BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates	)))	Case No. 17-1139-GA-AIR
In the Matter of the Application of Ohio Gas Company for Tariff Approval	)))	Case No. 17-1140-GA-ATA
In the Matter of the Application of Ohio Gas Company for Approval of Certain Accounting Authority	)))	Case No. 17-1141-GA-AAM

OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF OHIO GAS COMPANY

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OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF OHIO GAS COMPANY

Under R.C. 4909.19, Rule 4901-1-28(B), Ohio Administrative Code ("OAC"), and the Attorney Examiner's Entry dated December 1, 2017, Ohio Gas Company ("Ohio Gas") hereby files its Objections to the Staff Report of Investigation ("Staff Report") in the above-captioned matters. The Staff Report was filed with the Public Utilities Commission of Ohio ("Commission") on November 22, 2017. It provides the findings of the Commission Staff ("Staff") regarding the application for authority to increase rates for distribution service filed by Ohio Gas on May 31, 2017. In submitting the Objections listed below, Ohio Gas specifically reserves the right to contest, through presentation of documentary evidence, testimony, or cross examination, issues on which Staff's position changes, or which are newly raised, between the issuance of the Staff Report and the closing of the record.

I. OBJECTIONS TO THE STAFF REPORT

Revenue Requirement

1. The range of Staff's recommended revenue increase of $2,441,967 to $2,873,410, as set out in Schedule A-1 of the Staff Report, is understated because the increase is not sufficient to yield just and reasonable rates in accordance with Ohio law and proper ratemaking practices.

Upon application of a public utility such as Ohio Gas, the Commission is to determine the cost to the utility of rendering utility service during the test year, and the revenue and expense of the utility shall be determined during the test year as provided by R.C. 4909.15. Because the Staff Report recommendations concerning (1) the labor expense adjustment (and the related adjustment to payroll tax expenses) and (2) the personal property tax adjustment do not comply with this statutory requirement and are inconsistent with proper ratemaking practice, the Commission should reject those recommendations and increase the range of the revenue increase by $390,878.

Additionally, although the Staff Report recommended a range for the rate of return of 8.5% to 9.5%, the Staff Report failed to recommend that the Commission adopt an overall rate of return in the upper quartile of the range. Adopting an overall rate of return of 9.25% and the corrections to the expense adjustments would result in a revenue requirement of $3,156,674.

Operating Income

2. The Staff's recommendation to decrease test year labor expenses by $312,320, as shown on page 10 and Schedule C-3.2 of the Staff Report, violates Ohio law and proper ratemaking practices.

As provided by R.C. 4909.15, the Commission is to determine the cost to the utility of rendering the public utility service during the test year. Under the standard filing requirements set out in Commission rules, payroll costs are included in the schedules to determine the cost of providing utility service. Rule 4901-7-10, Appendix at 73, OAC.

Ohio Gas has employees for whom a portion of their wages is assigned to an affiliate. In its application, Ohio Gas removed that portion of wages from the payroll expenses used to calculate payroll expenses recoverable in rates. Based on those adjustments, Ohio Gas correctly stated its payroll expenses for the test year as required by Ohio law and sound ratemaking practices.

The Staff Report calculates labor expense assignable to Ohio Gas in a different manner than proposed by Ohio Gas. The Staff Report recommends an adjustment to payroll-related expenses in Schedule C-3.2. Workpapers supporting the adjustment to payroll expenses demonstrate that the affiliate-related payroll expense was removed twice. As a result, the payroll expense adjustment of $312,320 contained in the Staff Report unreasonably reduces total labor expense and should be rejected. The labor expense should be recalculated to remove the error noted above so that the resulting rates conform to the requirements of R.C. 4909.15.

Correcting the payroll expense adjustment in Schedule C-3.2 requires an increase in payroll taxes of $26,253 in Schedule C-3.8. Accordingly, the Commission should account for the increase in payroll expense with an increase in related payroll tax expense of $26,253 so that the resulting rates conform to the requirements of R.C. 4909.15.

3. The Staff Report's recommendation to reduce personal property tax test year expenses by $22,185, as shown on page 11 and Schedule C-3.8b of the Staff Report, violates Ohio Law and proper ratemaking practices.

As provided by R.C. 4909.15, the Commission is to determine the cost to the utility of rendering the public utility service during the test year. Under the standard filing requirements set out in Commission rules, taxes other than income taxes are included in the schedules submitted to determine the cost of providing utility service. Rule 4901-7-10, Appendix at 72 and Schedules C-1, C-2, and C-3.13, OAC.

