

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Columbia Gas    )  
of Ohio, Inc. for Approval of an Alternative Form    ) Case No. 16-2422-GA-ALT  
of Regulation.    )

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**INITIAL BRIEF  
BY  
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

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**I. INTRODUCTION**

Columbia Gas of Ohio, Inc.'s ("Columbia" or "Utility") \$1.5<sup>1</sup> billion pipeline replacement proposal in this proceeding would unjustly and unreasonably increase a single charge on Ohioans' natural gas utility bills from \$8.96 to \$16.20 over a five-year period.<sup>2</sup> Yet, Columbia has provided little if any supporting evidence to justify such significant spending increases. The scant amount of evidence Columbia has produced shows that the proposal is not just and reasonable. Specifically, the facts and evidence show that the Settlement<sup>3</sup> was not the product of serious bargaining, violates regulatory principles and practices, and will not benefit consumers or the public interest. The Settlement does not pass the Public Utilities Commission of Ohio's ("PUCO") three prong test for approving a settlement.

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<sup>1</sup> *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 16-2422-GA-ALT, Application at 2 (February 27, 2017).

<sup>2</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4); Joint Ex. 1 (Settlement) (\$8.96 is the actual Rider IRP rate for 2016. \$16.20 is the proposed Rider IRP rate cap for 2022 in the Settlement. The costs for investment years 2018 to 2022 will be charged to customers in years 2019 to 2023).

<sup>3</sup> *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 16-2422-GA-ALT, Joint Stipulation and Recommendation (August 18, 2017) ("Settlement").

The Office of the Ohio Consumers' Counsel ("OCC"), representing Columbia's 1.3 million residential gas customers, opposes the Settlement. Instead, OCC recommends that:

- the Infrastructure Replacement Program ("IRP") Rider rate caps included in the Settlement for the next five-year period should not be approved (the rate cap should be less than \$1.00 per SGS customer per month);<sup>4</sup>
- the hazardous customer service lines ("HCSL") program included in the Settlement should be eliminated;
- customers should receive a larger amount of operation and maintenance ("O&M") savings than the amount included in the Settlement, comparable to other main line replacement programs;
- the amount of "non-priority" pipe included in the Settlement to be replaced should decrease;
- a third-party audit of Columbia's IRP program should be ordered to investigate the reasons for the program's lack of cost effectiveness; and
- Columbia should be required to report certain metrics that relate to program efficiency and effectiveness for the next five years.

If the Settlement is approved as proposed, then Ohio residential utility consumers will be made to pay more money than that which is just and reasonable for their natural gas

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<sup>4</sup> OCC Ex. 2 (O'Neill Direct at 20) ("I find that ... the revenue requirement as it would translate to the monthly rate for the SGS customer need only increase by an amount that would be less than the \$1.00 per year specified in the 2012 Settlement.").

service. This is not a good deal for consumers. OCC files this Initial Brief to protect Columbia's residential utility consumers to ensure they are being charged an amount that is just and reasonable for services rendered.

## **II. BACKGROUND**

Columbia filed its Application on February 27, 2017 requesting approval to continue the IRP for another five-year period (i.e., 2018 to 2022).<sup>5</sup> Columbia states that it will need to replace 820 miles of priority pipe (164 miles per year) over the next five-year period to stay on track with completing all 4,050 miles of priority pipe within 25 years.<sup>6</sup> Columbia also proposed to continue capitalizing and including in the IRP Rider the costs associated with repairing and replacing "hazardous" customer services lines ("HCSL" program) at an estimated cost to customers of \$25 million per year.<sup>7</sup> And, Columbia proposed to maintain the methodology and amount of O&M savings that must be passed back to customers at its current amount: the greater of the actual savings or \$1.25 million per year.<sup>8</sup> However, Columbia alleges that it has experienced and expects to continue to experience significant annual cost increases for replacing mains and service lines under the Accelerated Mains Replacement Program ("AMRP").<sup>9</sup> And, because of these cost increases, the Application proposed that the annual cap on Rider IRP be increased from

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<sup>5</sup> See Columbia Ex. 1 (Application at 1).

<sup>6</sup> See Columbia Ex. 1 (Application at 7, 11).

<sup>7</sup> Columbia Ex. 1 (Application at 6).

<sup>8</sup> Columbia Ex. 1 (Application at 10).

<sup>9</sup> Staff Ex. 2 (PUCO Staff Report at 6).

the currently approved \$1.00 per Small General Service (“SGS”) customer per month to \$1.30 per SGS customer per month.<sup>10</sup>

On July 10, 2017, the Staff of the PUCO (“PUCO Staff”) filed its PUCO Staff Report in this proceeding.<sup>11</sup> Notably, the PUCO Staff recommended that the IRP Rider rate cap increase proposed in Columbia’s Application should be denied because “the available evidence does not support such a large cap increase (i.e., from \$1.00 per SGS customer per month to \$1.30 per SGS customer per month, which is a 30 percent increase) for a variety of reasons.”<sup>12</sup> In addition, the PUCO Staff concluded that the “current methodology and minimum savings run counter to the Commission's expectations for O&M savings produced by mature accelerated mains replacement programs and are insufficient when compared to other similar replacement programs.”<sup>13</sup> The PUCO Staff concluded that the amount should be higher and that collaborative meetings between the parties should be held to determine a more effective methodology.<sup>14</sup>

On August 18, 2017, a Settlement was filed by Columbia.<sup>15</sup> The Settlement was signed by the PUCO Staff, Columbia, and the Ohio Partners for Affordable Energy (“OPAE”). The Industrial Energy Users of Ohio (“IEU-Ohio”) did not sign the Settlement, but agreed not to oppose it.

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<sup>10</sup> Columbia Ex. 1 (Application at 11); Staff Ex. 2 (Staff Report at 6).

<sup>11</sup> Staff Ex. 2 (PUCO Staff Report).

<sup>12</sup> Staff Ex. 2 (PUCO Staff Report at 9).

<sup>13</sup> Staff Ex. 2 (PUCO Staff Report at 8).

<sup>14</sup> Staff Ex. 2 (PUCO Staff Report at 9).

<sup>15</sup> Joint Ex. 1 (Settlement).



The Settlement centered on two provisions: the amount of O&M savings to be passed back to customers and the increase to the IRP Rider rate cap.<sup>16</sup> However, neither proposed provision was beneficial for residential consumers or the public interest. First, the O&M savings methodology in the Settlement is the same O&M savings methodology that the PUCO Staff criticized as producing “insufficient” results in the PUCO Staff Report. And, the amount of O&M savings to be passed back to consumers in the Settlement is still inadequate. Second, the proposed increase to the monthly SGS customer rate cap for the IRP Rider is unjust and unreasonable. Table A below shows the differences in the key provisions between the PUCO Staff Report and the Settlement.

**Table A**  
**Summary of Rider IRP Rate Cap Recommendation in PUCO Staff Report and Settlement**  
**(2018 to 2022)**

<b>Investment Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Average Charge</b>
<b>Rate cap proposed in PUCO Staff Report</b>	\$11.20	\$12.20	\$13.20	\$14.30	\$15.40	<b>\$13.26</b>
<b>Rate cap proposed in Settlement</b>	\$11.35	\$12.50	\$13.70	\$14.95	\$16.20	<b>\$13.74</b>
<b>Difference</b>	<b>\$0.15</b>	<b>\$0.30</b>	<b>\$0.50</b>	<b>\$0.65</b>	<b>\$0.80</b>	<b>\$0.48</b>

Moreover, neither the Settlement nor the testimony supporting the Settlement fixed the main concern in the PUCO Staff Report: that the proposed increase to the IRP Rider rate

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<sup>16</sup> See Joint Ex. 1 (Settlement at 4).

cap is not supported by the evidence.<sup>17</sup> Indeed, for a variety of reasons, the proposed increases to the IRP Rider rate cap in the Settlement are still not supported by the evidence. Accordingly, the Settlement should be rejected.

### III. STANDARD OF REVIEW

Columbia seeks approval for its IRP under Ohio law that allows natural gas distribution utilities to increase rates by filing an alternative rate plan. To be approved, the PUCO must find that the alternative rate plan is just and reasonable. The utility bears the burden of proof in these proceedings.<sup>18</sup> In addition, under Ohio's laws governing alternative rate plans for gas companies, natural gas must be available to consumers at a reasonable price.<sup>19</sup>

Further, when a settlement is filed it is generally reviewed under the standards that the Ohio Supreme Court stated in *Duff v. Pub. Util. Comm.*: that a settlement is merely a recommendation that is not legally binding upon the PUCO.<sup>20</sup> The PUCO "may take the stipulation into consideration, but must determine what is just and reasonable from the evidence presented at the hearing."<sup>21</sup> Indeed, in reviewing settlement agreements, the PUCO has stated that the ultimate issue for its consideration is whether the settlement is

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<sup>17</sup> See Staff Ex. 2 (PUCO Staff Report at 9) ("Staff also does not agree with Columbia's proposal to increase the annual Rider IRP rate cap. In Staff's opinion, **the available evidence does not support such a large cap increase** (i.e., from \$1.00 per SGS customer per month to \$1.30 per SGS customer per month, which is a 30% increase) for a number of reasons.") (emphasis added).

<sup>18</sup> See R.C. 4929.05.

<sup>19</sup> 4929.02(A)(1).

<sup>20</sup> *Duff v. Pub. Util. Comm.*, 56 Ohio St.2d 367 (1978); see also Ohio Adm. Code 4901-1-30(E).

<sup>21</sup> *Id.*

reasonable and should be adopted.<sup>22</sup> In considering the reasonableness of a settlement, the PUCO has used the following criteria or factors:<sup>23</sup>

1. Is the settlement a product of serious bargaining among capable, knowledgeable parties, where there is diversity of interests among the stipulating parties?
2. Does the settlement, as a package, benefit ratepayers and the public interest?
3. Does the settlement package violate any important regulatory principle or practice?

