are linked to, which is the NiSource Next Initiative. The NNI is a comprehensive significant change and restructure of NiSource, which is clearly not a typical recurring business operation or cost. Thus, the CTA expenses are not recurring expenses so they should either be written-off entirely as I propose, or amortized over a certain period of time.

 I propose to write off these one-time CTA expenses for the following reasons:

1. **Columbia did not get Commission approval to defer and amortize these costs:**

Columbia did not previously ask the Commission to approve these CTA expenses as deferred costs, so the amounts have not been accumulated in a deferred account that would be subject to amortization. Because these CTA costs have not been included in a Columbia deferred account, with or without Commission approval, these amounts should not be subject to amortization in this rate case. Plus, Columbia has already expensed a significant amount of CTA expenses in prior year 2020, so this is proof these CTA costs have not been accumulated in a deferred account. Because the 2020 CTA costs have already been expensed in prior years’ financial statements, then the primary regulatory options are to either disallow all of the CTA expenses or allow all of the CTA expense in this rate case. I do not believe that allowing all of these CTA expenses in the test period is a viable option, the substantial costs would impose a significant burden on consumer rates and this would be contrary to sound and reasonable regulatory policy.

1. **Columbia has not provided supporting documentation or explanation for CTA costs and related regulatory treatment in its testimony:**

Columbia has not addressed the NiSource Next Initiative or the related significant CTA expenses in its testimony, I found it very unusual that the Company did not address this significant event (the NiSource Next Initiative organizational restructure) or the related significant CTA expenses in its testimony. Also, Columbia did not even mention the NiSource Next Initiative (or the CTA expenses linked to the NNI) in numerous OCC data requests asking about expenses, payroll costs, headcount information, cost savings, and similar other data requests. It was not until OCC specifically mentioned the issue of the NiSource Next Initiative in data requests (and the request for the related costs and savings), that Columbia first recognized and mentioned this event and related costs. Thus, Columbia’s testimony does not have any position on the record regarding the NNI or the significant CTA expenses included in the revenue requirement of this proceeding, other than providing data requests responses to OCC (and perhaps other parties). Columbia has not met a reasonable burden of proof to support the inclusion of significant one-time CTA expenses in this rate case.

1. **Columbia Adjustments to Increase Payroll Costs and Headcount are Inconsistent with NiSource Next Initiative Reduction in Payroll Costs and Headcount:**

Columbia rate case adjustments have proposed significant increases in payroll costs for Ohio Direct and for payroll allocated by NCSC to Ohio, but none of the testimony or related adjustments raised the issue of the related impacts of the NNI downsizing/rightsizing on payroll costs. Columbia has proposed increases in headcount to support its increased payroll adjustments, but this appears inconsistent with the downsizing/rightsizing of employees that has actually occurred in 2020 and 2021 under the NNI. It is not clear why NiSource would implement the NNI to reduce payroll costs to achieve efficiencies and savings, although Columbia proposes adjustments that would increase the payroll costs of both Ohio direct operations and payroll costs allocated by NCSC to Ohio in this rate case. Columbia has not adequately explained these conflicting positions, such as why would NSCS reduce payroll costs via the NNI in 2020, and then seek to add back those same payroll costs the very next year in 2021 via the payroll cost adjustments in this rate case. These types of questions were asked of Columbia in OCC 9-6, but Columbia’s response was inadequate, did not provide the information or explanation requested, and otherwise failed to meet a reasonable burden of proof regarding the fluctuation in payroll costs and headcount for Ohio and NiSource. This inconsistency and the proposed significant increase in payroll costs in this rate case (and other increases in costs), justify writing off the CTA expenses and removing them from the revenue requirement.

OCC/NOPEC Objection No. 13 -Supplemental Executive Retirement Plan – Adjustment BCO-9 (Attachment BCO-3)

***Q47.*** ***WHY DID YOU REMOVE SERP EXPENSE?***

***A47.***I have removed Supplemental Executive Retirement Plan expense of $384,000.[[79]](#footnote-80) Columbia’s response to OCC 2-65 states that $32,000 per month[[80]](#footnote-81) of NCSC allocated Supplemental Executive Retirement Plan expense has been included in budgeted expenses for Columbia, and I have not been able to identify any updated actual Supplemental Executive Retirement Plan expense for the test period so this adjustment could be subject to an updated actual amount December 31, 2021.

 Supplemental Executive Retirement Plan are additional benefits made available only to top-level or key executives, in addition to Columbia’s standard retirement savings plan. Normally a company and the executive sign an agreement that promises the executive a certain amount of supplemental retirement income based on certain eligibility conditions that the executive must meet. The company typically funds the plan out of its current cash flows or through the funding of a cash-value life insurance policy. The income, and the related taxes, are deferred, and after retiring, the executive can withdraw the money and it becomes taxable.

 Columbia has not demonstrated that this Supplemental Executive Retirement Plan expense provides any benefit to existing consumers.

