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A report by the staff of the Public Utilities Commission of Ohio

Columbia Gas of Ohio, Inc.
Case Number 17-2202-GA-ALT

September 14, 2018

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Columbia Gas of Ohio, Inc. for Approval of	)	Case No. 17-2202-GA-ALT
an Alternative Form of Regulation	)	

Asim Z. Haque, Chairman
M. Beth Trombold, Commissioner
Thomas W. Johnson, Commissioner
Lawrence K. Friedeman, Commissioner
Daniel R. Conway, Commissioner

To the Honorable Commission:

In accordance with the provisions of the Ohio Revised Code Section 4909.19 and the Ohio Administrative Code Section 4901:1-19-07, the Public Utilities Commission of Ohio's (PUCO) Staff submits its investigations and findings and recommendations within the Staff Report.

The Staff Report was prepared by the Commissions' Rates and Analysis Department. The Staff Report is intended to present for the Commission's consideration, the result of the Staff investigation. It does not purport to reflect the views of the Commission nor should any party to the proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein. The Staff Report is legally cognizable evidence upon which the commission may rely in reaching a decision in this matter. (See *Lindsey v Pub. Util. Comm., 111 Ohio St. 6 (1924)).*

Respectfully submitted,

Tamara S. Turkenton

Tamara Turkenton
Director, Rates and Analysis Department
Public Utilities Commission of Ohio

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Columbia Gas of Ohio, Inc.
Case No. 17-2202-GA-ALT

Introduction

Ohio Revised Code Section 4929.05 governs approval of alternative rate plans for natural gas companies. This section provides that the Commission shall approve an alternative rate plan if the applying natural gas company is in compliance with R.C. 4905.35 prohibiting discriminatory or preferential treatment in the provision of services, and is expected to continue to be in substantial compliance with R.C. 4929.02, governing the States policy relating to natural gas goods and services, and that the natural gas company's proposed alternative rate plan is just and reasonableness. In addition, the natural gas company has the burden of proof to show that its proposed alternative rate plan meets all of the preceding requirements.

This report by the Staff of the Public Utilities Commission provides the Staff's conclusions and recommendations to the Commission in regard to Columbia Gas of Ohio's, Inc., (Columbia or Company) proposed alternative rate plan as filed in Case No. 17-2202-GA-ALT.

Background

In 2011, the Company filed an application to implement a capital expenditure program (CEP) and modify its accounting procedures in Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM. The Commission limited the CEP Deferral authority from October 1, 2011, through December 31, 2012. The Commission authorized the Company to accrue CEP Deferral expense until the rates to recover the deferrals for the Small General Service ("SGS") class reach $1.50 per month.

In 2012, in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM, the Commission authorized the Company to continue its CEP Deferral beyond December 31, 2012, up and to the time where the accrued deferral, would generate rates that result in an increased monthly charge of more than $1.50 per month for the SGS class.

On December 1, 2017, the Company filed an application in Case No. 17-2202-GA-ALT, pursuant to R.C. 4929.05 and 4909.18, requesting authority to implement a new alternative rate plan to establish a capital expenditure program rider (CEP Rider).

On March 19, 2018, Staff filed a letter stating that Columbia's alternative rate plan application indicated that the plan was for an increase and as such must contain all the information described in divisions (A) to (D) of section 4909.18 of the Ohio Revised Code as well as the standard filing requirements described in Rule 4901-7-01 of the Ohio Administrative Code.

On April 2, 2018, the Company filed an amended Application to be effective as of December 1, 2017, pursuant to Staff correspondence dated on March 19, 2018, filed in this proceeding. The amended application was supplemented on April 16, 2018.

The proposed CEP Rider is designed to recover the post-in-service carrying costs, incremental depreciation expense, and property tax expense currently deferred pursuant to Columbia's capital expenditure program deferral (CEP Deferral), as well as the corresponding assets to which these expenses are directly attributable in the capital expenditure program.