#### IV. RECOMMENDATIONS

##### A. **The Settlement should be rejected because it was not the product of serious bargaining.**

The Settlement fails the first prong of the three-prong test because it was not the product of serious bargaining. In making this determination, the PUCO has routinely considered whether there was an adequate opportunity to engage in an open meeting process, review settlement proposals, or participate in discussions.<sup>24</sup> In addition, the

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<sup>22</sup> *In the Matter of the Application of the East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Form of Regulation to Extend and Increase its Pipeline Infrastructure Replacement Program*, Case No. 15-362-GA-ALT, Opinion and Order at 10-11 (September 14, 2016) (“Dominion PIR Order”).

<sup>23</sup> *Consumers’ Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 126 (1992). The Commission also often takes into account the “diversity of interests” as part of the first part of the stipulation assessment. See *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer*, Case No. 10-388-ELSSO, Opinion and Order at 48 (August 25, 2010).

<sup>24</sup> See *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Form of Regulation to Extend And Increase its Pipeline Infrastructure Replacement Program*, Case No. 15-362-GA-ALT, Opinion and Order at 12-13 (Sept. 14, 2016).

PUCO has considered whether the Settlement occurred after a lengthy period of review, discussion, and negotiation.<sup>25</sup> This Settlement does not satisfy these factors.

The general facts of the “settlement” process are as follows. On just two days’ notice, a settlement conference occurred on the morning of Wednesday, August 9, 2017.<sup>26</sup> A full settlement offer was not circulated before or during the meeting.<sup>27</sup> The next day, Thursday, August 10, 2017, the first settlement offer was circulated to the parties by Columbia.<sup>28</sup> On Tuesday, August 15, 2017, OCC, PUCO Staff, IEU-Ohio, and OPAE convened for a telephonic settlement discussion.<sup>29</sup> On, Friday, August 18, OCC circulated its counter-offer to Columbia’s settlement offer.<sup>30</sup> Columbia rejected the counter-offer in full and filed the Settlement that same day, without having any more settlement discussions.<sup>31</sup>

As OCC witness Duann testified, the compressed settlement process did not produce a product of serious bargaining. Only one all-party settlement meeting occurred.<sup>32</sup> However, it was largely unproductive because Columbia did not circulate a settlement offer before or during the meeting.<sup>33</sup> After the settlement offer was circulated

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<sup>25</sup> See *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Form of Regulation to Extend And Increase its Pipeline Infrastructure Replacement Program*, Case No. 15-362-GA-ALT, Opinion and Order at 12-13 (Sept. 14, 2016).

<sup>26</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>27</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>28</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>29</sup> OCC Ex. 1 (Duann Direct at 22).

<sup>30</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>31</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>32</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>33</sup> OCC Ex. 1 (Duann Direct at 23).

the next day, only six business days elapsed before the Settlement was filed.<sup>34</sup> Yet, during those six-business days no more all-party meetings occurred to review settlement proposals, discuss issues, or bargain.<sup>35</sup>

In an effort to actively participate in the process, OCC quickly provided a comprehensive counter-offer to Columbia in just six business days—a short amount of time given the myriad of issues (as evidenced in OCC’s Objections to the Application and PUCO Staff Report) and the large rate increase to consumers that was proposed.<sup>36</sup> However, after OCC provided its first counter-offer to the first Settlement offer there were no meetings held where OCC’s counter-offer could have been discussed. OCC was not invited to bargain or negotiate at another all party settlement meeting in an attempt to reach a settlement that included OCC. OCC did not receive a counter-offer from Columbia in an attempt to reach a compromise. Instead, Columbia received and apparently rejected OCC’s counter-offer outright and filed the Settlement all in the same day. There was no discussion, negotiation, or bargaining. As OCC witness Duann stated, “the Settlement was largely presented as a ‘take-it or leave-it’ offer by Columbia to other parties in this proceeding.”<sup>37</sup>

Bargaining for and entering into a contract or agreement requires at least two willing participants. OCC was willing to discuss its counter-offer with Columbia. Apparently, Columbia was not. OCC was also willing to discuss any and all counter-offers to OCC’s counter-offer. Apparently, Columbia was not. Instead, the Settlement

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<sup>34</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>35</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>36</sup> OCC Ex. 1 (Duann Direct at 23).

<sup>37</sup> OCC Ex. 1 (Duann Direct at 23).

was rushed through in a week and a half. Such a process is not beneficial to consumers or the public interest and certainly did not produce a settlement that resulted from serious bargaining. Therefore, the Settlement should be rejected.

**B. The Settlement should be rejected because, as a package, it is not just and reasonable, it violates regulatory principles and practices, and it does not benefit consumers or the public interest.**

**1. The HCSL program violates regulatory principles and practices and does not benefit customers or the public interest because it results in unjust and unreasonable charges to consumers.**

In the *Duke ASRP Case*, Duke Energy Ohio, Inc. (“Duke”) filed an alternative rate plan for an accelerated service line replacement program (“ASRP”).<sup>38</sup> Duke’s service line replacement program proposed to replace service lines in its Ohio distribution service territory that it believed to be hazardous to persons or property at a cost of \$320 million over ten years.<sup>39</sup> OCC, the PUCO Staff, and OPAE opposed Duke’s service line replacement program because, among other things, the program’s benefits did not outweigh its costs and Duke did not provide adequate evidence to support its proposal.<sup>40</sup> The PUCO agreed and denied Duke’s application.<sup>41</sup>

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<sup>38</sup> See *In the Matter of the Application of Duke Energy Ohio, Inc., for approval of an Alternative Rate Plan Pursuant to Section 4929.05, Revised Code, for an Accelerated Service Line Replacement Program*, Case No. 14-1622-GA-ALT, (“*Duke ASRP Case*”) Opinion and Order at 4 (Oct. 26, 2016) (“*Duke ASRP Order*”).

<sup>39</sup> *Duke ASRP Order* at 7, 17 (Duke stated that such service lines were made of bare steel and cast iron because they were more susceptible to corrosion).

<sup>40</sup> *Duke ASRP Order* at 7-11.

<sup>41</sup> *Duke ASRP Order* at 47.

Columbia' HCSL is essentially identical to Duke's ASRP. It contains nearly identical facts and evidence and, therefore, suffers from the same inadequacies. It should be rejected for the same reasons the PUCO denied Duke's ASRP application.

In the Duke ASRP Order, the PUCO held that when determining whether an alternative rate plan for an accelerated service line replacement program is just and reasonable it will evaluate and balance the following factors:<sup>42</sup>

1. The costs and benefits of the program, including the probability and likelihood that the alleged risk to safety will occur;
2. Whether the utility considered other feasible alternatives;
3. Whether the utility reevaluated historical solutions to ensure they are continuing to improve distributions systems and the strategies utilized to increase safety within them; and
4. whether accelerated cost recovery treatment is necessary considering the effective risk mitigation measures already in place;

Columbia's accelerated service line replacement program satisfies none of these factors.

**a. The HCSL program violates regulatory principles and practices and does not benefit customers or the public interest because the benefits of the program do not outweigh the costs to consumers.**

First, the PUCO will evaluate and balance the costs and benefits of the program.<sup>43</sup> Specifically, the PUCO has stated that a service line replacement program application should include "a detailed quantified analysis regarding the costs and benefits associated

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<sup>42</sup> See Duke ASRP Order at 34-35, 44-46.

<sup>43</sup> Duke ASRP Order at 34-35, 37-39, 41-43, 44-46.

with such a program....”<sup>44</sup> In fact, in the *Duke ASRP Case*, the PUCO stated that by failing to conduct a cost-benefit analysis of its accelerated service line replacement program Duke failed to carry its burden to prove that its program was just and reasonable.<sup>45</sup>

Columbia does not satisfy these criteria. Most notably, Columbia admitted that it did not conduct a cost-benefit analysis of continuing the HCSL program as proposed in the Settlement.<sup>46</sup> However, even when the costs and benefits are analyzed, the costs to customers greatly outweigh the benefits. The alleged benefit of the HCSL is the mitigation of risks associated with service lines. But, the evidence shows that such risks are essentially non-existent. Yet, Columbia wants to spend \$125 million to mitigate these risks. This does not result in just and reasonable charges to consumers. Therefore, the evidence does not warrant the approval of this unjust and unreasonable program.

Specifically, with regard to the costs of the HCSL, Columbia only provided one detail in its Application. That detail was that Columbia estimated the HCSL would cost \$125 million or \$25 million annually.<sup>47</sup> When OCC asked how it calculated these costs, Columbia only stated that it “projects the annual \$25 million spend for the HCSL program based on past experience” because “[u]nlike the AMRP, the HCSL program spend is not based on planned work.”<sup>48</sup>

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<sup>44</sup> Duke ASRP Order at 45.

<sup>45</sup> Duke ASRP Order at 45 (“As a final matter, this Commission emphasizes the fact that R.C. 4929.05 provides that the local distribution company holds the burden of proof to meet the statutory requirements for an alternative rate plan. In this proceeding, by omitting an adequate cost-benefit analysis of the proposed ASRP with its application, Duke did not meet this burden.”) (Citation omitted).

<sup>46</sup> OCC Ex. 3 (Harunuzzaman Direct, Attach. MH-8).

<sup>47</sup> Columbia Ex. 1 at 6 (Settlement).

<sup>48</sup> OCC Ex. 3 (Harunuzzaman Direct, Attach. MH-3).



Thus, Columbia admits that there are no details about the costs of the program—only a total cost projection. Columbia does not know how many service lines it will, or even plans, to replace.<sup>49</sup> It does not even know how much each service line actually costs to replace.<sup>50</sup> This is not enough detail to approve charging customers an estimated \$125 million over five years. To do so would not be in the public interest.

