

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application of	:	
Columbia Gas of Ohio, Inc. for an	:	Case No. 16-2236-GA-RDR
Adjustment to Rider IRP and Rider DSM	:	
Rates.	:	

**COMMENTS
AND
RECOMMENDATIONS**
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

March 23, 2017

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INTRODUCTION

In accordance with the Public Utilities Commission of Ohio (Commission) Opinion and Orders adopting the Stipulations and Recommendations filed in Case Nos. 08-72-GA-AIR and 11-5515-GA-ALT, the Commission's Staff (Staff) has conducted an investigation in the above-referenced matter and hereby submits its findings in these Comments to the Commission.

These Comments were prepared by the Commission's Rates and Analysis Department. Included are findings and recommendations resulting from financial reviews of additions to plant-in-service and Columbia Gas of Ohio, Inc.'s (Columbia, Applicant, or Company) proposed revenue requirement and other matters related to its Infrastructure Replacement Program (IRP) rider and a review of the Company's Demand Side Management (DSM) program and associated DSM rider.

In accordance with the Attorney Examiner's Entry dated March 1, 2017, copies of these Comments have been timely filed with the Commission's Docketing Division.

These Comments contain the results of the Staff's investigation, and do not purport to reflect the views of the Commission, nor is the Commission bound in any manner by the representations and/or recommendations set forth herein.

BACKGROUND

Columbia is a public utility as defined by R.C. 4905 and a natural gas company pursuant to Chapter R.C. 4905 that is engaged in the business of providing natural gas distribution service to approximately 1.4 million customers in 60 of Ohio's 88 counties.

On April 9, 2008, the Commission approved an amended Stipulation and Recommendation in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM (Risers Stipulation) that included, among other things, the establishment of the IRP rider. The purpose of the rider was to recover expenditures associated with the Company's three-year replacement program for risers identified as "prone to fail" and customer service lines with potentially hazardous leaks. Under the Risers Stipulation approved and adopted by the Commission, the Company must file annual applications supporting proposed adjustments to its rates and the Staff was directed to review and report on the reasonableness of the proposed rates.

On July 23, 2008, the Commission approved Columbia's application in Case No. 08-833-GA-UNC to implement specific DSM programs for the Small General Service

Class of customers that were developed by the stakeholder group in that case. The approved programs for residential customers included the Home Performance Program, Low Cost Product Rebates, New Homes Program, Warm Choice®, and Furnace Market Research. The Commercial Programs included Small Business Energy Efficiency Incentives, Small Business Energy Saver Audits, Advanced Energy Design Partnership, and the Innovative Technology Program. Additionally, the Financing Program includes an Energy Efficiency Loan Fund.

On March 3, 2008, Columbia filed Case Nos. 08-72-GA-AIR, 08-73-GA-ALT, 08-74-GA-AAM, and 08-75-GA-AAM seeking authority to increase its gas distribution rates, approval of an alternative regulation plan, approval to change accounting methods, and authority to revise its depreciation accrual rates.

On December 3, 2008, the Commission approved a Stipulation and Recommendation in the 08-72-GA-AIR, *et al.* (Rate Case Stipulation) cases that, among other things, expanded the Infrastructure Replacement Program rider (Rider IRP) to include three separate components, established Rider DSM to allow Columbia to recover the costs for implementing the DSM programs approved in Case No. 08-833-GA-UNC, and established procedural schedules for annual applications to modify the IRP and DSM riders. The three components of Rider IRP are designed to allow Columbia recovery of costs incurred during a test year to replace aging or hazardous infrastructure and include:

1. A component, set forth in Case Nos. 07-478-GA-UNC and 07-237-GA-AAM, for recovery of costs associated with the replacement of natural gas risers that are prone to failure along with the costs associated with the future maintenance,

repair and replacement of customer service lines that have been determined by Columbia to present an existing or probable hazard to persons and property. Columbia was to identify and replace approximately 320,000 risers at an approximate cost of \$160 million over a period of approximately three years.

2. A second component for recovery of costs associated with the Company's Accelerated Mains Replacement Program (AMRP). Under the AMRP, Columbia's plans call for it to replace approximately 3,770 miles of bare steel pipe, 280 miles of cast iron/wrought iron pipe and approximately 360,000 steel service lines over a period of 25 years at an estimated annual cost of \$73 million. Columbia maintains that these types of mains (priority pipe) typically have a greater probability to leak due to their material type, protection, age and other characteristics.
3. The third component recovers costs associated with the Company's installation of Automatic Meter Reading Devices (AMRD) on all residential and commercial meters served by Columbia over a five-year period, which began in 2009.

The approved procedural schedule for annual applications to modify the IRP and DSM riders calls for the Company to file a pre-filing notice containing schedules with a combination of actual and estimated data by November 30 each year followed by an application submitted by February 28 of the succeeding year containing updated actual schedules supporting rates to go into effect on May 1 of that year.

