**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Annual Application of | : | |
| Columbia Gas of Ohio, Inc. for an | : | Case No. 17-2374-GA-RDR |
| Adjustment to Rider IRP and Rider DSM | : | |
| Rates. | : | |

# COMMENTS
# AND
# RECOMMENDATIONS

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

March 23, 2018

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# COMMENTS AND RECOMMENDATIONS

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## INTRODUCTION

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

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

(Rider IRP) and a review of the Company's Demand Side Management (DSM) program and associated Demand Side Management rider (Rider DSM).

In accordance with the Attorney Examiner's Entry dated March 6, 2018, copies of these Comments have been timely filed with the Commission's Docketing Division.

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

## BACKGROUND

Columbia is a public utility and a natural gas company pursuant to Chapter 4905, Revised Code, which is engaged in the business of providing natural gas distribution service to approximately 1.4 million customers in 60 of Ohio's 88 counties.

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

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

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

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

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

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

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

2. A second component for recovery of costs associated with the Company's Accelerated Mains Replacement Program (AMRP). Under the AMRP, Columbia's plans call for it to replace approximately 3,770 miles of bare steel pipe, 280 miles of cast iron/wrought iron pipe and approximately 360,000 steel service lines over a period of 25 years at an estimated annual cost of $73 million. Columbia maintains that these types of mains (priority pipe) typically have a greater probability to leak due to their material type, protection, age and other characteristics.

3. The third component recovers costs associated with the Company's installation of Automatic Meter Reading Devices (AMRD) on all residential and commercial meters served by Columbia over approximately five years, which began in 2009.

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

On November 28, 2012, the Commission approved a stipulation in Case No. 11-5515-GA-ALT that, among other things, called for continuation of the IRP for an additional five years (for recovery of IRP investments made from January 1, 2013 through December 31, 2017), expansion of the scope of the AMRP to include replacement of ineffectively coated steel and certain first generation plastic pipe, and continuation of the filing requirements and schedules originally adopted in the 08-72-GA-AIR case.

Pursuant to that schedule, on November 28, 2017 Columbia submitted a pre-filing notice in this case containing schedules with nine months of actual and three months of projected data in support of requested increases to Riders IRP and DSM to go into effect on May 1, 2018. On February 27, 2018 , the Company filed its Application in this case with updated schedules containing actual data for calendar year 2017 and requesting that the test year for its application begin on January 1, 2017 and end on December 31, 2017 and a date certain for property valuation be set at December 31, 2017.

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 filing of motions to intervene.

(b) March 23 2018– Deadline for Staff and interveners to file comments on the application.

(c) March 28, 2018– Deadline for Columbia to file a statement, informing the Commission whether the issues raised in the comments have been resolved.

(d) April 3, 2018 – Deadline for expert testimony by all parties.

(e) April 4, 2018 – Deadline for some or all parties to the case to file a stipulation resolving some or all issues raised by the parties.

(f) April 5, 2018 – Hearing date if some or all issues raised in the comments are not resolved.

## SCOPE OF THE STAFF'S INVESTIGATION

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

## IRP INVESTIGATION

### 1. IRP Investigation Summary

As noted above, Rider IRP is comprised of three components – the accelerated mains replacement program, or "AMRP"; the risers and hazardous service lines program, collectively termed "Risers"; and the automated meter reading devices, or "AMRD." The Staff reviewed and analyzed the documents associated with each of these components that Columbia filed and traced them to supporting work papers and source data. As part of its review, the Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, verified select physical plant assets on site, and performed independent analyses when necessary. The Staff also reviewed Columbia's progress towards implementing its IRP. When investigating the Company's operating income, Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, property taxes, AMRP customer education expenses, any AMRP operating and maintenance savings, and charges associated with the riser education and riser identification programs. To investigate the proposed rate base, the Staff reviewed and tested the Applicant's plant accounting system to ascertain if the information on all IRP assets contained in the Applicant's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff selected a sample of transactions for detailed review. Finally, the Staff reviewed the proposals for deferred depreciation, deferred post-in-service carrying cost (PISCC), depreciation, capitalized PISCC, and deferred taxes on liberalized deprecation.

## 2. IRP Progress

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

In 2017, Columbia completed 431 AMRP projects associated with replacement of priority and non-priority pipe. This represents a total of 905,945 feet of steel pipe and 46,407 feet of iron along with 131,372 feet of plastic pipe, 174,134 feet of pre-1955 unprotected coated steel, and 64,743 feet of post-1954 coated steel pipe. The Company reports that it also replaced 5,383 hazardous service lines.