OCC/NOPEC Objection No. 14 -Columbia’s Ohio Direct Headcount Complement – Adjustment BCO-10 (Attachment BCO-3 and Columbia Updated Schedule C-3.17)

***Q48.*** ***WHY DID YOU REMOVE THE ENTIRE AMOUNT OF THE OHIO DIRECT HEADCOUNT COMPLEMENT ADJUSTMENT PROPOSED BY COLUMBIA?***

***A48.***I removed Columbia’s proposed adjustment to increase payroll and related expenses by $183,000 (Schedule C-3.17) related to annualizing the impact of headcount in the adjustment. I removed this headcount complement adjustment because my adjustment to Ohio Direct payroll at Objection No. 10 already reflects the impact of payroll headcount, and it would not be reasonable to duplicate this adjustment.

 The Staff Report used a similar approach to remove all of Columbia’s proposed headcount complement adjustment, although my headcount adjustment at Objection No. 10 uses the most recent actual payroll information for December 31, 2021, and Staff’s adjustment uses October 2021 payroll information.

 The Columbia headcount complement adjustment also increases short-term incentive expense by $4,000, and I have removed all of this incentive expense at this adjustment because the payroll adjustment is not appropriate – and so the incentive expense at this adjustment will not be subject to removal based on financial performance metrics.

OCC/NOPEC Objection No. 15 - NiSource Payroll Allocation to Ohio – Adjustment BCO-11 (Attachment BCO-3 and Columbia Updated Workpaper WPC-3.21k-m)

***Q49.*** ***PLEASE COMPARE THE NISOURCE PAYROLL ADJUSTMENT OF COLUMBIA, STAFF, AND OCC/NOPEC?***

***A49.***The NiSource payroll adjustments are shown in the table below.

 **Table 7 – Comparison of NiSource Payroll Allocation to Ohio Adjustment**

I have adjusted NiSource allocated payroll in a manner consistent with my adjustment to Columbia’s Direct payroll, which was previously addressed.

Per the table above, column A shows NiSource’s payroll allocation adjustment in Columbia’s original filing[[81]](#footnote-82) which begins with allocated payroll of $53.6 million and reduces this by $5.5 million to an adjusted allocated payroll expense of $48.1 million, and minor reductions are made to benefits and payroll taxes that results in a total payroll/benefits/tax adjustment of $7.5 million and an adjusted balance of $61.2 million.

The Staff Report at column B adopted Columbia’s original payroll adjustment.

Columbia’s payroll adjustment at column C uses updated actual payroll information at December 31, 2021, and begins with a lower test period payroll expense of $44.9 million (which means that Columbia overstated its original payroll expense of $53.6 million in column A). Columbia then increases NiSource allocated payroll expense by $5.5 million to an adjusted payroll expense of $50.4 million. Benefits are increased by $1.0 million and payroll taxes decreased by $.3 million, and total adjustments to allocated payroll/benefits/taxes expense is an increase of $6.2 million to an adjusted balance of $63 million.

My adjustment at column D begins with Columbia’s updated NiSource allocated payroll of $50.4 million and reduces payroll expense by $2.9 million using actual December 31, 2021, payroll information, and this results in test period adjusted allocated payroll expense of $47.5 million. Although I used the most recent actual December 31, 2021, payroll information (with revisions to Columbia’s pay raises, payroll expense factor, and payroll overtime factor) and Staff’s Report used October 2021 payroll information, my adjusted allocated payroll expense of $47.5 million is fairly close to Staff’s adjusted payroll expense of $48.1 million.

## OCC/NOPEC Objection No. 16 - Line Location and One-Call Expense – Adjustment BCO-14 (Attachment BCO-3)

***Q50.*** ***PLEASE EXPLAIN THE OCC/NOPEC ADJUSTMENT TO REDUCE LINE LOCATE EXPENSE?***

***A50.***Columbia’s response to OCC 8-9 indicates that line locate expense has increased significantly for the most recent four-year period 2018 to 2021, increasing from $12,565,105 in 2018 to $19,462,360 in 2021. I have taken the 2021 line locate expense of $19,462,360 and adjusted to a four-year average of line locate expense of $16,492,926, and this results in a reduction in line locate expense of $2,969,432.

The Columbia response to OCC 8-9 and other data requests do not provide adequate documentation to show if these line locate expenses are related to normal recurring levels of line locates, or if part of these line locate expenses are part of significant PSP-related costs that have been expensed in years 2018 to 2021 (instead of being included in the deferred PSP account). Some of the vendors for line location expense are the same vendors for line location deferred PSP costs, such as the vendor Utiliquest. The line locate expenses should be reduced to the four-year average unless Columbia can provide substantive supporting documentation to show that there has not been any overlap between normal levels of line locate expense and the elevated levels of line locate costs included in the deferred PSP account.

**OTHER OCC/NOPEC ADJUSTMENTS**

**NiSource Headcount Complement Payroll – Adjustment BCO-12 (Attachment BCO-3 and Columbia Updated Workpaper WPC-3.21p)**

***Q51.*** ***WHY DID YOU REMOVE THE ENTIRE AMOUNT OF THE NISOURCE HEADCOUNT COMPLEMENT ADJUSTMENT?***

***A51.***I removed Columbia’s proposed adjustment to increase payroll and related expenses by $316,510 (Schedule WPC-3.21p) related to annualizing the impact of headcount in the NiSource allocated payroll adjustment. I removed this headcount complement adjustment because my adjustment to NiSource allocated payroll at Objection No. 15 already reflects the impact of payroll headcount, and it would not be reasonable to duplicate this adjustment.