On November 28, 2012, the Commission approved a stipulation in Case No. 11-5515-GA-ALT that, among other things, called for continuation of the IRP for an additional five years (for recovery of IRP investments made from January 1, 2013 through December 31, 2017), expansion of the scope of the AMRP to include replacement of

ineffectively coated steel and certain first generation plastic pipe, and continuation of the filing requirements and schedules originally adopted in the 08-72-GA-AIR case.

Pursuant to that schedule, on November 28, 2016 Columbia filed a pre-filing notice in this case containing schedules with nine months of actual and three months of projected data in support of requested increases to Riders IRP and DSM to go into effect on May 1, 2017. On February 27, 2017, the Company filed its Application in this case with updated schedules containing actual data for calendar year 2016 and requesting that the test year for its application begin on January 1, 2016 and end on December 31, 2016 and a date certain for property valuation be set at December 31, 2016.

On March 1, 2017, the Attorney Examiner in this case issued an Entry establishing a procedural schedule for the case as follows:

- (a) March 23, 2017 – Deadline for filing of motions to intervene.
- (b) March 23 2017– Deadline for Staff and interveners to file comments on the application.
- (c) March 28, 2017– Deadline for Columbia to file a statement, informing the Commission whether the issues raised in the comments have been resolved.
- (d) April 4, 2017 – Deadline for expert testimony by all parties.
- (e) April 5, 2017 – Deadline for some or all parties to the case to file a stipulation resolving some or all issues raised by the parties.
- (f) April 6, 2017 – Hearing date if some or all issues raised in the comments are not resolved.

SCOPE OF THE STAFF'S INVESTIGATION

The Staff divided its review into two parts. One investigating the application and supporting schedules for the IRP rider and the other investigates the application and supporting schedules for the DSM rider. The overall scope of the Staff's investigation was designed to determine if Columbia's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company that is used as a basis for the annual adjustments to Riders IRP and DSM. These Comments summarize the Staff's review, identify exceptions to the Company's Application, and provide recommendations to address the exceptions.

IRP INVESTIGATION

1. IRP Investigation Summary

As noted above, the IRP is comprised of three components – the accelerated mains replacement program, or “AMRP”; the risers and hazardous service lines program, collectively termed “Risers”; and the automated meter reading devices, or “AMRD.” The Staff reviewed and analyzed the documents associated with each of these components that Columbia filed and traced them to supporting work papers and source data. As part of its review, the Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, verified select physical plant assets on site, and performed independent analyses when necessary. The Staff also reviewed Columbia's progress towards implementing its IRP. When investigating the Company's operating income, Staff reviewed expenses associated with depreciation, amortization of post in-service

carrying charges, property taxes, AMRP customer education expenses, any AMRP operating and maintenance savings, and charges associated with the riser education and riser identification programs. To investigate the proposed rate base, the Staff reviewed and tested the Applicant's plant accounting system to ascertain if the information on all IRP assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff selected a sample of transactions for detailed review. Finally, the Staff reviewed the proposals for deferred depreciation, deferred post-in-service carrying cost (PISCC), depreciation, capitalized PISCC, and deferred taxes on liberalized depreciation.

2. IRP Progress

As part of the Joint Stipulation and Recommendation in Case No. 11-5515-GA-ALT approved by the Commission in its Opinion and Order dated November 26, 2012, Columbia clarified the scope of the AMRP to include interspersed non-priority mains, first generation plastic mains, and ineffectively coated steel mains. Therefore, the Company has included the costs of retiring these portions of non-priority pipe in conjunction with its infrastructure replacement projects in this Application.

In 2016, Columbia completed 421 AMRP projects associated with replacement of priority and non-priority pipe. This represents a total of 1,003,778 feet of steel pipe and 52,923 feet of iron pipe along with 169,876 feet of plastic pipe, 152,404 feet of pre-1955 unprotected coated steel, and 76,817 feet of post-1954 coated steel pipe. The Company reports that it also replaced 5,617 leaking and hazardous service lines.

As reported in previous IRP Rider cases, Columbia completed AMRD deployment throughout its system in 2013 and replacement of all previously identified prone-to-fail risers in June 2011. However, the Company will continue to include expenses such as depreciation, taxes, etc. in the schedules supporting future applications to increase Rider IRP until the risers are included in the Company's base rates.

3. IRP Competitive Bidding and Ohio Labor

Columbia employs a competitive bidding process for the majority of the capital work associated with AMRP projects using two types of bids. The majority of Columbia's capital work associated with AMRP projects is performed by contractors under competitive bid "blanket" contracts. Blanket contracts were established across Columbia's operating areas and contractors provided bid prices based on the expected number of contract units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) that would be completed during the term of the contract. Columbia extended and expanded the scope of its previously bid "blanket" construction contracts through December 31, 2016. The Company reports that the majority of the work to replace the hazardous service lines was performed by Columbia employees and that it sometimes uses Company personnel to perform AMRP work, depending on the availability of the Company employees and the nature of the work to be performed.