With regards to the benefits of the HCSL, Columbia simply states that it will repair or replace customer-owned service lines that it deems to present an existing or probable hazard to persons or property based on severity or location.<sup>51</sup> Columbia alleges that this will “promote safety and reliability.”<sup>52</sup> These are the same benefits that Duke alleged would result from its accelerated service line replacement program.<sup>53</sup> Like Duke, Columbia failed to quantify the safety risks posed by customer service lines, the expected decrease in this risk to be achieved by the HCSL program, and the expected increase in reliability to be achieved by the HCSL.<sup>54</sup>

The information that is in the record with regard to the alleged “benefits” of the proposed program only shows that any benefits will be minimal and will certainly not outweigh the costs. First, while the HCSL is intended to replace customer service lines that Columbia deems as a “probable hazard,” “Columbia does not have a formal

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<sup>49</sup> See OCC Ex. 3 (Harunuzzaman at 9 citing Attach. MH-3).

<sup>50</sup> Columbia does determine an average cost per line based on dividing the total spend by the amount of lines replace; however, that is not an actual cost per line. See OCC Ex. 3 (Harunuzzaman Direct, Attach. MH-2).

<sup>51</sup> Columbia Ex. 1 (Application at 6); Columbia Ex. 4 (Thompson Direct at 3-4); Columbia Ex. 2 (Ayers Direct at 2-3); Columbia Ex. 3 (Beil Direct at 2).

<sup>52</sup> Thompson Supplemental at 4-5.

<sup>53</sup> See Duke ASRP Order at 4, 17, 18, 19, 20.

<sup>54</sup> OCC Ex. 3 (Harunuzzaman Direct at 14).

definition for ‘probable hazard.’”<sup>55</sup> Columbia only states that its “technicians in the field have the ability to determine, based on their expertise, what conditions would constitute probable hazards.”<sup>56</sup> Thus, there is not even a standard for what Columbia is and is not allowed to do under the HCSL. As OCC witness Harunuzzaman testified, “[a]pproving such a rider would not be in the public interest because there is no way to determine if the program is being implemented efficiently or effectively. And, there is no way to determine whether Columbia is making prudent expenditures under the rider.”<sup>57</sup>

Second, as explained by OCC witness Harunuzzaman, service lines pose little if any danger or safety risk to persons or property. Dr. Harunuzzaman stated it is first important to understand that service lines do not have the same safety risk as main lines because the pressures at which service lines operate are much lower than those of main lines.<sup>58</sup> Thus, there is less, if any, of an imminent safety risk.<sup>59</sup> Instead, when a service line develops a leak from corrosion, which is one of the main causes of pipeline leaks, a small amount of gas will seep out of a pin prick sized hole and diffuse into the ground.<sup>60</sup> The usual result of such a leak is the grass above the leak turning yellow and dying, at which point the utility can come and repair the line.<sup>61</sup>

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<sup>55</sup> OCC Ex. 3 (Harunuzzaman Direct, Attach. MH-5).

<sup>56</sup> OCC Ex. 3 (Harunuzzaman Direct, Attach. MH-5).

<sup>57</sup> OCC Ex. 3 (Harunuzzaman Direct at 15).

<sup>58</sup> OCC Ex. 3 (Harunuzzaman Direct at 17-18); Duke ASRP Order at 4-43.

<sup>59</sup> See OCC Ex. 3 (Harunuzzaman Direct at 17-18).

<sup>60</sup> OCC Ex. 3 (Harunuzzaman Direct at 17-18).

<sup>61</sup> OCC Ex. 3 (Harunuzzaman Direct at 17-18).

In the Duke ASRP Order, the PUCO stated the probability or likelihood of an “incident” occurring on a service line is relevant to its determination.<sup>62</sup> Just as in the Duke ASRP Case, the probability of a leak on one of Duke’s service lines actually harming persons or property is very small. In fact, the odds of any single service line failing as a result of corrosion, material weld failure, or natural forces (which accounts for approximately 74 percent of the leak causes of service lines replaced under the HCSL)<sup>63</sup> and causing a reportable incident anywhere in the country in a given year is only one in more than 11.9 million.<sup>64</sup> Columbia identified that 39,600 of the 43,036 service lines (or 92 percent) it has replaced from 2011 to 2016, were leaking due to corrosion, material weld failure, or natural forces, or were not leaking at all.<sup>65</sup> Thus, the chances of the HCSL program producing the benefits that Columbia alleges are very small.

Therefore, when the costs and benefits of the HCSL program are analyzed, it is clear that the benefits do not outweigh the costs. Customers should receive more benefits when they are asked to pay for such a large amount of costs. Approving a program where the costs outweigh the benefits by such a large margin violates regulatory principles and practices explained in the Duke ASRP Order and would not benefit customers or the public interest.

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<sup>62</sup> See Duke ASRP Order at 37-39, 44.

<sup>63</sup> OCC Ex. 3 (Harunuzzaman Direct at 18) (31,861/43,036=0.7403).

<sup>64</sup> Duke ASRP Order at 37.

<sup>65</sup> OCC Ex. 3 (Harunuzzaman Direct at 15-16).

**b. The HCSL program does not benefit customers or the public interest because Columbia failed to consider other feasible alternatives for consumers that may have been less costly.**

Second, the PUCO has stated that when considering an accelerated service line replacement program under an alternative rate plan it will evaluate whether the utility considered any other feasible alternatives.<sup>66</sup> The PUCO has stated that while the utility is not obligated to compare its program to every imaginable alternative, it should investigate other feasible options.<sup>67</sup> This will allow the utility, the PUCO, and intervenors to compare the options and determine whether the proposed application is just and reasonable. Columbia did not satisfy this factor.

As OCC witness Harunuzzaman aptly stated: “Columbia did not provide any information on whether it considered alternative, less expensive methods to mitigate the alleged safety risk on its customer service lines. In fact, Columbia admitted that it did not consider any other methods programs to address the alleged risk that the HCSL is designed to mitigate.”<sup>68</sup> This evidence went un rebutted. Proposing a program without considering alternative methods is not in the public interest and harms consumers because it deprives customers of the opportunity for a better, feasible, and perhaps less costly program to be reviewed and selected by the PUCO. Thus, the HCSL program fails this factor.

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<sup>66</sup> Duke ASRP Order at 34-35, 37-39.

<sup>67</sup> Duke ASRP Order at 35.

<sup>68</sup> OCC Ex. 3 (Harunuzzaman Direct at 11).

**c. The HCSL program does not benefit customers or the public interest because Columbia failed to reevaluate the HCSL to ensure it was continuing to improve the program for consumers.**

Third, the PUCO has stated that when considering an accelerated service line replacement program under an alternative rate plan it will consider whether the utility has reevaluated historical solutions to ensure they are continuing to improve distributions systems and the strategies utilized to increase safety within them.<sup>69</sup> That is, the utility should reevaluate its programs to consider whether they could be improved to increase the benefits to safety and the system. Columbia did not satisfy this factor.

As OCC witness Harunuzzaman fittingly stated: “Columbia did not provide any information on whether it reevaluated its historical solution, the HCSL, to ensure it is continuing to improve its strategies. Indeed, the only proposed change to the HCSL was the increase in cost. There were no explicit changes to the HCSL in the Settlement intended to improve the program based on the last ten years of its existence.”<sup>70</sup> This evidence went un rebutted. Proposing a program without first considering how that program could be improved is not in the public interest and harms customers because it deprives them of the opportunity for a better feasible and perhaps less costly program to be reviewed and selected by the PUCO. Thus, the HCSL program fails this factor.

**d. The HCSL program does not benefit customers or the public interest because it is not necessary in the provision of service to consumers, considering the effective risk mitigation measures already in place.**

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<sup>69</sup> OCC Ex. 3 (Harunuzzaman Direct at 11); Duke ASRP Order at 34-35.

<sup>70</sup> OCC Ex. 3 (Harunuzzaman Direct at 11).

Fourth, the PUCO will consider whether accelerated cost collection through a rider is necessary considering the effective risk mitigation measures already in place.<sup>71</sup> Columbia does not satisfy this factor.

As the Duke ASRP Order stated, the PUCO “do[es] not believe that the risks associated with service line leaks caused by corrosion are ‘imminent,’ as it is well-established practice that many of these leaks are not required to be replaced for months at a time.”<sup>72</sup> The PUCO is correct. The PUCO has pipeline safety rules, codified under Ohio Admin. Code Chapter 4901:1-16, et al., that require a utility, like Columbia, to address each and every leaking natural gas service line.<sup>73</sup> What the utility is required to do depends on the severity of the leak.<sup>74</sup> A grade one leak, the most severe, requires that the utility repair or replace the pipe as soon as possible.<sup>75</sup> A grade two leak is considered non-hazardous at the time of detection, but are required to be repaired no later than 15 months from the time the leak is discovered, unless the pipeline containing the leak is scheduled for replacement within 24 months from the date the leak is discovered.<sup>76</sup> A grade three leak is determined to be non-hazardous and, therefore, no action is required.<sup>77</sup>

As the PUCO held in the Duke ASRP Order and OCC witness Harunuzzaman explained, these requirements are sufficient to mitigate any risk to persons or property as

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<sup>71</sup> Duke ASRP Order at 45.

<sup>72</sup> Duke ASRP Order at 43.

<sup>73</sup> OCC Ex. 3 (Harunuzzaman Direct 12-14).

<sup>74</sup> OCC Ex. 3 (Harunuzzaman Direct 12-14).

<sup>75</sup> OCC Ex. 3 (Harunuzzaman Direct at 12-14).

<sup>76</sup> Duke ASRP Order at 43.

<sup>77</sup> OCC Ex. 3 (Harunuzzaman Direct at 12-14).

a result of a service line leak.<sup>78</sup> This is especially true in this proceeding, considering only 14,893 out of 43,036 (or 34 percent) of the leaking service lines that Columbia has replaced from 2011 to 2016 under the HCSL were defined by Columbia as grade-one leaks.<sup>79</sup> This means that the remaining 66 percent of the service lines that Columbia replaced under the HCSL from 2011 to 2016 were either apparently not leaking or were leaks of which the PUCO pipeline safety rules do not require immediate repair.

Thus, there are no alleged risks that the HCSL is meant to mitigate (e.g., replacing abandoned service lines) that the PUCO pipeline safety rules do not already address.<sup>80</sup>

Therefore, the HCSL will not benefit customers or the public interest.