 The Staff Report used a similar approach to remove all of the NiSource headcount complement adjustment, although my headcount adjustment at Objection No. 15 uses the most recent actual payroll information for December 31, 2021, and Staff’s adjustment uses October 2021 payroll information.

**Short-Term Incentives – Adjustment BCO-13 (Attachment BCO-3 and Columbia Updated Schedule C-3.15 and WPC-3.21n)**

***Q52.***  ***PLEASE SUMMARIZE THE POSITIONS OF COH, STAFF, AND OCC/NOPEC REGARDING TREATMENT OF STI?***

***A52.***Columbia reduced STI expense to the “target” level, which is the middle performance tier which it states is representative of STI expense over time, but Columbia did not reduce STI related to financial performance metrics. Staff removed 73 percent of STI expense related to financial performance metrics. I am removing 75 percent of STI expense which is driven by financial performance metrics that do not provide benefits to consumers.

 The table below shows the STI expense adjustment and percent removed for each type of adjustment proposed by Columbia. I am addressing the two largest STI adjustments related to Ohio Direct and NiSource allocated to Ohio in this section of my testimony, I am removing 75 percent of STI expense that is driven by financial performance metrics, and removing the related payroll taxes on this STI expense, and this results in a STI expense reduction of $8,531,537. For the remaining Columbia adjustments that include a lesser amount of STI, I will remove 100 percent of the STI expense based on various other reasons.

 **Table 8 - OCC Incentive Expense Adjustment**

***Q53.*** ***WHY ARE YOU REMOVING 75 PERCENT OF STI EXPENSE AND HOW DID YOU DETERMINE THE RELATED FINANCIAL PERFORMANCE METRICS?***

***A53.***I am removing 75 percent of STI expense because this is the portion driven by financial performance metrics that do not provide any significant, meaningful or tangible benefits to consumers. I have explained why STI expense should be reduced for the impact of financial performance metrics in more detail at the Rate Base section of my testimony addressing the removal of capitalized STI.

**Customer Transaction Fees– Adjustment BCO-15 (Attachment BCO-3 and Columbia Updated WPC-3.23r-aa)**

***Q54.*** ***WHY YOU ARE DISALLOWING CUSTOMER TRANSACTION FEES OF $3.2 MILLION PROPOSED BY COLUMBIA?***

***A54.***I have removed Customer Transaction Fees (“CTF”) of $3,215,851 (WPC-3.21r-aa). Columbia witness Ms. Shaeffer explains that currently customers can make bill payments via regular mail, monthly debits from their financial accounts, at authorized walk-in locations, via one-tie electronic payments as a registered on-line account holder, and through a third-party processor via debit card, credit card, or Automated Clearing House (“ACH”) electronic payments. The process fees associated with all but the third-party credit card, debit card, ACH, and walk-in locations are included in the revenue requirement calculation - and Columbia is proposing to include these remaining process fees (credit card, debit card, etc.) in the revenue requirement. Columbia states that this will give all residential consumers the opportunity to select the payment channel of their choice without consideration of additional convenience or transaction fees.[[82]](#footnote-83)

 Columbia’s adjustment for including the cost of residential transaction fee costs in this rate case of $3.2 million should be rejected. Consumers already have the same viable options available to them for paying their bills and this proposal does not give them different or better options at a better price. Plus, these transactions fees are going to be difficult to monitor and identify in the revenue requirement in future rate cases and Columbia could over-collect the costs for these transaction fees. If there are no direct charges to consumers for these transaction fees, Columbia could more easily direct the consumers to those payment methods that they prefer. There is not sufficient documentation or reasons to support this change, and these expenses should be removed from this rate case.

**WarmChoice– Adjustment BCO-16 (Attachment BCO-3 and Updated Columbia Schedule C-3.12)**

***Q55.*** ***IS OCC WITNESS MS. SHUTRUMP SUPPORTING AN ADJUSTMENT FOR WARMCHOICE®?***

***A55.***Yes, she is supporting an adjustment to reduce WarmChoice® expense by $7.1 million from base rates, and collect this through the Demand Side Management Rider going forward. I am merely reflecting this adjustment in the revenue requirement calculation.

**Safety Operations/Cross Bore – Adjustment BCO-17 (Attachment BCO-3 and Columbia Updated Schedule C-3.20)**

***Q56.*** ***PLEASE EXPLAIN YOUR ADJUSTMENT RELATED TO SAFETY OPERATIONS/CROSS BORE EXPENSES.***

***A56.***Columbia Schedule C-3.20 shows updated December 31, 2021, total expenses of $10,784,000. This includes expenses of $9,534,000 for cross bore related expenses for labor, incentives, non-labor, outside services, and clearing. Plus, this adjustment shows additional Technical Training expenses of $1,250,000 related to labor, incentives, benefits, clearing, and non-labor expense.

 Staff’s Report removes all of these costs. I agree with Staff’s Report and have also removed these $10,784,000 of expenses.