The Staff confirmed that none of the contractors selected by Columbia are affiliated with the Company. Columbia includes language in its bid packages stating a preference that Ohio labor be used whenever possible as long as the price and quality of work

is not negatively impacted. The Company reports that, in 2016, approximately 85% of the contractor labor force for AMRP projects was Ohio based.

4. Columbia's Proposed IRP Recovery

Columbia proposes a revenue requirement of \$144,045,691 for the AMRP, \$43,491,760 for the Risers, and \$7,375,714 for the AMRD Program. Using the billing determinants for the AMRP, Risers, and AMRD established in the 2008 Stipulation and Recommendation approved by the Commission in Case No. 08-72-GA-AIR, the Company proposes that allocation of the AMRP revenue requirement by customer class would be \$6.15/month for Small General Service (SGS) customers, \$70.77/month for General Service (GS) customers, and \$2,249.48/month for Large General Service (LGS) customers. For allocation of the Risers revenue requirement, the Company proposes \$2.48/month for the SGS customers and \$3.07/month for the GS customers. For allocation of the AMRD revenue requirement, the Company proposes \$0.33/month for the SGS customers and \$3.88/month for the GS customers. The total IRP revenue requirement from the combination of the AMRP, Risers, and AMRD revenue requirements is \$194,913,165. When allocated to the applicable rate classes (the Risers and AMRD are not applicable to the LGS class of customers), Columbia proposes that the total IRP rider rates to take effect in May 2017 will be \$8.96/month for the SGS customers, \$77.72/month for the GS customers, and \$2,249.48/month for the LGS customers. The \$8.96 proposed monthly IRP charge for the SGS customers is below the \$9.20/month cap

established in the approved Stipulation and Recommendation in Case No. 11-5515-GA-ALT for this class of customers.

5. Staff's IRP Comments and Recommendations

The Staff has completed its investigation of Columbia's proposed IRP rider application, and based upon its investigation, Staff believes that the Company has supported its filing with adequate data and information to ensure that the IRP revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff respectfully recommends that the Commission approve Columbia's IRP Application as filed.

DSM INVESTIGATION

1. DSM Background

Columbia filed its Demand Side Management (DSM) application pursuant to R.C. 4929.11 and the Commission's Opinion and Order in Case No. 08-0072-GA-AIR. Columbia is requesting authority to adjust its Rider DSM. Rider DSM provides for the recovery of costs related to the implementation of a DSM program that enables customers to reduce bills through various conservation programs as set forth in the Application filed in Case No. 08-0833-GA-UNC and as approved by the Commission in its Finding and Order dated July 23, 2008.

In Case No. 11-5028-GA-UNC, the Commission approved Columbia's application to initiate a shared savings mechanism for Columbia's shareholders. This savings mech-

anism is based on a tiered shared savings incentive structure once Columbia attains target levels of natural gas savings at a prorated budget cost level per annum.

2. DSM Review

Staff's annual review of the Company's Rider DSM consisted of a review of the incurred costs and revenues associated with the following programs: Home Performance Solutions, Simple Energy Solutions, New Home Solutions, Furnace Market Research, Small Business Energy Solutions, Ohio Small Business Energy Saver Audits, Energy Design Solutions, Energy Efficiency Loan Fund, Program Administration, Program Development, and Warm Choice. The audit consisted of a review of the Company's schedules and work papers regarding completeness, occurrence, presentation, valuation, allocation, accuracy, and prudence. Staff's audit included document reviews, interviews, and interrogatories requesting additional documentation as needed to substantiate the reasonableness of costs for which recovery was being sought. Staff also determined whether the expense transactions were truly incremental to the amount in base rates.

The Company filed its notice of intent to file its application to adjust DSM rates on November 28, 2016, and its Application adjust DSM rates on February 27, 2017, with rates to become effective May 1, 2017. Staff's review consisted of a detailed audit of the nine months (i.e. January through September) of actual expense, revenue, over/under-collections, and shared savings data contained in the notice of intent. Additionally, Staff reviewed the forecast for the remaining three months (i.e. October through December) and will review the actual data in the 2017 audit.

3. DSM Findings

Staff identified \$5,994.14 in reimbursed employee expenses that were not shown to be reasonable and related to the Company's DSM program. The Staff discovered many instances where Columbia employees were reimbursed for meals and incidental expenses above what is reasonably expected to be recovered from its customers. For future reimbursements, Staff recommends the Company adhere to the United States General Services Administration's Continental United States per diem rates. Additionally, the Staff recommends that Columbia eliminate reimbursement for personal mileage within a two mile radius of its Columbus, Ohio office and that the Company create a standard form to record personal mileage reimbursement.

4. DSM Conclusion and Recommendation

Staff recommends an adjustment of \$5,994.14, plus any applicable carrying charges, be removed from the Rider DSM rate. Staff also reserves the right to examine the last three months of 2016 revenues and expenditures during the next DSM audit.

Respectfully submitted,

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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served via electronic mail upon the following parties of record this 23rd day of March, 2017.

*/s/ John H. Jones*_____

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Summary: Comments electronically filed by Ms. Tonnetta Scott on behalf of PUC