On April 18, 2018 the Commission issued a request for proposal seeking proposals to conduct a two-part audit of the Company's CEP capital expenditures. The audit was to review and attest to the accounting accuracy and used and useful nature of the Company's non-IRP (Infrastructure Replacement Program) capital expenditures and related assets and corresponding depreciation reserve since the date certain of its most recent base rate case (Case No. 08-072-GA-AIR). In addition, the audit was to assess and form an opinion on the necessity, reasonableness, and prudence of the Company's non-IRP capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from October 2011 through December 31, 2017. On May 9, 2018 the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge) to perform the audit.

On September 4, 2018 the Blue Ridge audit report was filed in this proceeding.

Columbia's Alternative Rate Plan

Overview

As proposed by Columbia, the CEP rider rates would be a fixed monthly charge that would be phased in on a biennial basis to mitigate the impact on customers as shown below for the SGS Customer Class.

Rates Effective August 1	**2018**	**2020**	**2022**	**Single Rate**
Maximum SGS Class CEP Rider Rate	$3.28	$4.17	$4.92	$5.14
CEP Asset Investment Year	2011-2015	2011-2016	2011-2017	2011-2017
CEP Deferral Balance Through	12/31/17	12/31/19	12/31/21	12/31/17

Exhibit A, Page 6, Company Amended Application

Investments and CEP Deferral Assets

The Commission approved four categories of capital investment upon which CEP deferrals are based as follows:[1]

a. Replacement/Public Improvement/Betterment

Replacement of facilities for any of the following reasons: (1) physical deterioration; (2) meeting the requirements of governmental authorities related to street and highway construction; (3) accommodating existing customer requests for facility relocation; and, (4) improving system operating conditions and ensuring adequate distribution system capacity and/or system reliability. This Replacement/Public Improvement/Betterment category may include, but is not limited to, costs related to installation of and/or improvements to mains and service lines, measuring and regulation stations, district regulator

[1] *See In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 12-3221-GA-UNC, et al., Finding and Order at 5 (Oct. 9, 2013) (approving Columbia's CEP application, which contained these four categories).

stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.

b. Growth

Facilities required to provide service to new customers or to provide increased load capacity to existing customers. This category may include, but is not limited to, costs associated with the installation of and/or improvement to mains and services (including service line installations to new customers served by existing mains), district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated land or land rights.

c. Support Services

Capital expenditures that are not directly related to gas facilities fall into this category, which may include, but are not limited to, costs associated with the purchase of and/or improvements to buildings and structures (including associated land and land rights), environmental remediation at company-owned facilities, office furniture and equipment, motorized equipment and trailers, power-operated equipment, and other miscellaneous equipment.

d. Information Technology

Capital expenditures related to technology and communications infrastructure. This category may include, but is not limited to, costs associated with the purchase and installation of communications equipment (including associated buildings, land, or land rights), data processing equipment, data processing software, and software licenses.

In this application, Columbia is requesting authority to establish a CEP Rider and requesting accounting authority to: (1) continue accounting for the deferral of depreciation expense on all investment between the dates the property is placed into service and the date recovery of the investment commences through the CEP Rider; (2) to continue deferring property taxes on all investment between the dates the property is placed into service and the date recovery of the investment commences through the CEP Rider; and (3) to continue deferral of post-in-service carrying costs on all investment between the dates the property is placed into service and the date recovery of the investment commences through the CEP Rider. According to the Company, deferred expenses such as deferred depreciation, deferred property taxes, and deferred post-in-service carrying costs are amortized over the life of the associated assets using the current depreciation rate. Amortization does not begin until Columbia starts recovering the associated expense through the CEP Rider.

Calculation of the CEP Deferral

Pursuant to the Finding and Order in Case Nos. 11-5351-GA-UNC, et al., the Company's CEP Deferral has been calculated as follows:

Total Monthly Deferral = (Post-In-Service Carrying Charge (PISCC)) + (Depreciation Expense) + (Property Tax Expense) – (Incremental Revenues)

Where:

PISCC = [(Previous Month's Cumulative Gross Plant Additions) – (Previous Month's Accumulated Deprecation) – (Previous Month's Cumulative Retirements)] * [(Long-Term Debt Rate) / (12 Months)]

Deprecation Expense = [(Previous Month's Cumulative Gross Plant Additions) – (Previous Month's Cumulative Retirements) + (½ Current Month's Plant Additions) – (½ Current Month's Retirements)] * [(Depreciation Rate) / (12 Months)]

Property Tax Expense = [(Previous Year-End Cumulative Gross Plant Additions) - (Previous Year-End Cumulative1 Retirements)] * (Percent Good Adjustment) * (Valuation Percentage) * [(Effective Property Tax Rate) / (12 Months)]

Incremental Revenue = [(Current Month's Customers – Baseline Customers) * (Cost Portion of Rate)] + [(*Consumption by Non-SFV Customers Directly Attributable to Program Investment) * (Cost Portion of* Rate)] + (Other Revenues Directly Attributable to Program Investment)

Revenue Requirement Components

Columbia proposes to recover its CEP Deferral as well as the corresponding assets to which these expenses are directly attributable. Since the inception of the program in October 2011 through December 31, 2017, Columbia states that it has invested $666 million in CEP plant additions and has accumulated $148 million in deferred costs ($48.6 million in deferred plant depreciation, $70 million in deferred PISCC, and $29.6 million in deferred property taxes). It further states that net CEP investment for that period has been $629 million (total plant in-service plus total accumulated provision for depreciation plus the various deferrals) which results in a revenue requirement of $109 million. Columbia calculates a combined projected rate impact per month for SGS customers at $5.14. See the attachment for detail.

The Company's revenue requirement calculations incorporates a return on net CEP investment of 10.95%. However the Company acknowledges that its pre-tax rate of return would need to be adjusted to 9.52% due to the Tax Cuts and Jobs Act of 2017 (TCJA 2017).

According to the Company, total CEP Rider investment will be valued at the Investment Date (the date on which the underlying asset was placed in service) and the Deferral Date (the date on which deferrals are included in the CEP Rider revenue requirement for recovery). Columbia proposes for deferred expenses such as deferred depreciation, deferred property taxes, and deferred post-in-service carrying costs to be *amortized over the life of the associated assets using the current depreciation rate. Amortization does* not begin until Columbia starts recovering the associated expense through the CEP Rider. Columbia proposes to continue to defer eligible expenses associated with CEP investments not recovered through the CEP Rider until the Company recovers them through a separate proceeding.

Process for Establishing CEP Rider

Columbia proposes that the CEP Rider would be a fixed monthly charge. The Company is proposing to gradually implement the CEP Rider to mitigate the impact on customers as shown in this table:

Projected Impact per Month	2018	2020	2022	Single Rate
SGS	3.28	4.17	4.92	$5.14
GS	27.64	35.86	42.91	43.33
LGS	531.14	685.55	882.4	832.59

Exhibit J page 2, Company Amended Application

The Company proposes to file biennially by April 30, 2020 and April 30, 2022, rates to be implemented with the first billing unit of August. The CEP Rider rate will be set to introduce additional investments, adjust for actual deferrals, and adjust for any over and under recovery for the CEP Rider.

Staff's Investigation

Staff investigated Columbia's amended application to create a CEP Rider to recover CEP Deferrals as well as the corresponding assets. Staff hired Blue Ridge to assist with a prudence audit of plant in service and capital expenditures program spending. Staff reviewed the Company's Amended Application and supporting testimony, issued data requests, conducted follow-up meetings with Columbia personnel responsible for overseeing the CEP investment, and issued follow-up information requests when necessary. Staff also reviewed the Company's deferrals, depreciation, and rate design.

Staff Comments and Recommendations

Plant Audit

Staff fully adopts Blue Ridge's audit report (filed on September 4, 2018). Specifically, Staff recommends that the Company:

- Work with Staff to better identify expenses vs. capitalized costs associated with meters relocation.
- Perform a new depreciation study prior to the Company's next rate case.
- Provide non-IRP gross plant and reserve depreciation balances by FERC account.
- Adjust plant balances to remove cost overruns identified by Blue Ridge.
    - This reduces Columbia's plant additions by $205,710 and thereby the flow thru effect will have a reduction on the CEP rider.
    - Staff further recommends that Columbia file adjusted plant balances in this docket and that these revised plant balances be the basis for reconciliation in the Company's next rate case.

Increased Capital Spending

The Blue Ridge audit revealed significant increases in overall capital spending from 2012 to 2017 (149.5%) with Growth-related activities being the largest annual spend category. According to Blue Ridge, CEP costs are increasing in part due to an amount of work being done and in part due to rising contractor costs. Staff recommends that Columbia work with Staff to identify reasonable and meaningful annual caps (spending, revenue requirement, rate, etc.) in order to keep costs under control and to ensure rate payers are not burdened with excessive and unnecessary plant investments.

Depreciation

Recovery Period of Deferrals

Columbia proposes the amortization of deferred depreciation, property taxes, and deferred PISCC be amortized over the life of the associated assets using the current depreciation rate. Staff believes a composite asset life should be used to establish the amortization period since the deferrals were calculated using a composite accrual rate. Staff calculated an average service life of the CEP assets as of December 31, 2017 using the recommended average service lives from the Company's last rate case (Case No. 08-74-GA-AIR) which results in an average composite service life of 50 years for an accrual rate of 2%, which should be used to amortize the deferrals.

Revenue Requirement

Columbia calculated the annualized depreciation expense using only plant additions. Staff recommends the annualized depreciation expense be calculated using net plant instead. This recommendation is consistent with Columbia's IRP rider. Additionally, with regard to the rate base provision for accumulated depreciation, the depreciation expense should be calculated using the accumulated depreciation expense of plant additions and not net plant. This recommendation is also consistent with Columbia's IRP rider.

Rate Base Depreciation Expense Offset

Staff further recommends that the Commission create an offset of $289.9 million (see attachment) to reflect that current tariffed rates being charged to customers reflect the recovery of an amount of depreciation expense that no longer reflects the rate base upon which that depreciation expense was established. The assets which comprised the rate base at the date certain of the Company's last rate case (Case No. 08-74-GA-AIR) are being retired and therefore the associated depreciation expense should decline. As the depreciation expense of the plant additions are either being recovered through the CEP rider rate (or being deferred on a going forward basis for future recovery) there should be recognition that the depreciation expense embedded in current base rates is recovering plant that is no longer in service. The offset will be calculated by taking the rate case plant in service less non-IRP Retirements. Accrual rates should then be applied to this net plant to derive an annual depreciation expense. This will accumulate each year and be used to offset the CEP rider's provision for accumulated depreciation.

Rates and Tariffs – Phase in

Staff recalculated the revenue requirement incorporating the depreciation recommendations above. Staff also applied a revised rate of return of 9.52% to account for the effects of TCJA 2017. Staff's calculation results in a lower plant balance of $660 million and accumulated deferrals of $150 million ($48.8 million in deferred plant depreciation, $71.7 million in deferred PISCC, and $29.5 million in deferred property taxes). Staff's calculation results in lower net CEP investment of $378 million (total plant in-service plus total accumulated provision for depreciation plus the various deferrals) resulting in a lower revenue requirement of $71 million. This is a decrease of $38 million. Staff's calculations result in a lower combined projected rate impact per month for SGS customers of $3.35, as shown in the table below. See the attachment for detail.

Projected Impact per Month	Staff Single Rate Recommendation	Company Single Rate As Filed
SGS	3.35	5.14
GS	27.95	43.33
LGS	540.69	832.59

Staff Workpaper and Exhibit J page 2, Company Amended Application

Staff recommends a single rate rather than a phase-in rate as proposed by Columbia in its application. First, Staff's proposed single rate ($3.35 for SGS customers) is lower than the Company's as-filed single rate ($5.14 for SGS customers). Second, Staff's proposed rate is close to the initial phase-in rate recommended by the Company ($3.28 for SGS customers). Third, a single rate would place all plant in service as of December 31, 2017 and therefore cease additional deferrals. Fourth, the single rate presents short term rate stability without increases. Finally, the single rate presents a less complicated structure for tracking, reporting, and auditing.

Staff recommends the Company make an annual filing to account for over/under collections and modifications in the amortization of deferrals. Staff's recommended rate should be in effect until the Company files its next rate case. Staff recommends the Commission order Columbia to work with Staff regarding the filing date of the next rate case application. The plant balances derived from this Staff report should be used as the baseline for the next rate case.

If the Commission would prefer to pursue a phase-in approach for the rate design, then Staff recommends that the Commission order the Company to file revised schedules incorporating the various recommendations listed herein to establish new phase-in rates.

Conclusion

In accordance with provisions of Ohio Adm. Code 4901:1-19-07 (C): "The commission staff will file a written report which addresses, at a minimum, the justness and reasonableness of the proposed alternative rate plan."

Exhibit D of the Company's amended application addresses compliance with R.C. 4905.35 and 4929.02. Columbia states that it complies with R.C. 4905.35 by;

- Making its public utility services available on a comparable and nondiscriminatory basis,
- Not presently offering any bundled regulated and unregulated services,
- Not basing the availability of any regulated services or goods, or the availability of discounted rate or improved quality, price, term, or condition for any regulated services or goods, on the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from the Company,
- Offering its regulated services or goods to all similarly situated customers, including any persons with which it is affiliated or which it controls, under comparable terms and conditions, and
- Administering its CHOICE program, and its tariffs more generally, in a nondiscriminatory and non-preferential manner, making all untariffed services equally available to all.

Columbia states that it substantially complies with R.C. 4929.02, regarding state policy on natural gas services and goods. Programs offered by Columbia provide unbundled and comparable natural gas services and goods alternatives, promoting diversity of natural gas supplies and suppliers, by giving consumers effective control over the selection of those supplies and suppliers.

The Company states that the CEP Rider will further advance Ohio's policies. The Rider will allow the Company to timely recover its investments and mitigate the impact to customers of a deferral continuing to build, which will enhance the Company's ability to continue offering adequate, reliable and reasonably priced natural gas goods and services.

The fixed monthly charged proposed for the CEP Rider will align the Company's interest with consumer interest in energy efficiency and energy conservation, pursuant to R.C. 4929.02(A)(12), by removing a financial incentive for the Company through increased throughput.

Columbia states that its proposed alternative rate plan is just and reasonable. By beginning recovery of the CEP Deferral and underlying assets in 2018, Columbia will request less than if it were to continue deferring expenses until the deferral reaches the SGS class rate impact threshold established in Case Nos. 11-5351-GA-UNC, et al., and continued by Case Nos. 12-3221-GA-UNC, et al. Customers would save carrying costs by allowing the Company to begin recovering its CEP deferral and underlying related investments.

With adoption of Staff's recommendations outlined in this report, Staff would respectfully recommend that the Commission approve Columbia's Application and find it just and reasonable.

Columbia Gas of Ohio, Inc.