Based on Columbia’s responses to OCC 2-50 and 2-52, most or all of these expenses were projected amounts, or amounts that would not be incurred until 2022, per the response to OCC 2-50, 2-51, and 2-52. These costs are not known and measurable. To date, even if Columbia has incurred some of the actual expenses in 2021, I am not aware that Columbia has provided OCC with any significant actual costs and related supporting documents. Also, these safety operations expenses should not be allowed in the revenue requirement because they were not included in Columbia’s original budgeted expenses for 2021. If these safety operations expenses were included in the 2021 budget it would not have been necessary to include these costs as a separate adjustment in this rate case. If these safety operations expenses were not included in Columbia’s 2021 budget, then these costs can be viewed as a means to artificially inflate costs and the revenue requirement for this rate case. Therefore, these safety operation costs should be removed from this rate case.

**Payroll Tax and Benefits – Adjustment BCO-18 (Attachment BCO-3)**

***Q57.*** ***PLEASE EXPLAIN YOUR ADJUSTMENT RELATED TO PAYROLL TAXES AND BENEFITS?***

***A57.***This is a companion adjustment to Adjustment BCO-6 and Adjustment BCO-10, and this adjustment merely removes the payroll taxes and benefits on the prior payroll adjustments regarding Ohio direct payroll and Ohio headcount complement payroll.

**Customer Service Representative Pay Raises – Adjustment BCO-19 (Attachment BCO-3 and Columbia Updated WPC-3-21k-m)**

***Q58.*** ***PLEASE SUMMARIZE YOUR ADJUSTMENT TO REMOVE SALARY INCREASES FOR CUSTOMER SERVICE REPRESENTATIVES (“CSR”)?***

***A58.***Columbia’s original filing proposed an adjustment (WPC-3-21a and WPC-3.21o) to increase salary levels[[83]](#footnote-84) by $1,606,182 for CSR’s working in the NiSource’s Smithfield, Pennsylvania Customer Care Center (“CCC”) that supports Columbia (and other state jurisdictions). Columbia witnesses Mr. Dice[[84]](#footnote-85) and Ms. Cartella[[85]](#footnote-86) state that CSR’s are underpaid and this has resulted in significant turnover at the CCC. In its updated filing with December 31, 2021 actual data and amounts, Columbia removed the specific adjustment for CSR salary increases and combined this with its adjustment to annualize payroll costs for NiSource employees (WPC-3.21a and WPC-3.21b-j) without identifying the specific actual updated adjustment for CSR salary increases.[[86]](#footnote-87) I have attempted to remove the entire impact of the CSR salary increases, and have reduced related payroll costs (and payroll taxes and benefits) by 1,854,313. The supporting calculations for my adjustment are at Attachment BCO-3, and is based on Columbia’s response to OCC 4-22 Attachment A. In addition, Staff’s Report proposes to remove the entire impact of the CSR salary increases.[[87]](#footnote-88)

***Q59.*** ***PLEASE EXPLAIN THE REASONS FOR REJECTING COLUMBIA’S CSR SALARY INCREASES?***

***A59.***I have summarized those reasons below:

1. Columbia witness Mr. Dice states that the CSR turnover rate is high (62 percent in 2020, 56 percent in 2019),[[88]](#footnote-89) and has caused employees to leave for higher paying jobs with other call centers because salaries are “well below market rates,” and attrition is “unacceptably high.”[[89]](#footnote-90)

I reviewed Columbia’s response to OCC-4-22 Attachment B, which is called the “NiSource Turnover Sheet”, and it does not show that the primary reason for turnover is inadequate pay. The Turnover Sheet shows total departures each year, and the two largest reasons for departures are “resignations” and “terminations”, and the “resignations” category is further broken down into other categories such as “other job” (which I assume means leaving for higher pay), “personal”, “medical” and others.

First, I will identify the number of departures each year that is due to terminations, which is the second largest category behind the broad category of “resignation.” The number of terminations for each year 2018 to 2021: 2021 - 31 terminations of 149 departures; 2020 - 44 terminations of 162 departures; 2019 - 50 terminations of 162 departures; and 2018 - 59 terminations of 159 departures. Up to this point it appears the most specific reason for employees leaving is not by any voluntary actions of the employees, but due to terminations initiated by the Call Center.

Second, I will address the primary reasons supporting the number of “resignations” each year 2018 to 2021: 2021 – 114 resignations, 69 personal, 20 other job, 14 medical; 2020 - 113 resignations, 65 personal, 15 medical, 14 other job; 2019 - 103 resignations, 28 personal, 28 other job; and 2018 – 93 resignations, 17 other job, 16 policy.

I conclude from this information that the largest reason for turnover each year, by far, is due to “terminations” initiated by the Call Center, the second largest reason for departures is “personal” reasons, and the third reason for departures is either “other job” or “medical.” Thus, there is not any substantive data that supports Columbia’s position that CSR employees are leaving due to inadequate pay. Most of the information might allow a conclusion that the major problem may be in hiring practices or working conditions, given the significant number of terminated employees, and employees leaving for personal reasons. Columbia’s adjustment for increased CSR salary levels is not supported by this documentation.

