

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	:	
<b>The East Ohio Gas Company d/b/a</b>	:	
<b>Dominion East Ohio</b> to Adjust its	:	Case No. 17-2177-GA-RDR
Pipeline Infrastructure Replacement	:	
Program Cost Recovery Charge and	:	
Related Matters.	:	

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

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**On Behalf of the Staff of the  
Public Utilities Commission of Ohio**

**March 23, 2018**

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**INTRODUCTION**

Pursuant to the Stipulations adopted in Case Nos. 15-362-GA-ALT, 11-2401-GA-ALT, 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT, and 06-1453-GA-UNC, the Staff of the Public Utilities Commission of Ohio (Staff) conducted an investigation of the East Ohio Gas Company's d/b/a Dominion East Ohio (DEO or Company) application to adjust its Pipeline Infrastructure Replacement Program (PIR Program or Program) Cost Recovery Charge and submits its conclusions and recommendations to the Public Utilities Commission of Ohio (Commission) in these Comments. The Staff of the Commission's Rates and Analysis Department prepared these Comments. Included are financial reviews of DEO's proposed additions to plant-in-service, revenue requirement, and other matters. The Comments are the results of Staff's investigation and do not reflect the views of the Commission, nor is the Commission bound by Staff's representations or recommendations.

## **BACKGROUND**

DEO is an Ohio Corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western, and southeast Ohio communities.

The Company's PIR Program was originally authorized by a Commission Opinion and Order on October 15, 2008 in Case No. 07-829-GA-AIR, *et al* (Rate Case Order). DEO's PIR Program initially called for replacement of 4,122 miles of bare steel, cast iron, and other metallic (BS/CI) pipelines in its distribution system over a 25-year period and provided that DEO would assume ownership and ongoing responsibility for all customer-owned service lines when such lines were separated from service in order to replace associated mainlines or to repair leaks. The Rate Case Order also authorized DEO to establish a PIR Cost Recovery Charge (PIR Rider) to recover its PIR investments from customers, adopted a process for Staff and intervenor review of DEO's annual applications to increase the PIR Rider, and established a cap on annual PIR Rider increases. The PIR Program was initially authorized for a five-year period.

By an Opinion and Order dated August 3, 2011, the Commission approved a stipulation reached by the parties in Case No. 11-2401-GA-ALT. In that case, the parties agreed, among other things, that (1) DEO would add 1,450 miles of pre-1955 ineffectively coated pipe to the scope of its replacement program; (2) DEO would test field coated pipe that was installed after 1955 and replace any pipe found to be ineffectively coated under the Program; (3) the Program would be reauthorized for another five-year period; (4) specified caps would be placed on annual increases to the PIR Rider; and (5)

DEO would modify the schedule for filing its annual applications to adjust the PIR Rider to be consistent with the schedules used for other utilities' gas infrastructure replacement programs. This revised schedule provides that DEO shall submit a pre-filing notice (PFN) with nine months of actual data and three months of estimated data in support of its PIR Rider applications by November 30 each year. The Company then files an updated application by February 28 of the succeeding year that includes 12 months of actual data in support of new PIR Rider rates to be effective with the first billing cycle in May.

DEO's PIR Program was again reauthorized by a Commission Opinion and Order adopted on September 14, 2016 in Case No. 15-362-GA-ALT. Among other things, the Commission reauthorized DEO's PIR for the period 2017 through 2021, established that recovery of 2016 PIR costs would be recovered under the terms and conditions adopted in the 11-2401-GA-ALT case, and maintained the same PIR Cost Recovery Charge application procedures and timelines that were adopted in the 11-2401-GA-ALT case.

In accordance with the approved application process, on November 30, 2017, DEO filed a PFN in this case indicating its intent to file an application to adjust existing PIR rider rates to recover PIR Program costs incurred during the period January 1, 2017 through December 31, 2017. The PFN included Schedules 1 through 16A, which provided an estimated PIR revenue requirement based on nine months of actual data from the period January 1, 2017 through September 30, 2017, and three months of projected data for the period October 1, 2017 through December 31, 2017. On February 28, 2018,

DEO filed its Application in this case, which included updated Schedules 1 through 17A, 12 months of actual data through 2017, and supporting testimony.

On March 6, 2018, the Attorney Examiner in this case issued an Entry establishing a procedural schedule for the case as follows:

- (a) March 23, 2018 – Deadline for the filing of motions to intervene.
- (b) March 23, 2018 – Deadline for Staff and intervenors to file comments on the application.
- (c) March 30, 2018 – Deadline for DEO to file a statement informing the Commission whether the issues raised in the comments have been resolved.
- (d) April 2, 2018 – Deadline for the parties and Staff to file expert testimony.
- (e) In the event that some or all of the parties enter into a stipulation resolving some or all of the issues in this case, the parties must file such stipulation with the Commission by 9:00 a.m. on April 5, 2018.
- (f) In the event that all of the issues are not resolved or the parties enter into a stipulation, a hearing shall commence on April 6, 2018, at 10:00 a.m. at the offices of the Commission, 180 East Broad Street, 11<sup>th</sup> Floor, Hearing Room 11-C, Columbus, Ohio 43215. Any party requesting a continuance of the hearing must file a motion to continue the hearing with the Commission by 9:00 a.m. on April 5, 2018.