Capital Expenditure Program (CEP) Rider

Case No. 17-2202-GA-ALT

Revenue Requirement Calculation

Line No.	Investment Date	As Filed Company Amended Filing 12/31/2017	Staff Workpaper Staff Adjustment 12/31/2017
		Exhibit J page 2	Rev Requirement Tab Derived from DR #12
	Description		
	Return on Investment		
1	Plant In-Service		
2	Additions[1]	$ 666,377,545.78	$ 660,093,110.37
3	Retirements	$ 120,380,724.14	$ 111,379,391.10
4	Total Plant In-Service	$ 545,996,821.64	$ 548,713,719.27
5	Less: Accumulated Provision for Depreciation		
6	Depreciation Expense	$ 48,622,872.42	$ 60,152,578.55
	2008 Rate Case Depreciation Offset	$ -	$ 289,972,747.00
7	Retirements	$ 120,380,724.14	$ 111,379,391.10
8	Total Accumulated Provision for Depreciation	$ 71,757,851.72	$ (238,745,934.45)
9	Deferred Plant Depreciation	$ 48,622,872.42	$ 48,803,586.73
10	Deferred PISCC	$ 70,084,122.10	$ 71,707,463.81
11	Deferred Property Taxes	$ 29,641,072.64	$ 29,574,071.58
12	Deferred Taxes on PISCC	$ (24,529,442.74)	$ (15,058,567.40)
13	Deferred Taxes on Property Taxes	$ (10,374,375.42)	$ (6,210,555.03)
14	Deferred Taxes on Liberalized Depreciation	$ (101,659,656.00)	$ (60,344,626.34)
15	Net Rate Base	$ 629,539,266.37	$ 378,439,158.16
16	Approved Pre-tax Rate of Return	10.95%	9.52%
17	Annualized Return on Rate Base	$ 68,934,549.67	$ 36,027,407.86
	Operating Expenses		
18	Annualized Depreciation	$ 23,537,854.31	$ 19,369,594.29
19	Annualized Deferred Depreciation Amortization	$ 1,717,462	$ 976,071.73
20	Annualized PISCC Amortization	$ 2,475,518.37	$ 1,434,149.28
21	Annualized Property Tax Expense	$ 11,724,270.23	$ 12,669,976.42
22	Annualized Deferred Property Tax Amortization	$ 1,046,984.93	$ 591,481.43
	Revenue Requirement	$ 109,436,639.47	$ 71,068,681.01
23	(Over)/Under Recovered Balance	$ -	$ -
	Excess Deferred Tax Passback		
24	**Total Amount to be Collected Beginning August 2018**	**$ 109,436,639.47**	**$ 71,068,681.01**

[1]Total additions through 2017 differs from Exhibit J due to the fourth quarter of 2017 reflecting actuals, at the time of the original filing the fourth quarter of 2017 was based on estimated additions. Additionally, there are other assumptions that have not been updated to reflect final 2017 data.

Columbia Gas of Ohio, Inc.

Capital Expenditure Program (CEP) Rider

Case No. 17-2202-GA-ALT

Rate Development

Line No.	Investment Date		As Filed Company Amended Filing 12/31/2017		Staff Workpaper Staff Adjustment 12/31/2017
	Description		Exhibit J page 1		Rate Development Tab Derived from DR #12
1	Revenue Requirement from Case No. 17-2202-GA-ALT	$	109,436,639	$	71,068,681.01
	Allocated Plant in Service per Case No. 08-0072-GA-AIR[1]				
2	SGS Class	$	1,406,934.00	$	1,406,934.00
3	GS Class	$	274,607.00	$	274,607.00
4	LGS Class	$	59,651.00	$	59,651.00
5	Total	$	1,741,192.00	$	1,741,192.00
	Percent by Class				
6	SGS Class		80.80%		80.80%
7	GS Class		15.77%		15.77%
8	LGS Class		3.43%		3.43%
9	Total		100.00%		100.00%
	Revenue Requirement Allocated to Each Class				
10	SGS Class	$	88,428,001.57	$	57,425,570.33
11	GS Class	$	17,259,479.28	$	11,208,389.02
12	LGS Class	$	3,749,158.61	$	2,434,721.67
13	Total	$	109,436,639.47	$	71,068,681.01
	Number of Projected Bills TME July 31				
14	SGS Class		17,205,292		17,152,600
15	GS Class		398,333		401,072
16	LGS Class		4,503		4,503
17	Total				
18	**Projected Impact Per Month - SGS**	$	5.14	$	3.35
19	**Projected Impact Per Month - GS**	$	43.33	$	27.95
20	**Projected Impact Per Month - LGS**	$	832.59	$	540.69