1. Columbia’s response to OCC 5-8 shows an unusually high percentage of CSR salaries being allocated to the Columbia (Ohio), given that CSR salaries are also allocated to Pennsylvania, Virginia, Maryland, and Kentucky. Columbia objected to providing the specific percentage or amount of CSR salaries allocated to affiliates in these other state jurisdictions. Therefore, I was not able to determine the accuracy of the unusual high percentage of CSR salaries allocated to Ohio operations. Therefore, Columbia has failed to meet a reasonable burden of proof in this regard, so the CSR salary adjustment should be rejected.
2. Columbia’s response to OCC 4-25 does not adequately explain when it first became aware of inadequate salary levels and why the Company did not act sooner if this is a significant concern. For example, Columbia indicates the issue of high turnover due to below market pay was first raised in April 2019, but it appears to have taken at least 2.5 years to address this situation with salary increases (to the extent that is real answer to the problem). It is not clear why the Columbia/NiSource did not act sooner if this was a significant issue. I am rejecting Columbia’s adjustment for CSR salary increases because there are credibility issues, lack of documentation, and concerns with Columbia’s responses to OCC data requests. Columbia has failed to meet a reasonable burden of proof, and this adjustment should be rejected.

***Q60.*** ***HAVE YOU ADOPTED SOME OF THE STAFF REPORT ADJUSTMENTS TO INCORPORATE INTO YOUR REVENUE REQUIREMENTS CALCULATION?***

***A60.***Yes, I have adopted some of these Staff adjustments as set forth at the beginning of my testimony. However, most of Staff’s adjustments are based on information and data for a time period prior to the updated filing of Columbia with December 31, 2021 actual data and amounts. Therefore, I have attempted to use a simple approach to update Staff’s adjustments to December 31, 2021, actual amounts. For certain larger adjustments, I took the difference between the Staff adjusted amount and the Columbia adjusted amount using December 31, 2021, actual amounts, and I adjusted the difference between Staff and Columbia adjustments up or down. This approach is shown in the table below for each affected account. I have attempted to update the Staff adjustments using the only method available to me, but it is not completely clear how accurate and reliable these results are for a number of reasons. In addition, I cannot vouch for Staff’s underlying calculations and assumptions in all cases, because I do not have this information. Finally, the difference between the Staff adjustment and Columbia updated adjustment for Revenues and Cost of Gas Purchased is significant, and would increase revenues by $45,812,000. However, I am not comfortable with this significant increase in revenues without additional supporting documentation, therefore I have only included the impact of the change in Staff’s “weather normalization” revenue adjustment, and this increases revenues $18,853,000. The adjustments are summarized below:

***Q61.*** ***DO YOU OPPOSE COLUMBIA’S PROPOSED FEDERAL/STATE TAX REFORM RIDER?***

***A61.***Yes, I agree with Staff’s Report on this issue and oppose the Federal/State Tax Rider. I do not believe that Riders should be used to address changes in state or federal income taxes. It has been my experience that when there is a major change in income tax rates (such as the 2017 Tax Cuts and Jobs Act), that most state regulatory agencies initiate a broad generic investigation to address this issue for all regulated utilities on a comprehensive and timely basis. There can be complicated issues regarding the calculation of the impact of changes in income tax rates for regulatory purposes, and in most cases a detailed investigation of this issue is warranted. I do not believe these reasons support the implementation of a Rider for changes in state and federal income taxes.

***Q62.*** ***DO YOU AGREE WITH THE STAFF REPORT’S POSITION ON ADDRESSING THE IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017 IN CONSUMER RATES IN THE FUTURE?***

***A62.***Yes. I believe it is reasonable to increase base rates by $5.68 million in 2024 and reject Columbia’s proposal to increase rates by an additional $1.2 million beginning in 2024. I will add another line. The rationale, the timing, and the amounts appear reasonable.

Q63. DOES THIS CONCLUDE YOUR TESTIMONY?

A63. Yes. However, I reserve the right to incorporate new information that may subsequently become available. I also reserve the right to supplement my testimony in the event Columbia, the PUCO Staff or other parties submit new or corrected information in connection with this proceeding.

**CERTIFICATE OF SERVICE**

 I hereby certify that a copy of the foregoing *Direct* *Testimony of Bion C. Ostrander on behalf of Office of the Ohio Consumers’ Counsel* *and Northeast Ohio Public Energy Council* has been served upon those persons listed below via electronic service this 13th day of May 2022.

*/s/ Angela D. O’Brien*

 Angela D. O’Brien

 Assistant Consumers’ Counsel

The PUCO’s e-filing system will electronically serve notice of the filing of this document on the following parties:

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1. Objections to the PUCO Staff’s Report of Investigation by the Office of the Ohio Consumers’ Counsel and Northeast Ohio Public Energy Council (May 6, 2022). (OCC/NOPEC Objections). [↑](#footnote-ref-2)
2. Staff's Report of Investigation (April 6, 2022). (Staff Report). [↑](#footnote-ref-3)
3. Columbia’s updated filing only includes revised adjustment schedules and did not include any prefiled testimony to explain the reasons for changes in adjustment amounts, methodology and assumptions (and did not include all necessary documentation to support the changes in the revenue requirement). [↑](#footnote-ref-4)
4. *See* OCC/NOPEC Objections filed on May 6, 2022. [↑](#footnote-ref-5)
5. Staff Report at 9-10. [↑](#footnote-ref-6)
6. Staff Report at 10. [↑](#footnote-ref-7)
7. Staff Report at 11. [↑](#footnote-ref-8)
8. Staff Report at 11. [↑](#footnote-ref-9)
9. Staff Report at 10. [↑](#footnote-ref-10)
10. Staff Report at 13. [↑](#footnote-ref-11)
11. Staff Report at 21. [↑](#footnote-ref-12)
12. Staff Report at 13-14. [↑](#footnote-ref-13)
13. Staff Report at 14-16 and 23. [↑](#footnote-ref-14)
14. Staff Report at19-20. [↑](#footnote-ref-15)
15. Staff Report at 21. [↑](#footnote-ref-16)
16. Staff Report at 21. [↑](#footnote-ref-17)
17. Staff Report at 22. [↑](#footnote-ref-18)
18. Staff Report at 16. [↑](#footnote-ref-19)
19. Staff Report at 54. [↑](#footnote-ref-20)
20. Long-term incentives are not capitalized, so no adjustment is necessary. [↑](#footnote-ref-21)
21. Staff Report at 11-12. [↑](#footnote-ref-22)
22. Although I was unable to determine the actual percent of CSTI removed at Staff workpaper WPC-2.2 Cap Incentives. [↑](#footnote-ref-23)
23. This consists of gross CSTI of $40,718,097 less accumulated depreciation reserve of $4,768,508. If this amount does not include payroll taxes, then related payroll taxes on CSTI needs to also be removed from rate base also. In addition, depreciation expense of $833,825 has been removed, as addressed at the Operating Income section of my testimony. [↑](#footnote-ref-24)
24. Regarding Columbia’s prior rate case, Case No. 08-72-GA-AIR, the test period was October 1, 2007 to September 30, 2008. [↑](#footnote-ref-25)
25. This is based on a composite depreciation rate of 2.48 percent, that is calculated as Columbia’s depreciation expense on plant of $126,167,000 at Schedule C-3.28 (excluding amortization expense), divided by gross plant of $5,091,184,000 at Schedule B-3.1 and 3.2 (excluding intangible plant). [↑](#footnote-ref-26)
26. This consists of gross CSTI of $30,538,573 less accumulated depreciation reserve of $3,576,381. [↑](#footnote-ref-27)
27. This consists of gross CSTI of $10,179,524 less accumulated depreciation reserve of $1,192,127. [↑](#footnote-ref-28)
28. This consists of short-term incentive expense of $7,960,751 plus related payroll taxes of $570,786. Also, I am removing 100 percent of miscellaneous short-term incentives for other reasons (and included as components in other adjustments of Columbia), consisting of $120,000, plus $8,604 of payroll taxes. [↑](#footnote-ref-29)
29. I removed CSTI through March 31, 2021, of the test period, because Columbia only included related plant in service amounts (and related CSTI) in rate base through March 31, 2021, in this rate case. [↑](#footnote-ref-30)
30. I reviewed incentive plans for Non-Officer Participants (Cash-Based Awards Program Terms and Conditions) and Officer Participants (Cash-Based Awards Program Terms and Conditions) that were provided for years 2020 (Attachments D and E) and 2021 (Attachments F and G) provided at Staff 1-4, along with similar incentive plans for years 2017 to 2019 (Attachments D to G) provided at Staff 1-133 (and cited in OCC 4-12). The 2021 Non-Officers and Officers short-term incentive plans reflect a 70 percent NOEPS financial performance metric (the remaining portion of 30 percent consists of a combination of mostly other customer performance metrics). For years 2017 to 2020, the Participants incentive plan reflects an 85 percent NOEPS financial metric (and 15 percent customer metric) and the Officer Participants incentive plan reflects a 75 percent NOEPS financial metric (and 25 percent customer metric). [↑](#footnote-ref-31)
31. This is the average for complete years 2009 to 2020 and excludes the outlier smaller amount of CTSI for 2008 and the incomplete year of 2021 (which is only through March 31, 2021). [↑](#footnote-ref-32)
32. I use the terminology “for regulatory purposes” because I am not proposing that Columbia change its accounting method for capitalizing incentives for financial statement purposes, I only oppose this method for regulatory treatment and collecting these cost from consumers in in the revenue requirement of rate cases. [↑](#footnote-ref-33)
33. This is the depreciation rate period for most distribution related assets on Columbia’s books. [↑](#footnote-ref-34)