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

### 3. IRP Competitive Bidding and Ohio Labor

Columbia employs a competitive bidding process for the majority of the capital work associated with AMRP projects using two types of bids. The majority of Columbia's capital work associated with AMRP projects are performed by contractors under competitive bid "blanket" contracts. Blanket contracts were established across Columbia's operating areas and contractors provided bid prices based on the expected number of contract units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) that would be completed during the term of the contract. Columbia extended and expanded the scope of its previously bid "blanket" construction contracts through December 31, 2017. The Company reports that the majority of the work to replace the hazardous service lines was performed by Columbia employees and that it sometimes uses Company personnel to perform AMRP work, depending on the availability of the Company employees and the nature of the work to be performed.

The Staff confirmed that none of the contractors selected by Columbia are affiliated with the Company. Columbia includes language in its bid packages stating a preference that Ohio labor be used whenever possible as long as the price and quality of work is not negatively impacted. The Company reports that, in 2017, approximately 88% of the contractor labor force for AMRP projects was from Ohio.

## 4. Columbia's Proposed IRP Recovery

Columbia proposes a revenue requirement of $150,179,360 for the AMRP, $41,049,614 for the Risers, and $6,020,288 for the AMRD Program. Using the billing determinants for the AMRP, Risers, and AMRD established in the 2008 Stipulation approved by the Commission in Case No. 08-72-GA-AIR, the Company proposes that allocation of the AMRP revenue requirement by customer class would be $6.33/month for Small General Service (SGS) customers, $81.47/month for General Service (GS) customers, and $2,374.67/month for Large General Service (LGS) customers. For allocation of the Risers revenue requirement, the Company proposes $2.31/month for the SGS customers and $3.20/month for the GS customers. For allocation of the AMRD revenue requirement, the Company proposes $0.27/month for the SGS customers and $3.50/month for the GS customers. The total IRP revenue requirement from the combination of the AMRP, Risers, and AMRD revenue requirements is $197,249,262. When allocated to the applicable rate classes (the Risers and AMRD are not applicable to the LGS class of customers), Columbia proposes that the total Rider IRP rates to take effect in May 2018 will be $8.91/month for the SGS customers, $88.17/month for the GS customers, and $2,374.67/month for the LGS customers. The $8.91 proposed monthly IRP charge for the SGS customers is below the $10.20/month cap established in the approved Stipulation and Recommendation in Case No. 11-5515-GA-ALT for this class of customers, primarily as a result of the impact of proposed adjustments to recognize the impacts of federal income tax rate reductions pursuant to the Tax Cuts and Jobs Act of 2017.

## 5. Impacts of the Tax Cuts and Jobs Act of 2017

Columbia proposed several measures to address the impacts of the Tax Cuts and Jobs Act of 2017 (TCJA) in this filing. Specifically, the revenue requirement was updated to include the impact of a change in 100% expensing of deferred taxes for September 27, 2017 through December 31, 2017 and for the change in the federal income tax rate of 35% to 21% effective January 1, 2018. The filing does not adjust for the pass back of excess deferred taxes associated with the reduced tax rate. According to Columbia, the pass back of excess deferred taxes will begin with the Rider IRP rate effective May 1, 2019. Columbia included an adjustment that provides for the pass back of an estimated IRP over-collection in federal taxes experienced by Columbia during the months of January 2018 through April 2018 as a result of the current IRP billing rates having not yet been adjusted to reflect the change in the federal tax rate. Finally, Columbia adjusts its authorized pre-tax rate of return from 10.95% to 9.52%. Columbia provided a calculation (Schedule T) in order to recognize the change in federal income tax.

## 6. Staff's IRP Comments and Recommendations

The Staff has completed its investigation of Columbia's proposed Rider IRP application. Similar to the investigation conducted for the DSM rider in last year's case, Staff reviewed meal expenditures in detail in IRP filing in this case. Consistent with Commission rulings in prior cases, Staff recommends that, the Commission order the Company not to capitalize certain meals, specifically: business lunches; snacks; "thank-you" meals; out of state meals; overtime meals; breakfast for employees not on travel status; lunch for employees not on travel status, and dinners that are not directly tied to community education events associated with specific IRP projects. In this filing, Staff identified $4,358.87 in meal expenditures that Staff believes should not be included in Rider IRP. Of the meal adjustments, the Company removed $43.33 in its updated filing on February 27, 2018. Therefore, Staff recommends an additional adjustment of $4,315.54, plus any applicable carrying charges, be removed from the Rider IRP expenditures. During the course of the investigation, Staff also discovered a $58,779 reimbursement that was incorrectly applied to Rider IRP. Staff recommends a removal of this reimbursement for an additional adjustment of $(58,779.00). The net of Staff's recommended adjustments to Columbia's proposed revenue requirement calculation for the IRP is an increase of $54,463.46. Staff recommends that the Commission direct Columbia to modify its IRP revenue requirement calculation by this amount and recalculate the resulting rates.