The Staff Report's recommendation for an adjustment to personal property taxes is in error in three ways. First, the value of the property subject to personal property tax does not include $504,287 of materials and supplies inventory as of the date certain. Second, the assessment value for personal property is understated because the assessment rate applied to the property value in the Staff Report, 11.0369%, is incorrectly calculated as the tax paid divided by the sum of both real and personal property amounts. The correct rate, 11.5328%, is based on a divisor that includes only personal property. Third, the adjustment in the Staff Report fails to account for the reclassification of certain property from general plant to distribution plant. The reclassification increases the personal property tax expense from $43,634 to $60,195 thereby increasing personal property tax by $16,561. Accordingly, the Commission should reject the reduction of the property tax expense of $22,185 recommended in the Staff Report, recalculate the property tax adjustment to account for the errors noted above, and account for the known and measurable increase in personal property tax expense of $16,561 resulting from the reclassification of property.

<u>Rate of Return</u>

1. The Staff Report's recommendation for a range of the rate of return that would go as low as 8.5% violates Ohio law and proper ratemaking practices. To the extent that the Commission accepts the recommended range of the rate proposed by the Staff, the Commission should incorporate a rate in the upper quartile of the Staff range.

R.C. 4909.15(A)(2) requires the Commission to establish a "fair and reasonable rate of return" based on the utility's used and useful property as of the date certain. The Staff Report provides a recommended range of the rate of between 8.5% and 9.5%.

"To provide the Commission with flexibility to reward [Ohio Gas] for exemplary behavior or offer encouragement to alter behavior that the Commission believes could be improved, Staff believes a recommendation of 8.5 percent to 9.5 percent is appropriate." Staff Report at 13.

The Staff Report's recommended lower bound of 8.5% for the rate is in error because the lower bound is unfair and unreasonable based on accepted ratemaking principles, as shown by the testimony contained in the Application.

If the Commission accepts the Staff range, however, then the Commission should adopt a rate in the upper quartile of the range of no less than 9.25%.

Several factors support this finding. Initially, Ohio Gas has performed in an exemplary manner, as demonstrated by the findings of the Staff regarding the operational and safety record of Ohio Gas. Further, Ohio Gas has managed its business operations to minimize the impact on its customers while providing safe and reliable service. For example, this case represents the first application to increase rates filed by the Company in over three decades. Moreover, even at the level of the proposed increase in the Application, Ohio Gas would still have among the lowest distribution rates for a natural gas company in the State. Ohio Gas has further managed its business operations to provide safe and reliable service without seeking authorization of rate riders. In so managing its operations, Ohio Gas has also been able to achieve remarkably low unaccounted-for gas percentages, again, among the lowest in the State.

Ohio Gas also has a remarkable appreciation and relationship with its customers. Ohio Gas's exemplary relationship with its customers is demonstrated by the lack of customer complaint cases filed with the Commission (the Commission's records indicate three complaint cases have been filed with the Commission for as far back as the Commission's online records exist). Although permitted to impose requirements on its residential and small commercial customer to establish creditworthiness, Ohio Gas has not imposed such requirements on its customers and instead assumes that they are creditworthy until proven otherwise.

Accordingly, the Commission should adopt a rate of return of 9.25%.

II. STATEMENT OF MAJOR ISSUES

1. Based on the objections of Ohio Gas to the recommendations of the Staff Report concerning the calculation of payroll expense and personal property tax expense and the reclassification of certain property, should base distribution revenue be increased $390,878 so that the resulting rates are just and reasonable as required by R.C. 4909.15?

2. Based on the objection of Ohio Gas to the recommended rate of return range in the Staff Report, should the base distribution revenue increase be established based on a rate of return on 9.25%?

3. Is the recommendation of the Staff Report that payroll expense be reduced $312,320 just and reasonable as required by R.C. 4909.15? If the Commission rejects the recommendation of the Staff Report to reduce payroll expense $312,320, should related payroll tax expenses be increased $26,253?

4. Is the recommendation of the Staff Report that personal property tax expense be reduced $22,185 just and reasonable as required by R.C. 4909.15?

5. Should the Staff Report increase personal property tax expense by $16,561 to account for the reclassification of certain personal property?

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Objections to the Staff Report of Investigation and Summary of Major Issues of Ohio Gas Company* was sent by, or on behalf of, the undersigned counsel for Ohio Gas Company, to the following parties of record this 22nd day of December 2017, *via* electronic transmission.

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