**e. The HCSL program violates regulatory principles and practices and does not benefit customers or the public interest because it does not ensure that customers are able to obtain reasonably priced natural gas.**

Finally, the proposed HCSL program violates regulatory principles and practices and is not in the public interest because it does not ensure that customers are able to obtain reasonably priced natural gas under R.C. 4929.02(A)(1). As explained more below, continuing the HCSL program will unjustly and unreasonably increase customer utility bills because they will be forced to pay for costly expenditures over an accelerated time frame.<sup>81</sup> The PUCO Staff's work paper states that the charge to each SGS customer

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<sup>78</sup> Duke ASRP Order at 43; OCC Ex. 3 (Harunuzzaman Direct at 13).

<sup>79</sup> OCC Ex. 3 (Harunuzzaman Direct at Attach. 6).

<sup>80</sup> OCC Ex. 3 (Harunuzzaman Direct at 15) (stating that Columbia admitted that it does not replace abandon service lines under the HCSL).

<sup>81</sup> See OCC Ex. 3 (Harunuzzaman Direct at 22).

for the HCSL will be \$182.76 over the five years of the program.<sup>82</sup> This is too much money and could make it difficult for customers to obtain natural gas service at a reasonable price, contrary to Ohio law which establishes reasonably priced gas service to Ohioans as a policy of the state. Thus, the HCSL program violates regulatory practices and will not benefit customers or the public interest.

**2. The proposed AMRP O&M savings methodology and amount violate regulatory principles and practices and do not benefit customers or the public interest.**

Columbia currently calculates the O&M savings based on the savings it realizes from avoided leak inspection, leak repair, general/other, and half of supervision and engineering.<sup>83</sup> Columbia has costs for leak-surveillance, leak-repair, and related supervision and engineering built into customers' base rates that were last set in 2008.<sup>84</sup> As a result of the IRP, these costs are reduced as formerly leaking and at-risk bare steel and cast iron pipelines are replaced with new non-leaking plastic and protected steel pipe.<sup>85</sup> These savings to O&M expenses are passed back to customers in the form of a reduction to the annual IRP revenue requirement because base rates paid by customers are not lowered to reflect the avoided costs still being collected from them.<sup>86</sup> Columbia is currently required to pass back to customers the greater of the actual O&M expense

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<sup>82</sup> See OCC Ex. 2 (O'Neill Direct at Attach. DEO-7 (PUCO Staff workpaper)) (PUCO Staff's workpaper included a HCSL charge for 2018 to 2022 per SGS customer per month of  $\$2.79 + \$2.92 + \$3.05 + \$3.18 + \$3.29 = \$15.23$ .  $\$15.23 * 12 \text{ months} = \$182.76$ ).

<sup>83</sup> Staff Ex. 2 (PUCO Staff Report at 8-9).

<sup>84</sup> Staff Ex. 2 (PUCO Staff Report at 8-9).

<sup>85</sup> Staff Ex. 2 (PUCO Staff Report at 8-9).

<sup>86</sup> Staff Ex. 2 (PUCO Staff Report at 8-9).



savings or \$1.25 million per year.<sup>87</sup> However, the current methodology and amount of savings are inconsistent with what is expected of a ten-year old mains replacement program and is unreasonable when compared to other similar replacement programs.<sup>88</sup>

The Settlement proposes to minimally increase the O&M savings amount that must be returned to customers.<sup>89</sup> The Settlement also proposes to continue using the same methodology to calculate the O&M savings amount.<sup>90</sup> This is not just and reasonable. It also violates regulatory principles and practices and does not benefit customers or the public interest.

First, the O&M savings methodology should be changed. As the PUCO Staff found, the current O&M savings methodology is not producing sufficient results.<sup>91</sup> In fact, the current methodology has not produced actual O&M savings that have been greater than the guaranteed minimum O&M savings amount of \$1.25 million in any year since the 2012 IRP Order.<sup>92</sup> Increasing the O&M savings amount will not change this fact. And while it will increase the minimum amount to be returned to customers, it will not give customers the ability to ever receive more than the minimum because, as history has shown, the current methodology does not produce such results. Customers paid their hard-earned money for new main lines. They should now receive the full benefit of cost reductions that are a result of the program they financed.

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<sup>87</sup> Staff Ex. 2 (PUCO Staff Report at 8-9).

<sup>88</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9); OCC Ex. 1 (O'Neill Direct at 10-12).

<sup>89</sup> Joint Ex. 1 (Settlement at 3).

<sup>90</sup> Joint Ex. 1 (Settlement) (The Settlement is silent on the issue of methodology. Therefore, the proposal in the Application controls).

<sup>91</sup> Staff Ex. 1 (PUCO Staff Report at 8-9).

<sup>92</sup> Staff Ex. 1 (PUCO Staff Report at 8-9).

Second, the minimum O&M savings amount should be increased. As noted in the PUCO Staff Report, all of the Ohio gas utilities with accelerated main replacement programs (including Columbia) have consistently argued that, as long as base rates are not reset, O&M savings should increase as their programs mature and more miles of bare steel and cast iron pipe are replaced.<sup>93</sup> This is because there should be fewer leaks as more leak-prone pipe is replaced, which will lead to less O&M expenses.<sup>94</sup> Yet, the other gas utilities have seen O&M savings increase as their respective programs mature; Columbia has not.<sup>95</sup> Such low O&M savings are insufficient when compared to the O&M savings from other similar pipeline replacement programs.

As the PUCO Staff Report acknowledges and OCC Witness O'Neill explains, Dominion East Ohio Gas ("Dominion") has a program very similar in scope as Columbia's AMRP that is on the same time schedule.<sup>96</sup> Dominion also uses a similar methodology to compute the O&M savings reductions to its annual revenue requirement calculations. However, Dominion realized \$3.2 million in O&M savings per year, compared to Columbia's guarantee of \$1.25 million.<sup>97</sup> In addition, in the first five years of its AMRP program, Duke averaged more than \$1.7 million in annual O&M savings.<sup>98</sup>

In addition, Columbia's O&M savings should be greater because the leaks on Columbia's main lines have decreased from 2012 to 2016. As the PUCO Staff Report explains, "fewer leaks to monitor and fewer leaks to repair should result in increased

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<sup>93</sup> Staff Ex. 1 (PUCO Staff Report at 8-9).

<sup>94</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9); OCC Ex. 1 (O'Neill Direct at 10-12).

<sup>95</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9); OCC Ex. 1 (O'Neill Direct at 10-12).

<sup>96</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9); OCC Ex. 1 (O'Neill Direct at 10-12).

<sup>97</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9).

<sup>98</sup> See Staff Ex. 2 (PUCO Staff Report at 8-9).

O&M savings.”<sup>99</sup> But, while Columbia’s leaks have decreased, its O&M savings have not increased. And, the O&M expenses should continue to decrease over the next five years because, as OCC Witness O’Neill stated, replacing another five years’ worth of pipe should be expected to produce an additional five years’ worth of savings on top of what the previous five years accomplished.<sup>100</sup>

Despite Columbia’s subpar performance in producing O&M savings, the Settlement only increases the O&M savings to \$2.0 million in 2018 and \$2.5 million by 2022.<sup>101</sup> As OCC Witness O’Neill testified, this is unreasonable given Columbia’s decrease in leaks on priority pipe and the experience of comparable programs. Keeping the O&M savings lower than it should be will unreasonably increase customers’ utility bills by not passing back the savings that they deserve. Therefore, the Settlement does not benefit customers and is not in the public interest.

**3. The AMRP does not benefit customers or the public interest because it includes too many miles of “non-priority” pipe, which unjustly increases the costs to consumers without providing a corresponding benefit.**

The AMRP includes too many miles of “non-priority” pipe, which is unjustly increasing the costs that customers will have to pay through the IRP Rider. Charging customers more than is just and reasonable does not benefit customers or the public interest. It is also a violation of regulatory principles.

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<sup>99</sup> Staff Ex. 2 (PUCO Staff Report at 9); See OCC Ex. 1 (O’Neill Direct at 10-12).

<sup>100</sup> OCC Ex. 1 (O’Neill Direct at 11).

<sup>101</sup> Joint Ex. 1 (Settlement at 4).

When the AMRP was originally approved it was designed to replace 4,050 miles of mostly bare steel and cast iron main lines (“Priority Pipe”).<sup>102</sup> The PUCO approved the AMRP because it had determined that the bare steel and cast iron main lines were a potential safety hazard to persons and property. In 2012, the scope of the AMRP was modified to expressly include interspersed sections of “non-priority pipe” (i.e., any pipe that is not BS/CI, wrought iron, or unprotected coated steel pipe which was collectively termed “priority pipe”) when, in the course of a BS/CI replacement project, it is more economical to replace such pipe than it is to tie into the interspersed sections up to certain limits.<sup>103</sup> The scope of the AMRP was also modified to expressly include first generation plastic pipe (known as “Aldyl-A” plastic pipe) when such pipe was associated with priority pipe replacement projects up to a limit of five percent of the total AMRP footage replaced in the same year.<sup>104</sup> Thus, it seems the motivation for changing the AMRP was not, at least primarily, due to safety reasons.

Columbia, in projecting its needs for replacement miles in the next five years, appears to be using a factor of 1.4 total miles to priority miles, or an extra 40 percent.<sup>105</sup> That is, 40 percent<sup>106</sup> of the pipe that Columbia is proposing to replace in the next five years is “non-priority” pipe. As OCC witness O’Neill so aptly stated:

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<sup>102</sup> Staff Ex. 2 (PUCO Staff Report at 1).

<sup>103</sup> Staff Ex. 2 (PUCO Staff Report at 2-4) (The limits were set at 435 feet of interspersed 2-inch diameter pipe, 365 feet of 4-inch pipe, 250 feet of 6-inch pipe, and 205 feet of 8-inch pipe).

<sup>104</sup> Staff Ex. 2 (PUCO Staff Report at 2-4).

<sup>105</sup> OCC Ex. 2 (O’Neill Direct at 13-14).

<sup>106</sup> OCC Ex. 2 (O’Neill Direct at 13) (The average total miles replaced from 2013-2016 was 269 miles. The average priority miles replaced over the same period was 192. The ratio of 269 to 192 is 1.4. Also, see OCC Ex. 2 (OCC RPD Set 6, RPD 20, Attachment A, page 2 (Attachment DEO-4), which shows that the expected miles of replacement for all pipe is 229, which, relative to the expected 164 miles of priority pipe is a ratio of 1.4, or 40 percent higher.)

It would have been difficult to know in 2012 that the “non-priority” pipe would become such a large part of the IRP in the future. Now is the time for the PUCO to reevaluate the IRP and scale back the replacement of “non-priority” pipe in order to decrease the cost of the program to consumers. Scaling back the amount of “non-priority” pipe will not impact safety because the “non-priority” pipe is not part of the original priority pipe that the PUCO approved for replacement due to its safety risks. The “non-priority” pipe was added to the IRP in 2012 for economic reasons—not safety reasons. Based on my experience with other programs and what appeared to be the intent of the 2012 Settlement, the current amount of non-priority pipe being replaced seems excessive and not in the public interest because it will unreasonably increase customer utility bills.<sup>107</sup>

Indeed, this additional amount of pipe adds a significant amount to the required investment which customers pay, yet there is no evidence in the record that it provides any substantive safety benefit. Indeed, the AMRP was expanded to include this “non-priority” pipe for economic reasons—not safety reasons. However, as OCC witness O’Neill testified, this additional amount of non-priority” pipe is now being put in at a higher rate than what would be deemed reasonable for cost effectiveness.<sup>108</sup> In other words, the benefits do not outweigh the costs. Thus, it is unreasonably and unjustifiably driving up the amount of the Rider IRP rate cap and potential costs to consumers. It is not just and reasonable for these extra costs to be passed on to customers.

**4. The IRP’s “cost-per-leak-avoided” violates regulatory principles and practices and does not benefit customers or the public interest because it demonstrates that the IRP is not being implemented efficiently and effectively for Ohio consumers.**

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<sup>107</sup> OCC Ex. 2 (O’Neill Direct at 14).

<sup>108</sup> OCC Ex. 2 (O’Neill Direct at 14).

As OCC witness O'Neill states, the most basic and essential test for cost-effectiveness for a priority pipe replacement program is the cost-per-leak-avoided.<sup>109</sup> This calculation will show how much money customers are paying to avoid each leak. Such an analysis is essential to keep consumers fully informed and aware of what they are paying for. The cost-per-leak-avoided should be in line with some sense of the benefit of avoiding another leak.<sup>110</sup>

Columbia's cost-per-leak-avoided, however, is inadequate. As OCC witness O'Neill determined:

Columbia's cost per mile has approached \$1,000,000, depending on whether you count per mile of originally targeted priority pipe (as I would recommend) or you include the ancillary pipe, and has averaged over \$850,000 per mile in the six years after 2010 when the program ramped up to a level averaging 195 miles per year. Over the same period, the number of main leaks has bounced around an average of 3,650 leaks per year, or only about 150 leaks less than the 3,796 leaks in 2010 or even the 3,852 leaks in 2007 before the program began. That translates to a cost per avoided leak of \$6,630,000 per annual leak avoided. In other words, over those six years, Columbia spent almost a billion dollars to reduce the annual number of leaks by 150 per year, or about four percent.<sup>111</sup>

Despite this incredibly high cost-per-leak-avoided, Columbia does not seem to have any plans to alter its program in order to improve the performance. In fact, Columbia admitted that it has no analysis that projects future levels of leaks based on alternative levels of replacement of leak-prone mains and services.<sup>112</sup> Columbia stated that it is the 25-year length of the program that determines the appropriate level of pipe

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<sup>109</sup> OCC Ex. 2 (O'Neill Direct at 14).

<sup>110</sup> OCC Ex. 2 (O'Neill Direct at 14).

<sup>111</sup> OCC Ex. 2 (O'Neill Direct at 18).

<sup>112</sup> OCC Ex. 2 (O'Neill Direct at 15 citing OCC Set 3, RFA 6 (Attachment DEO-5)).

replacement.<sup>113</sup> That is, Columbia plainly admits that it does not plan to improve its cost-per-leak-avoided or overall cost-effectiveness of the IRP. This is unjust and unreasonable, as currently, the benefits of the program that customers are receiving are minimal while the costs are significant. The Settlement, as a package, does not benefit customers and is not in the public interest.

In addition, as OCC witness O'Neill explains, "this is a violation of accepted regulatory principles and practices because a pipeline replacement program is generally only continued if it proves to be sufficiently efficient and effective. Columbia has not demonstrated that the IRP has been cost effective or will continue to be cost effective."<sup>114</sup> Therefore, the Settlement as a package violates regulatory principles and practices by continuing a pipeline replacement program that is not cost effective.

In order to remedy this inadequacy, the PUCO should order that a collaborative study or third-party audit of the IRP program be undertaken by PUCO Staff or an independent auditor.<sup>115</sup> The audit would investigate the IRP to date to determine how the program can be implemented more effectively and efficiently. Specifically, the audit would aid the PUCO in determining whether the IRP is efficiently and effectively reducing leaks, improving safety, and minimizing costs-per-mile and costs-per-leak-avoided. Furthermore, OCC recommends that Columbia maintain a record of the performance of the IRP over the next five-year term.<sup>116</sup> This will allow the PUCO and interested parties to monitor the IRP's efficiency and effectiveness going forward.

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<sup>113</sup> OCC Ex. 2 (O'Neill Direct at 15 citing OCC Set 3, RFA 6 (Attachment DEO-5)).

<sup>114</sup> OCC Ex. 2 (O'Neill Direct at 15).

<sup>115</sup> OCC Ex. 2 (O'Neill Direct at 15-16).

<sup>116</sup> OCC Ex. 2 (O'Neill Direct at 16).

Without such an audit or study it will be impossible to know if the program is cost-effective and therefore beneficial to customers and the public interest.

**5. The Settlement violates regulatory principles and practices, is not in the public interest, and does not benefit consumers because it proposes an unjust and unreasonable increase in the amount that customers would pay.**

The Columbia IRP Rider rate cap is the maximum permitted monthly charge to SGS customers for the IRP Rider. The IRP Rider rate cap for 2017 is \$10.20. Columbia states that over the next five years it plans to spend approximately \$1.5 billion on its IRP.<sup>117</sup> Such a large investment will drastically increase Columbia's revenue requirement, which will result in a drastic increase to residential customers' utility bills. Under the Settlement, the annual IRP Rider rate cap for residential consumers would increase to \$11.35, \$12.50, \$13.70, \$14.95, and \$16.20 each year from 2018 to 2022, respectively.<sup>118</sup>

The IRP Rider rate cap, as proposed in the Settlement, should not be approved because it violates regulatory principles and practices, is not in the public interest, and will not benefit consumers. Instead, the proposal will unjustly and unreasonably increase costs to Ohio's residential consumers.

Some of the key drivers for Columbia's proposal to drastically increase costs are the investment in the HCSL program, the rate of inflation in cost-per-mile, the amount of O&M savings, the allowed rate of return, and the total number of pipeline miles it

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<sup>117</sup> Columbia Ex. 1 (Application at 2).

<sup>118</sup> See Joint Ex. 1 (Settlement at 4).



proposes to replace.<sup>119</sup> But, as OCC witness O'Neill testified, the values used in the Settlement for these drivers are not just and reasonable.<sup>120</sup> Under a reasonable set of values for these assumptions, the cap should increase by an amount that would be less than \$1.00 per year.<sup>121</sup> The current Rider IRP and associated rate cap, which includes several unjust and unreasonable proposals, is not beneficial to customers and not in the public interest because it is too costly and, thus, is unreasonably increasing customers' utility bills.

- a. The IRP Rider rate cap violates regulatory principles and practices and does not benefit customers or the public interest because it was calculated using a 10.95 percent pre-tax rate of return, which is outdated, excessive, unreasonable, and unjustified.**

The Settlement should not be approved because the 10.95 percent pre-tax rate of return ("ROR") on rate base for the IRP violates regulatory principles and practices and does not benefit customers or the public interest for a variety of reasons. As OCC witness Duann testifies, the proposed ROR is outdated, excessive, unreasonable, and unjustified. In fact, there is no justification or rationale in the evidentiary record for the proposed 10.95 percent ROR barring a single sentence in the Application.<sup>122</sup> As far as Dr. Duann can tell, the proposed 10.95 percent pre-tax rate of return is derived from Columbia's ten-year old 2008 base rate case ("2008 Rate Case").<sup>123</sup> As an alternative, Dr. Duann

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<sup>119</sup> OCC Ex. 2 (O'Neill Direct at 20).

<sup>120</sup> OCC Ex. 2 (O'Neill Direct at 20).

<sup>121</sup> OCC Ex. 2 (O'Neill Direct at 20).

<sup>122</sup> OCC Ex. 1 (Duann Direct at 6-7 citing Columbia Ex. 1 (Application at 9, Exhibit A)).

<sup>123</sup> OCC Ex. 1 (Duann Direct at 7-8 citing *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Distribution Service*, Case No. 08-72-GA-AIR, et al., ("2008 Rate Case")).

recommends that, if the PUCO decides to continue the IRP (which OCC is not conceding), it should adopt a pre-tax rate of return on rate base of 10.17 percent to calculate the revenue requirement of the IRP Rider.<sup>124</sup>

Dr. Duann testifies that the regulatory principles and practices that should be considered by a public utilities commission in setting a reasonable rate of return for a regulated utility are as follows:<sup>125</sup>

- (1) The resulting rates paid by the customers of the regulated utility should be just and reasonable;
- (2) The regulated utility should have funds available to continue its normal course of business;
- (3) The regulated utility should have access to capital (both equity and debt) at a reasonable cost in comparison to other businesses with comparable risks under current market conditions; and
- (4) The shareholders of the regulated utility should be provided the opportunity to earn a fair return on their invested capital in comparison to other investments available.

As Dr. Duann explains, the ROR and return on equity (“ROE”) that have been authorized for regulated gas utilities around the country have declined significantly in recent years.<sup>126</sup> In fact, the average after-tax rate of return authorized for gas utilities nationwide declined from 8.11 percent in 2007 to 6.95 percent in 2016.<sup>127</sup> The 6.95 percent after-tax ROR translates to a 9.16 pre-tax ROR. In addition, the average return on equity

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<sup>124</sup> OCC Ex. 1 (Duann Direct at 16).

<sup>125</sup> OCC Ex. 1 (Duann Direct at 10-11).

<sup>126</sup> OCC Ex. 21 (Duann Direct at 11-12).

<sup>127</sup> OCC Ex. 1 (Duann Direct at 12, Table 1).

authorized for gas utilities nationwide declined from 10.22 percent in 2007 to 9.50 percent in 2016.<sup>128</sup>

These data show that the rate of return and return on equity proposed by Columbia are overstated and unreasonable. The 8.12 percent after-tax rate of return that Columbia proposed for its IRP is much higher than the 6.95 percent average that other gas utilities are receiving around the country. Likewise, the 10.39 percent ROE that Columbia has proposed far exceeds the 9.50 percent ROE's that other gas utilities are currently receiving.

**Table B<sup>129</sup>**  
**Summary Table of Rate of Return and Return on Equity Authorized for Gas Utilities (2007 to 2016)**

<b>Period</b>	<b>After-Tax Rate of Return %</b>	<b># of Cases</b>	<b>Return on Equity %</b>	<b># of cases</b>
<b>2007</b>	8.11%	31	10.22%	35
<b>2008</b>	8.49%	33	10.39%	32
<b>2009</b>	8.15%	29	10.22%	30
<b>2010</b>	7.99%	40	10.15%	39
<b>2011</b>	8.09%	18	9.92%	16
<b>2012</b>	7.98%	30	9.94%	35
<b>2013</b>	7.39%	20	9.68%	21
<b>2014</b>	7.65%	27	9.78%	26
<b>2015</b>	7.34%	16	9.60%	16
<b>2016</b>	<b>6.95%</b>	24	<b>9.50%</b>	24
<b>Proposed by Columbia</b>	<b>8.12%</b>		<b>10.39%</b>	

Yet, Columbia's higher-than-average, pre-tax ROR is not justified when its business and financial risks are investigated. Dr. Duann testified that "Columbia has not

<sup>128</sup> OCC Ex. 1 (Duann Direct at 12, Table 1).

<sup>129</sup> OCC Ex. 21 (Duann Direct at 11-12).

demonstrated that it is currently facing or expecting to face any unusual or substantially high business or financial risks that could cause the PUCO to authorize a rate of return for Columbia's IRP that is much higher than those being authorized for other gas utilities in recent years."<sup>130</sup> In addition, Dr. Duann testified that after doing a thorough review of financial presentations by Columbia's parent company, Nisource, Inc., and other relevant sources, he "did not identify any such unusual or substantially high business and financial risks that Columbia or its parent company is facing."<sup>131</sup> In fact, Dr. Duann found that the opposite was true; that NiSource, Inc. appears to be in a sound financial position. NiSource, Inc. expects to grow its net operating earnings per share, dividend at five to seven percent each year, and maintain a solid investment grade credit rating.<sup>132</sup> This evidence all went un rebutted.

Columbia's higher-than-average, pre-tax ROR is also not just and reasonable because, as Dr. Duann testifies, "[c]olumbia has not demonstrated that its financial integrity or access to capital at reasonable costs would be adversely affected if the proposed rate of return of 10.95 percent for the IRP were not adopted."<sup>133</sup> In addition, Dr. Duann reviewed relevant sources and also concluded that Columbia's financial integrity, or access to capital at reasonable costs, will not be adversely affected by approval if a lower ROR were adopted in this proceeding.<sup>134</sup> As Columbia announced in its 2017 Second Quarter Earnings, it is fully committed to a robust capital investment strategy and

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<sup>130</sup> OCC Ex. 1 (Duann Direct at 14).

<sup>131</sup> OCC Ex. 1 (Duann Direct at 14).

<sup>132</sup> OCC Ex. 1 (Duann Direct at 14-15).

<sup>133</sup> OCC Ex. 1 (Duann Direct at 15).

<sup>134</sup> OCC Ex. 1 (Duann Direct at 15-16).

is confident about obtaining all necessary financing for this capital-intensive investment strategy.<sup>135</sup> In addition, a Maryland affiliate of Columbia recently proposed a 9.7 percent ROE and 7.352 percent ROR, which are both well below the 10.39 percent ROE and 8.12 percent ROR, Columbia has proposed in this proceeding.<sup>136</sup> Therefore, a review of Columbia's financial position and the ROR and ROE that its affiliate are currently willing to receive demonstrate that a ROR lower than 10.95 percent for the IRP will not adversely impact Columbia. This evidence went un rebutted.

If the proposed 10.95 percent ROR is adopted, the financial burden borne by Columbia's customers will be \$62 million higher over the five-year period than if the 10.17 percent ROR recommended by Dr. Duann is adopted, as shown in Table C.<sup>137</sup>

**Table C<sup>138</sup>**  
**Estimated Total Revenue Requirement of Columbia IRP Program**  
**(2018-2022)**

	<b>2018</b> (million)	<b>2019</b> (million)	<b>2020</b> (million)	<b>2021</b> (million)	<b>2022</b> (million)	<b>2018- 2022</b> Total (million)
<b>Revenue Requirement at 10.95% ROR</b>	\$196.9	\$225.5	\$253.5	\$279.9	\$305.5	\$1,261.4
<b>Revenue Requirement at 10.17% ROR</b>	\$187.3	\$214.5	\$241.1	\$266.2	\$290.6	\$1,199.7
<b>Difference</b>	\$9.7	\$11.1	\$12.4	\$13.7	\$14.9	\$61.7

<sup>135</sup> OCC Ex. 1 (Duann Direct at 15-16, Attach. DJD-4).

<sup>136</sup> OCC Ex. 1 (Duann Direct at 16).

<sup>137</sup> OCC Ex. 1 (Duann Direct at 17-19) (Table 3 at 19).

<sup>138</sup> OCC Ex. 1 (Duann Direct at 19).

Consequently, the rates that Columbia’s customers are charged for the Rider IRP will be higher than is just and reasonable if Columbia’s proposed 10.95 percent ROR is adopted, instead of OCC’s 10.17 percent, as shown in Table D.

**Table D<sup>139</sup>**  
**Estimated Monthly Cost of Rider IRP for SGS Customer**  
**(2018-2022)**

	<b>2108</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Cumulative Difference in Monthly Cost (2018- 2022)</b>
<b>Monthly Cost at Columbia’s 10.95% ROR</b>	\$11.48	\$12.76	\$14.02	\$15.18	\$16.28	
<b>Monthly Cost at OCC’s 10.17% ROR</b>	\$11.07	\$12.29	\$13.49	\$14.61	\$15.66	
<b>Difference</b>	\$0.41	\$0.47	\$0.53	\$0.57	\$0.62	\$2.50

Thus, customers will pay approximately \$0.50 more per month on average, under the Settlement than they would under OCC’s recommended pre-tax rate of return of 10.17 percent. Using Columbia’s outdated and overstated pre-tax rate of return will result in unjust and unreasonable charges to Columbia’s 1.3 million customers.<sup>140</sup> There is also not demonstrated public policy justification to allow Columbia to collect from customers

<sup>139</sup> OCC Ex. 1 (Duann Direct at 21).

<sup>140</sup> OCC Ex 1. (Duann Direct at 21).

more money than is just and reasonable for its IRP.<sup>141</sup> Thus, the ROR will not benefit customers and is not in the public interest.

Finally, using a rate of return that is derived from a ten-year old rate case is not just and reasonable. Given the drastic decline in both the cost of capital and the authorized RORs and ROEs for regulated gas utilities nationwide over the last ten years, the PUCO should set a lower ROR. As OCC witness Dr. Duann testified, it is “unreasonable and contrary to sound regulatory principles to continue using an outdated and unreasonable rate of return that will unreasonably increase the financial burden on Columbia’s customers, in particular the residential.”<sup>142</sup>

If a lower ROR is not used, and the currently proposed ROR is approved, it would violate regulatory principles and practices because: (1) it would be significantly higher than the ROR authorized for other regulated gas utilities in recent years; (2) it would be significantly higher than the reasonable rate of return supported by current financial market conditions and the state of the economy; (3) it would allow Columbia to use an ROR that will be 15-years old by the end of this IRP; and (4) it would allow for resulting charges to customers that are not just and reasonable; and (5) it would provide the opportunity for Columbia’s shareholders to earn an unjust and unreasonable return on their invested capital in comparison to other investments available.

**b. The IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because it was supported by an unjust and unreasonable cost-per-mile rate of inflation.**

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<sup>141</sup> OCC Ex 1. (Duann Direct at 21).

<sup>142</sup> OCC Ex. 1 (Duann Direct at 9).

Another driver of the overly inflated Rider IRP rate cap is the overstated increase in the cost-per-mile from 2013 to 2016, which Columbia uses to justify its ultimate Rider IRP rate cap proposal. Columbia's Application proposed 6.47 percent increase per year to the Rider IRP rate cap, based upon the annual increase in the cost per mile from 2013 to 2016.<sup>143</sup> The PUCO Staff Report also used a 6.47 percent annual inflation rate.<sup>144</sup> The Settlement appears to use a 7.2 percent annual rate of inflation, but Columbia states that it does not have a work paper for the settlement showing the corresponding proposed revenue requirement.<sup>145</sup>

Columbia alleges that the reason for the sharp increase in IRP costs is mainly due to the rising costs it has experienced associated with implementing the program.<sup>146</sup> Specifically, Columbia states that the main driver of these cost increases has been the rise of pipeline labor and construction costs.<sup>147</sup> Columbia states that it expects these types of costs to continue to increase, meaning it needs to charge customers more to continue implementing the program.<sup>148</sup>

However, the evidentiary record tells a different story. The evidence shows that gas utility construction and labor costs in the United States and in Ohio have decreased in the recent past and should continue to stay lower than the 2013 to 2016 period in which Columbia based its Rider IRP cost cap projections.<sup>149</sup> In addition, the evidence shows

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<sup>143</sup> OCC Ex. 2 (O'Neill Direct at 22).

<sup>144</sup> Staff Ex. 2 (PUCO Staff Report at 6).

<sup>145</sup> OCC Ex. 2 (O'Neill Direct at 20, 22, Attach. DEO-8).

<sup>146</sup> Staff Ex. 2 (PUCO Staff Report at 6).

<sup>147</sup> Columbia Ex. 2 (Ayers Direct at 5-8); Staff Ex. 2 (PUCO Staff Report at 6).

<sup>148</sup> Columbia Ex. 2 (Ayers Direct at 5-8); Staff Ex. 2 (PUCO Staff Report at 6).

<sup>149</sup> OCC Ex. 2 (O'Neill Direct at 21-26).



that the Federal Reserve Bank has stated that the current rate of inflation was approximately two percent—not 6.47 or 7.2 percent.<sup>150</sup>

This evidence, as explained more below, does support Columbia's claim that inflation was lower in the 2013 to 2016-time period than the 2008 to 2012-time period, and that 2015 saw a significant decline in the rate of inflation for gas construction costs. However, the evidence also proves that Columbia failed to manage the costs of the IRP to comply with average gas utility construction costs over the 2008 to 2012 period. If Columbia had managed its costs comparably to the rest of the industry then it would have seen a decrease in expenditures—not an increase. Accordingly, Columbia's proposed rate of inflation should not be accepted. A rate closer to two percent should be implemented. This will decrease costs to customers and make the IRP more affordable for Columbia's customers.

**i. The evidence shows that there is a decline in the demand for pipe construction resource since 2015, which would result in a decline in costs, not an increase as Columbia claims.**

As stated earlier, Columbia justifies the Settlement proposal to increase the Rider IRP rate cap due to increases in labor and construction costs it has allegedly seen from 2013 to 2016. Columbia's allegations that pipe construction costs are rapidly increasing are false. Evidence presented in this case by OCC Witness O'Neill shows that the pace of oil and gas exploration in the Midwest (and elsewhere), as defined by the rig count, has definitely declined.<sup>151</sup> This is relevant because fewer rigs results in less work available.

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<sup>150</sup> OCC Ex. 2 (O'Neill Direct at 27-29).

<sup>151</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

Less work available results in a less contested job market. And, a less contested job market translates to lower labor costs.

The rig count in Ohio was at its peak in December 2014 to May 2016.<sup>152</sup> However, the evidence shows that the number of rotary rigs in the United States has dramatically reduced in the last 18 months.<sup>153</sup> This has resulted in a 78 percent reduction in the rig count in Ohio from its peak in December 2014 through May 2016.<sup>154</sup> The rig count has recovered slightly in the last few months, but it is still 40 percent lower than its earlier peak. Therefore, the pipeline labor costs are currently lower now than the 2013 to 2016 period in which Columbia based its IRP Rider rate cap rate of inflation projections.

In addition, the evidence shows that the pipeline labor costs will most likely continue to be less expensive in the near future. As OCC witness O'Neill testified, the price of crude oil in the United States is directly correlated to the rig count.<sup>155</sup> That is, as the price of oil has dropped, the number of rigs has dropped. And, as previously stated, as the number of rigs drops, the demand and costs for pipeline construction labor drops. The price of crude oil in the United States has decreased from approximately \$110 per barrel in July 2014 to approximately \$30 per barrel in January 2016.<sup>156</sup> Again, this is the approximate time period in which Columbia based its cost inflation projections. By June 2017, the crude oil price had recovered to approximately \$40 per barrel; however, it is still well below its peak in January 2015.<sup>157</sup> As OCC witness O'Neill testified, "[i]t would

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<sup>152</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

<sup>153</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

<sup>154</sup> OCC Ex. 2 (O'Neill Direct at 24).

<sup>155</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

<sup>156</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

<sup>157</sup> OCC Ex. 2 (O'Neill Direct at 24-26).

appear that it would take a return of near-\$100 per barrel oil pricing (which is not a reasonable forecast at this time) to return the rig count to 2012 to 2014 levels.”<sup>158</sup>

Therefore, the pipeline labor costs should continue to be less costly in the future than the 2013 to 2016 period in which Columbia based its projections. Thus, Columbia’s pipeline cost inflation rate is overstated.

As OCC witness O’Neill stated:

a properly managed program should reap the benefits of such a less-contested labor market. It could even happen that Columbia could replace at a lower cost per mile than it has recently experienced, and so well within the existing cap of \$10.20 per month. If that were to happen, it would certainly be a better use of the customers’ money to fund the increase in the jobs and economic activity at more economic rates, as opposed to padding the pockets of those who might be profiteering from a temporary shortage of resources.<sup>159</sup>

Therefore, this un rebutted evidence shows that pipeline construction costs are decreasing, not increasing as Columbia alleges.

**ii. The Handy-Whitman Index shows that the rate of inflation for gas utility construction costs in the Ohio region are decreasing, not increasing as Columbia claims.**

The second reason demonstrating that Columbia’s cost inflation rate is overstated is because the evidence shows that the average cost of utility gas construction costs is downward trending.<sup>160</sup> While Columbia states that gas construction costs are increasing, the highly regarded Handy-Whitman Index shows that the natural gas construction costs

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<sup>158</sup> OCC Ex. 2 (O’Neill Direct at 24).

<sup>159</sup> OCC Ex. 2 (O’Neill Direct at 25-26).

<sup>160</sup> OCC Ex. 2 (O’Neill Direct at 26-27).

in the North Central United States (including Ohio) for steel and cast iron have decreased since 2012 and 2014, respectively.<sup>161</sup> This may be due in part to the earlier evidence that in 2015 the demand for pipe construction due to oil and gas exploration has dropped precipitously. As OCC witness O'Neill testified: "I see no developments in the near future that are likely to reverse this trend."<sup>162</sup> Therefore, this unrebutted evidence also shows that pipeline construction costs are decreasing, not increasing as Columbia alleges.

**iii. The Federal Open Market Committee of the Federal Reserve Board has a target for inflation for the next five years of two percent, not six to seven percent as Columbia claims.**

The third reason demonstrating that Columbia's cost inflation rate is overstated is because the evidence shows that the Federal Open Market Committee of the Federal Reserve Board ("Board") the governing body of the Federal Reserve Bank, stated in December 2016 that it expects that inflation will **rise** to two percent over the medium term.<sup>163</sup> The Board also hoped to mitigate any further rise by gradually raising interest rates and coordinating monetary policy with other major countries.<sup>164</sup> Therefore, as OCC witness O'Neill stated: "In light of this knowledge, it seems reasonable to conclude that a forecast of two percent inflation is more reasonable as a forecast than a mechanical projection of Columbia's recent trend."<sup>165</sup> This unrebutted evidence also shows that pipeline construction costs are decreasing, not increasing as Columbia alleges.

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<sup>161</sup> OCC Ex. 2 (O'Neill Direct at 26-27).

<sup>162</sup> OCC Ex. 2 (O'Neill Direct at 26-27).

<sup>163</sup> OCC Ex. 2 (O'Neill Direct at 27-29).

<sup>164</sup> OCC Ex. 2 (O'Neill Direct at 27-29).

<sup>165</sup> OCC Ex. 2 (O'Neill Direct at 28-29).

- c. The proposed IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because despite the alleged rising costs for Columbia's IRP it has never exceeded the designated rate cap and the amount of priority pipe it will need to replace in the future will decrease dramatically.**

The Settlement does not benefit customers and is not in the public interest because, despite the historic cost increases that Columbia cites to as support for raising the IRP Rider rate cap, such increases have never caused Columbia to exceed the current rate cap.<sup>166</sup> Columbia states that it has seen a 7.2 percent cost per mile rate increase and a 10.51 percent cost per mile increase over the last four and nine years, respectively.<sup>167</sup> Yet despite these alleged cost increases Columbia has never exceeded or even reached its IRP Rider rate cap in any year. In fact, the actual IRP Rider rate has been approximately \$0.48 less per year on average than the IRP Rider rate cap.<sup>168</sup>

Further, as seen in Table E below, Columbia has been able to achieve such low actual IRP Rider rates despite installing much more priority pipe each year from 2011 to 2016 than it projects to install in any calendar year over the next five years.

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<sup>166</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4).

<sup>167</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4).

<sup>168</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4); Joint Ex. 1 (Settlement at 4) (Settlement shows the proposed "IRP Rider Rate Cap" from 2018 to 2022).

**Table E<sup>169</sup>**  
**Summary of Maximum and Actual Rider IRP Rates Per Year**  
**and the Number of Priority Miles Replaced (Historical and Proposed)**  
**(2011-2022)**

	2011	2012	2013	2014	2015	2016	2017	Proposed 2018	Proposed 2019	Proposed 2020	Proposed 2021	Proposed 2022
<b>IRP Rider Rate Cap</b>	\$4.20	\$5.20	\$6.20	\$7.20	\$8.20	\$9.20	\$10.20	\$11.35	\$12.50	\$13.70	\$14.95	\$16.20
<b>Actual IRP Rider Rate</b>	\$3.57	\$4.71	\$5.71	\$6.71	\$7.65	\$8.96	\$10.20					
<b>Amount under the rate cap</b>	\$0.63	\$0.49	\$0.49	\$0.49	\$0.55	\$0.24	\$0.00					
<b>Priority Miles Replaced</b>	216	184	197	176	196	200	Approx. 217	Approx. 160	Approx. 160	Approx. 160	Approx. 160	Approx. 160

As the table shows, Columbia replaced an average of 195 priority miles from 2011 to 2016,<sup>170</sup> but will only need to replace approximately 160<sup>171</sup> miles annually going forward in order to achieve 4050 miles of replacements within the 25-year time frame. Thus, Columbia will be replacing 35<sup>172</sup> fewer miles of pipe per year (an 18 percent reduction), but will be increasing the charges to customers drastically. This is not a just

<sup>169</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4); Joint Ex. 1 (Settlement at 4).

<sup>170</sup> OCC Ex. 2 (O'Neill Direct at Attach. DEO-4) (216+184+197+176+196+200=1,169/6=194.83).

<sup>171</sup> Staff Ex. 2 (PUCO Staff Report at 4) (Columbia states it will have replaced 1,640 miles by the end of 2017. 4,050 - 1,640 = 2,410/15 = 160.66).

<sup>172</sup> 195-160=35.

and reasonable proposal for consumers. Therefore, the PUCO should not approve the proposed IRP Rider rate cap. Doing so is not in the public interest.

**d. The proposed IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because it would cause “rate shock” for Ohio consumers and not comply with the regulatory concept of gradualism.**

The Settlement does not benefit customers and is not in the public interest because of the rate shock that customers will experience if the Settlement is approved as proposed. The actual IRP Rider rate in 2016 was \$8.96.<sup>173</sup> If the Settlement is approved, the IRP Rider rate cap for 2018 will be \$11.35.<sup>174</sup> Therefore, the practical effect of the Settlement is an increase to the IRP Rider rate cap of \$2.39<sup>175</sup> over that two-year period (2016 to 2018) or \$0.39 over the original \$1.00 per year increase. As Table E shows, such increases have never been seen in the IRP as Columbia has never reached the rate cap in any year.<sup>176</sup> Exposing customers to this type of “rate shock” does not benefit customers and is not in the public interest. Further, raising rates so drastically in such a short period of time violates the regulatory practice and principle of gradualism.<sup>177</sup>

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<sup>173</sup> OCC Ex. 2 (O’Neill Direct at Attach. DEO-4).

<sup>174</sup> Joint Ex. 1 (Settlement at 4).

<sup>175</sup> \$11.35-\$8.96=\$2.39.

<sup>176</sup> OCC Ex. 2 (O’Neill Direct at Attach. DEO-4).

<sup>177</sup> See *In re Duke Energy Ohio, Inc.*, Case No. 07-589-GA-AIR, et al., Opinion and Order at 19 (May 28, 2008); *In re The East Ohio Gas Company, dba Dominion East Ohio*, Case No. 07-829-GA-AIR, et al., Opinion and Order at 21 (October 15, 2008); *In re Columbia Gas of Ohio, Inc.*, Case No. 08-72-GA-AIR, et al., Opinion and Order at 21 (December 3, 2008); *In re Vectren Energy Delivery of Ohio, Inc.*, Case no. 07-1080-GA-AIR, et al., Opinion and Order at 14-15 (January 7, 2009); *In re Eastern Natural Gas Company and In re Pike Natural Gas Company*, Case Nos. 08-940-GA-ALT and 08-941-GA-ALT, Opinion and Order at 15-16 (June 16, 2010) (PUCO proceedings where the PUCO stated that it is sensitive to the impact of rate increases on customers and/or that the principle of gradualism is an important factor in setting rates).

- e. **The proposed IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because it includes costs and charges from the unjust and unreasonable HCSL program proposal.**

As explained above, the HCSL program proposal should not be approved because it fails to satisfy prongs two and three of the three-part settlement test. The costs from the HCSL are charged to customers through the IRP Rider. Consequently, another reason that the proposed IRP Rider rate cap does not satisfy the three-part test is because it includes the costs of an unjust and unreasonable HCSL program. As Table F shows, the HCSL costs to be charged to consumers (from PUCO Staff work paper) is a significant part of the rate cap proposed in the Settlement:

**Table F<sup>178</sup>**  
**Summary of Rider IRP Rate Cap With HCSL Charges**  
**(2018 to 2022)**

<b><u>Investment Year</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
<b>Rate Cap with HCSL charge</b>	\$11.35	\$12.50	\$13.70	\$14.95	\$16.20
<b>Est. HCSL Charge</b>	\$2.79	\$2.92	\$3.05	\$3.18	\$3.29

These costs are too high for consumers. If the IRP Rider rate cap is not reduced to address the elimination of the HCSL program than it will unjustifiably and unreasonably increase the charges levied on customers. Charging customers an unjust and unreasonable amount of money does not benefit customers and is not in the public interest.

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<sup>178</sup> Joint Ex. 1 (Settlement); OCC Ex. 2 (O'Neill Direct at DEO Attach. 7 (PUCO Staff work paper)).



**f. The proposed IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because it includes costs from the unjust and unreasonable AMRP O&M savings proposal.**

As explained above, the AMRP O&M savings methodology and amount should not be approved because it fails to satisfy prongs two and three of the three-part settlement test. The O&M savings is important for consumers, because it contributes to the unjustness and unreasonableness of the IRP Rider rate cap. The IRP Rider rate cap is based on Columbia's revenue requirement. Every dollar of extra O&M savings reduces the revenue requirement dollar for dollar.<sup>179</sup> And every million dollars of a lower revenue requirement reduces the SGS customer bill by about \$.06 per month.<sup>180</sup> Therefore, the proposed IRP Rider rate cap does not satisfy the three-part test because it includes the additional costs from an unjust and unreasonable AMRP O&M savings mechanism.

**g. The proposed IRP Rider rate cap in the Settlement violates regulatory principles and practices and does not benefit customers or the public interest because it includes costs from an unjust and unreasonable amount of "non-priority" pipe.**

As stated above, the AMRP component of the IRP is not just and reasonable because it includes an excessive amount of "non-priority" pipe. This additional amount of pipe adds a significant amount to the required investment, which creates the rationale for charging customers more and more. As OCC witness O'Neill testified, this additional amount is higher than what would be deemed reasonable for cost effectiveness.<sup>181</sup> Thus,

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<sup>179</sup> OCC Ex. 2 (O'Neill Direct at 21).

<sup>180</sup> OCC Ex. 2 (O'Neill Direct at 21).

<sup>181</sup> OCC Ex. 2 (O'Neill Direct at 13-14).

it is unreasonably and unjustifiably driving up the amount of the IRP Rider rate cap. It is not just and reasonable for these extra costs to be passed on to customers especially because there is no evidence that warrants it.

**6. The Settlement should not be approved because it does not serve as a reasonable resolution of the issues for consumers.**

In analyzing a settlement proposal, the PUCO has routinely considered whether the Settlement advances the public interest by serving as a reasonable resolution of all the issues.<sup>182</sup> Here, the Settlement does not satisfy this criterion. As evidenced by OCC's Objections to the Application and PUCO Staff Report there are a wide-range of issues in this proceeding.<sup>183</sup> Yet, the Settlement only specifically addresses two issues: the maximum Rider IRP cap for SGS customers and the amount of minimum AMRP O&M savings.<sup>184</sup> The rest of the issues are largely left to the original proposal in the Application. The Settlement does not discuss the appropriate pre-tax rate of return, the hazardous customer service lines program, the methodology for the amount of O&M savings that should be returned to customers, the amount of non-priority pipe to be replaced under the AMRP, or whether an audit of the IRP should be conducted.<sup>185</sup> These are all issues that OCC raised as concerns in its Objections to the Staff Report and

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<sup>182</sup> *In re Duke Energy Ohio, Inc.*, Case No. 07-589-GA-AIR, et al., Opinion and Order at 16 (May 28, 2008); *In re The East Ohio Gas Company, dba Dominion East Ohio*, Case No. 07-829-GA-AIR, et al., Opinion and Order at 12 (October 15, 2008); *In re Columbia Gas of Ohio, Inc.*, Case No. 08-72-GA-AIR, et al., Opinion and Order at 13 (December 3, 2008); *In re Vectren Energy Delivery of Ohio, Inc.*, Case no. 07-1080-GA-AIR, et al., Opinion and Order at 7 (January 7, 2009); *In re Eastern Natural Gas Company and In re Pike Natural Gas Company*, Case Nos. 08-940-GA-ALT and 08-941-GA-ALT, Opinion and Order at 13 (June 16, 2010) (PUCO proceedings in which the PUCO considered whether the proposed settlement represented a just and reasonable resolution of the issues in the proceeding).

<sup>183</sup> OCC Ex. 4 (OCC's Objections to the Application and Staff Report).

<sup>184</sup> Joint Ex. 1 (Settlement); OCC Ex. 1 (Duann Direct at 24).

<sup>185</sup> OCC Ex. 1 (Duann Direct at 24).

Application prior to the Settlement being filed, but none of them were addressed in the Settlement.<sup>186</sup> As OCC witness Dr. Duann concluded: “[t]here is no doubt that this Settlement has failed to reasonably resolve many important issues associated with Columbia’s IRP.”<sup>187</sup> Therefore, the Settlement fails the three-prong settlement test.

## **V. CONCLUSION**

The Settlement that Columbia, PUCO Staff, and OPAE filed in this case fails to meet the standard for approval that has been set by the PUCO. It should be rejected. The Settlement fails the first part of the three-part settlement test because Columbia did not engage in serious bargaining with OCC. It also violates regulatory practices and principles and is not in the public interest because, in general, it approves unjust and unreasonable programs, costs, and charges to Ohio consumers under the IRP.

OCC recommends that the PUCO reject the Settlement. The IRP Rider rate caps should be less than a \$1.00 per SGS customer per month, the HCSL should be eliminated, the amount of O&M savings should be higher, the O&M methodology should be modified, the amount of “non-priority” pipe should be lower, the ROR for the IRP should be reduced, and a third-party audit of the IRP should be conducted. Only with these modifications to the Settlement, will customers be protected from paying unjust and unreasonable rates.

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<sup>186</sup> OCC Ex. 4 (OCC’s Objections to the Application and PUCO Staff Report).

<sup>187</sup> OCC Ex. 1 (Duann Direct at 26).

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of this *Initial Brief* has been served on the persons stated below via electronic transmission, this 23<sup>rd</sup> day of October 2017.

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