Regarding Columbia's proposals to recognize the federal income tax rate reduction pursuant to the TCJA, Staff would note that the Commission is currently investigating the financial impact of the TCJA in Case No. 18-047-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, Columbia filed its Application, including its proposal for recognizing the federal income tax rate reduction and accompanying testimony, on February 27, 2018. Because Staff comments in this case are due on March 23, 2018, Staff will continue its investigation of this matter, including reviewing Columbia's proposals for recognizing the federal income tax rate reduction that were filed on February 27, 2018, and follow any Commission findings in Case No. 18-047-AU-COI. Staff reserves the right to recommend adjustments to Columbia's Rider IRP 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 18-047-AU-COI case. Therefore, Staff recommends that the Commission accept Columbia's proposed Rider AMRP rates as modified by the Staff in these comments, subject to potential reconciliation, adjustments, or refunds next year. Staff recommends that, in its Opinion and Order in this case, the Commission expressly notify Columbia that next year's Rider IRP 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 Columbia to note in its tariffs that Rider IRP is subject to reconciliation and potential refunds as determined by the Commission.

Based upon the investigation described above, Staff believes that in all other areas the Company has supported its filing with adequate data and information to ensure that the IRP revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Columbia's Application for the IRP as modified by these comments.

## DSM INVESTIGATION

### 1. DSM Background

On March 3, 2008, in Case No. 08-72-GA-AIR, Columbia filed an application for an Alternative Regulation Plan requesting approval of a proposed Rider DSM to recover DSM costs and deferred expenses associated with the development and implementation of their DSM programs.

On July 1, 2008, in Case No. 08-833-GA-UNC, Columbia filed an application to establish a Demand Side Management (DSM) program for residential and commercial customers, pursuant to R.C. 4929.11 and the Commission's Opinion and Order in Case No. 08-0072-GA-AIR. By Finding and Order dated July 23, 2008, the Commission approved Columbia's proposed DSM programs.

On December 3, 2008, the Commission approved a Stipulation in Case No. 08-72-GA-AIR that established Rider DSM and required Columbia to update Rider DSM on an annual basis. More specifically, Columbia is required to file, before the Commission, a pre-filing notice by November 30 each year and an application by February 28 of the following year in order to execute adjustments to Rider DSM.

On December 14, 2011, in Case No. 11-5028-GA-UNC, the Commission approved Columbia's application to initiate a shared savings mechanism for its DSM programs. With this shared savings mechanism, Columbia is able to earn a tiered incentive by properly managing their DSM program and meeting targeted levels of natural gas savings at a prorated budget cost level per annum.

On November 28, 2017, Columbia filed a notice of intent to adjust Rider DSM rates and subsequently filed an Application on February 27, 2018, to adjust Rider DSM rates, with rates to become effective May 1, 2018.

## 2. DSM Review

Staff reviewed the nine months (i.e. January through September) of actual expenses, revenues, over/under-collections, and shared savings data contained in the notice of intent. Staff also reviewed the forecast for the remaining three months (i.e. October through December) and will review the actual data in the 2018 audit.

Staff conducted this audit through a combination of interrogatories and document reviews and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. Staff reviewed the Company's schedules and documents for completeness, occurrence, presentation, valuation, allocation, accuracy, prudency, and appropriateness for recovery. Staff also determined whether the expense transactions were truly incremental to the amount in base rates.

The incurred costs and revenues associated with the following programs were reviewed during this annual audit: Home Performance Solutions, Simple Energy Solutions, New Home Solutions, Furnace Market Research, Small Business Energy Solutions, Residential Energy Efficiency Education for Students, Energy Design Solutions, Innovative Energy Solutions, Home Energy Report Program, Residential Energy Code Training and Evaluation, High Efficiency Heating System Rebate, EPA Portfolio Manager, Online Energy Audit, Program Administration, Program Development, and Warm Choice.

Staff also reviewed Columbia's testimony filed with this application and DSM Schedules 1-6 which supported the DSM rate and shared savings calculations.

## 3. DSM Findings

Based upon Staff's review of Columbia's DSM program schedules, actual 2017 expenditures, and calculations, Staff finds that Columbia calculated its proposed Rider DSM rate accurately with no exceptions noted.

## 4. DSM Conclusion and Recommendations

Staff has completed its audit of Columbia's DSM actual expenses, revenues, over/under-collections, and shared savings data and recommends approval of the proposed DSM rate.

Additionally, Staff acknowledges that Columbia received a waiver of an annual independent audit in Case No. 10-2353-GA-RDR; however, Staff believes that due to the expansion of their DSM programs and budgets since obtaining the waiver, a one-time independent review of prior years' spending along with an analysis to determine the sustainability of the DSM programs beyond 2022 is now warranted. Therefore, Staff recommends that the Commission order an independent audit of the DSM program expenses and recoveries. Staff also reserves the right to examine the last three months of 2017 revenues and expenditures during the next DSM audit.

Respectfully submitted,

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/s/ Thomas G. Lindgren

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

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served via electronic mail upon the following parties of record this 23rd day of March, 2018.

/s/ Thomas G. Lindgren

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