34. This approximates the test period in the prior rate case, which was from October 2007 to September 2008 in the prior rate case, Case No. 08-72-GA-AIR. [↑](#footnote-ref-35)
35. Staff Report at 11-12. [↑](#footnote-ref-36)
36. Columbia does not seek to include the deferred PSP costs in rate base or recover a rate of return on these costs per the Stipulation in the prior rate case, Case No. 14-1615-GA-AAM. [↑](#footnote-ref-37)
37. Staff Report at 23, Schedule C-3.26. [↑](#footnote-ref-38)
38. The Staff Report appears to reduce the Columbia PSP costs of $149,383,368 by a small adjustment of $311,368, to arrive at Staff’s PSP costs of $149,072,000. [↑](#footnote-ref-39)
39. The Staff Report excludes $10 million of DPTI PSP costs that are due to expire on December 31, 2023. [↑](#footnote-ref-40)
40. My proposed adjustment actually reclassifies $59.1 million to net plant in service after an adjustment to of $.90 million to the accumulated depreciation reserve. [↑](#footnote-ref-41)
41. The 40 years is the composite depreciation rate of 2.48 percent calculated as Columbia depreciation expense (excluding amortization expense) of $126,167,000 Schedule 3.28, divided by plant in service (excluding intangible plant) of $5,091,184,000 at Schedule C-3.1 and 3.2. [↑](#footnote-ref-42)
42. The PSP costs were treated as expensed in prior years 2015, 2016, and 2018, up to Columbia’s 10.50 authorized ROE. [↑](#footnote-ref-43)
43. Case No. 14-1615-GA-AAM, Order dated December 17, 2014. The PUCO did not approve recovery of these costs in Case No. 14-1615-GA-AAM proceeding but deferred that decision to a future separate proceeding or rate case. [↑](#footnote-ref-44)
44. The carrying costs are based on Columbia’s embedded debt-only interest rate, and the interest costs cannot be compounded. [↑](#footnote-ref-45)
45. The Columbia Application in this proceeding, Section 5.6, pages 14-16, dated June 30, 2021. Also, see Columbia Witness Ms. Thompson direct testimony at 5-7. [↑](#footnote-ref-46)
46. Case No. 16-552-GA-AAM, Order dated August 26, 2016. The incremental $10 million of DPTI PSP costs has a fixed reduced interest rate of 3 percent per year. [↑](#footnote-ref-47)
47. Columbia seeks “actual” deferred PSP costs for the period January to March 31, 2021 and did not include deferred PSP costs for the remainder of the test period April to December 2021, most likely because Columbia also seeks the $25 million annual PSP expense allowance. [↑](#footnote-ref-48)
48. Columbia’s response to OCC 8-24(f) states that it has continued to include PSP costs in the deferred account after March 31, 2021, but Columbia has not provided the actual amount of these costs or any supporting documentation for these costs that were requested in OCC 2-48(d) and other data requests. [↑](#footnote-ref-49)
49. Columbia Application at 14, Section 5.6 (2), Ms. Thompson’s direct testimony at 6, lines 19-27, and Columbia response to OCC 8-1(g). Also, Columbia response to OCC 8-1, Attachment B, document dated March 4, 2015 and titled “NGD Special Studies.” [↑](#footnote-ref-50)
50. Reflects DPTI costs of $82.79 million, plus allocated carrying costs of $10.72 million. [↑](#footnote-ref-51)
51. Columbia Application at 14-15, Section 5.6 (3) and Ms. Thompson’s direct testimony at 6, lines 29-37. Also, Columbia response to OCC 8-1, Attachment B, document dated March 4, 2015 and titled “NGD Special Studies.” [↑](#footnote-ref-52)
52. Reflects AWTI costs of $32.24 million, before allocation of carrying costs. [↑](#footnote-ref-53)
53. Columbia Application at 14-15, Section 5.6 (3) and Ms. Thompson’s direct testimony at 6, lines 29-37. Also, Columbia response to OCC 8-1, Attachment B, document dated March 4, 2015 and titled “NGD Special Studies.” [↑](#footnote-ref-54)
54. Reflects EPAI costs of $8.17 million, before allocation of carrying costs. [↑](#footnote-ref-55)
55. Columbia Application at 14, Section 5.6 (1), Columbia response to OCC 8-1, Attachment B document dated March 4, 2015 and titled “NGD Special Studies”, and Ms. Thompson’s direct testimony at 6, lines 5-17. [↑](#footnote-ref-56)
56. Reflects CGSI costs of $9.93 million, before allocation of carrying costs. [↑](#footnote-ref-57)
57. *Application of Columbia Gas of Ohio, Inc. for Authority to Establish a Regulatory Asset,* Case No. 14-1615-GA-AAM, September 12, 2014, at 2, ¶ 6. [↑](#footnote-ref-58)
58. The S&P Global Intelligence net earnings and proprietary capital data for years 2016 to 2020, agreed with Columbia-provided capital and earnings data at Schedule C-10.1 and 10.2. [↑](#footnote-ref-59)
59. Case No. 14-1615-GA-AAM, Columbia Application dated September 12, 2014 at 2, ¶ 6. [↑](#footnote-ref-60)
60. The term “professional skepticism,” according to auditing standards, is an attitude that involves a questioning mind and a critical assessment of audit evidence. It is required for all audits performed under generally accepted auditing standards. [↑](#footnote-ref-61)
61. See page 3, and other pages, addressing the Kids Dig into Safety program and others. [↑](#footnote-ref-62)
62. In addition, the Public Awareness advertising expense at Attachment B (pages 33-37) includes invoices for water company bills and utility bills at the Gahanna location, and it is not clear why these costs are expensed or deferred as advertising expenses under the Public Awareness campaign. [↑](#footnote-ref-63)
63. Columbia’s January 7, 2022, supplemental response to OCC 2-43 identifies Gahanna Training Center related costs of $4,588,713, included in AWTI. [↑](#footnote-ref-64)
64. This timeline is similar to the GTC, which was leased by Columbia from a third-party beginning January 2017. [↑](#footnote-ref-65)
65. Kentucky withdrew its request to the Commonwealth of Kentucky Public Service Commission to build a new training facility in Lexington, Kentucky, per 5 of the Stipulation among parties to the rate case addressed in a related Order of the Kentucky Commission in Case No. 2021-00183. [↑](#footnote-ref-66)
66. Columbia updated actual balances at December 31, 2021, WPC 2-1a-g (line 213, column P). [↑](#footnote-ref-67)
67. Columbia response to Staff 1-4(2), and this represents the amount from Columbia’s original filing reflecting 3 months of actual expenses (January to March 2021) and 9 months of estimated expenses (April to September 2021). [↑](#footnote-ref-68)
68. There is a relatively small portion of potential customer performance measures over and above the 100 percent financial performance measures for 2021, but Columbia’s response to OCC 5-3(d) stated that LTI expense for 2021 does not include any of these costs so it is not necessary to address these LTI components. [↑](#footnote-ref-69)
69. The LTI plan description is provided at Staff 1-4, Attachment B, per “NiSource, Inc. 2020 Omnibus Incentive Plan.” The response to OCC 4-12 states the 2020 Omnibus Incentive Plan also applies to the 2021 test period. The specific financial performance metrics are provided in response to Staff 1-4, Confidential Attachment C, which provides the financial performance metrics for years 2018 to 2021. Without disclosing any Confidential information, the 2021 LTI financial performance metrics is comprised of two financial components, the NOEPS (also addressed in the capitalized short-term incentives adjustment) and the Total Relative Total Shareholder Return (“rTSR”). [↑](#footnote-ref-70)
70. Using 3 months of actual test period payroll through March 31, 2021, and 9 months of estimated payroll from April to December 31, 2021. [↑](#footnote-ref-71)
71. Staff Report at 20. [↑](#footnote-ref-72)
72. COH Schedule C-9.1, page 2 of 10. [↑](#footnote-ref-73)
73. The headcount complement adjustment consists of a total increase in payroll costs of $183,000, consisting of $116,000 payroll, $4,000 incentives, $22,000 benefits, and $41,000 clearing. [↑](#footnote-ref-74)
74. The headcount data is from Schedule C-9.1, page 2 of 10. [↑](#footnote-ref-75)
75. *In the Matter of the Application of Washington Gas Light Company for Authority to Increase Existing Rates and Charges and to Revise its Terms and Conditions for Gas Service*, Pub. Serv. Comm’n Maryland Case No. 9481, Order No. 88944, p. 82-83, rel. December 11, 2018 (“Maryland Order No. 88944”), *reh’g granted in part and denied in part*, *In the Matter of the Application of Washington Gas Light Company for Authority to Increase Existing Rates and Charges and to Revise its Terms and Conditions for Gas Service*, Pub. Serv. Comm’n Maryland Case No. 9481, Order No. 89170, rel. June 25, 2019. [↑](#footnote-ref-76)
76. Columbia has waived Confidential treatment for the use of these numbers in my testimony, but the response to related data request OCC 9-3 is being treated as Confidential because of additional detailed information included in that response. [↑](#footnote-ref-77)
77. As previously indicated, Columbia has waited Confidential treatment for use of these specific numbers in my testimony. [↑](#footnote-ref-78)
78. It is not necessary to address the non-GAAP amounts of CTA expense, because these amounts are not applicable to this proceeding for regulatory purposes. [↑](#footnote-ref-79)
79. Columbia’s response to OCC 2-65 states that the [↑](#footnote-ref-80)
80. I calculated Supplemental Executive Retirement Plan expense of $384,000 as $32,000/month x 12 months per OCC 2-65. [↑](#footnote-ref-81)
81. Using 3 months of actual test period payroll through March 31, 2021, and 9 months of estimated payroll from April to December 31, 2021. [↑](#footnote-ref-82)
82. Ms. Shaeffer at 25 (lines 20-38), 26, and 27 (lines 1-2). [↑](#footnote-ref-83)
83. This is an adjustment to increase the base salary levels of CSRs, and is not just the typical adjustment for annual pay raises of employees. [↑](#footnote-ref-84)
84. Mr. Dice at 2-3. [↑](#footnote-ref-85)
85. Ms. Cartella at 4, 16, and Attachment KKC-4. [↑](#footnote-ref-86)
86. The dollar impact of the actual CSR pay raises, along with related impacts on incentives, payroll taxes, and benefits is buried in the NiSource payroll adjustment without specific identification of the CSR amounts. [↑](#footnote-ref-87)
87. Staff Report at 22. [↑](#footnote-ref-88)
88. Dice at 3, lines 2-3. [↑](#footnote-ref-89)
89. Dice at 2, lines 26-28. [↑](#footnote-ref-90)