## **PIR PROGRAM PROGRESS AND DEO'S APPLICATION**

DEO reports that in 2017 it replaced 189.95 miles of BS/CI pipelines and 40,726 service lines (includes both main-to-curb and curb-to-meter service lines) and moved 28 inside customer meters outside. Including the 2017 replacements and move-outs, the Company reports that, since inception of the PIR Program in July 2008, it has replaced a total of 1,566.26 miles of BS/CI pipelines, replaced 355,352 service lines, and moved 1,616 meters outside. To recover its 2017 PIR investments, DEO's Application and supporting schedules propose a revenue requirement of \$165,465,953.57.

When allocated to the customer rate classes established in the cost of service study used in DEO's last base rate case, the Company recommends that the Commission approve the following adjustments:

<b>Rate Class</b>	<b>Proposed Rates</b>	<b>Current Rates</b>
GSS/ECTS	\$10.23/month	\$9.69/month
LVGSS/LVECTS	\$59.66/month	\$61.02/month
GTS/TSS	\$378.04/month	\$321.68/month
DTS	\$0.0633/Mcf	\$0.0678/Mcf

DEO's recommended PIR Cost Recovery Charge includes the Company's proposals to recognize the federal income tax rate reduction pursuant to the Tax Cuts and Jobs Act of 2017 (TCJA). The Company proposes to reduce the pre-tax rate of return used in the PIR Cost Recovery Charge revenue requirement calculation from 11.36 percent to 9.91 percent in order to recognize the TCJA federal income tax rate reduction

from 35 percent to 21 percent. DEO also states that its understanding is that the TCJA eliminates bonus tax depreciation for regulated entities, therefore it did not take bonus tax depreciation for the period October 1, 2017 through December 31, 2017. In addition, the Company maintains that determining the impact of the TCJA on accumulated deferred income taxes (ADIT) associated with its PIR program is a complex matter that cannot be resolved in the current case. The Company acknowledges that ADIT has been accumulated using a 35 percent tax rate and that the federal income tax rate reduction to 21 percent results in excess deferred income taxes (EDIT) that should be passed back to customers, but it indicates that determining the manner and proper time period over which the EDIT should be amortized without violating tax normalization rules prescribing how such refunds should be recognized over time is very complex. Therefore, the Company proposes that amortization of the PIR-related EDIT for 2018 be reflected in the PIR Cost Recovery Charge application in 2019.

### **STAFF'S INVESTIGATION, CONCLUSIONS, AND RECOMMENDATIONS**

The purpose of Staff's investigation was to determine if the Company's Application and supporting documentation justify the requested PIR revenue requirement and can be used as a reliable basis for DEO's proposed increases to the PIR rider rates. As part of its investigation, the Staff reviewed and analyzed all of the documentation filed by the Company and traced it to supporting work papers and to source data. In addition, Staff issued data requests, conducted investigative interviews, and performed independent analyses when necessary.



Regarding DEO's proposals to recognize the TCJA impacts, Staff notes that the Commission is currently investigating the financial impacts of the TCJA in Case No. 18-0047-AU-COI and determining what, if any, adjustments should be made to utility company rates in Ohio as a result of the federal income tax rate reduction. The Commission's investigation is ongoing and the Commission has issued no directives to utilities on how to reflect the tax rate change in their rates. Similarly, DEO filed its Application, including its proposals for recognizing the federal income tax rate reduction, on February 28, 2018. Because Staff comments are due on March 23, 2018, Staff will continue its investigation of this matter, including reviewing DEO's proposals for recognizing the federal income tax rate reduction filed on February 28, 2018 and follow any Commission findings in Case No. 18-0047-AU-COI. Staff reserves the right to recommend adjustments to DEO's PIR Cost Recovery Charge rates proposed to take effect in 2019, including potential refunds to customers, on the basis of Staff's ongoing investigation and/or Commission findings and directives in the 18-0047-AU-COI case. Therefore, Staff recommends that the Commission accept DEO's proposed PIR Cost Recovery Charge rates as proposed in its Application, subject to potential reconciliation, adjustments, or refunds next year. Staff recommends that, in its Opinion and Order in this case, the Commission expressly notify DEO that next year's PIR Cost Recovery Charge rate may be adjusted to reflect any reconciliation or refunds resulting from ongoing investigations of the impacts of the federal income tax rate reduction. In addition, Staff recommends that the Commission direct DEO to note in its tariffs that the PIR Cost Recovery Charge is subject to reconciliation and potential refunds as determined by the Commission. With

adoption of these recommendations, Staff has no other objections to DEO's Application and supporting documentation and recommends that the Commission approve DEO's Application as filed.

Respectfully submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief

*/s/ Jodi J. Bair*

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**On Behalf of the Staff of the  
Public Utilities Commission of Ohio**

## PROOF OF SERVICE

I certify that a copy of the foregoing Staff Comments was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 23rd day of March, 2018.

/s/ John J. Bair

**Jodi J. Bair**

Assistant Attorney General

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Summary: Comments submitted by Assistant Attorney General Jodi Bair on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio