

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Suburban)	
Natural Gas Company for an Increase in Gas)	Case No. 18-1205-GA-AIR
Distribution Rates)	
In the Matter of the Application of Suburban)	Case No. 18-1206-GA-ATA
Natural Gas Company for Tariff Approval)	
In the Matter of the Application of Suburban)	
Natural Gas Company for Approval of Certain)	Case No. 18-1207-GA-AAM
Accounting Authority)	

**DIRECT TESTIMONY
OF
NICHOLE M. CLEMENT**

On Behalf of
THE SUBURBAN NATURAL GAS COMPANY

	Management Policies, Practices, and Organization
X	Operating Income
X	Rate Base
	Allocations
X	Rate of Return
X	Rates and Tariffs
	Other

September 14, 2018

1 **Q. Please state your name and business address.**

2 **A. Nichole M. Clement, 551 Lake Cascades Parkway, Findlay, Ohio 45840.**

3 **Q. By whom are you employed and in what capacity?**

4 **A. Gilmore Jasion Mahler, LTD (GJM), Certified Public Accountant.**

5 **Q. How long have you been associated with GJM?**

6 **A. Approximately five years. Prior to GJM, I was associated with Pry Professional Group**
7 **(Pry) for over 18 years. GJM acquired Pry in 2013.**

8 **Q. On whose behalf are you offering testimony in this proceeding?**

9 **A. I have been authorized to appear and testify on behalf of Suburban Natural Gas Company**
10 **(Suburban or Company), the applicant in this case.**

11 **Q. Please outline your educational background.**

12 **A. I graduated from Bowling Green State University in 1994 with a degree in Business**
13 **Administration with a specialization in accounting. I received my Certified Public**
14 **Accountant designation in 1998. I have worked with public utility companies at Pry and**
15 **GJM for the past 23 years.**

16 **Q. Do you have any experience testifying at the Public Utilities Commission of Ohio**
17 **(Commission)?**

18 **A. Yes. On August 17, 2007, I submitted testimony at the Commission on behalf of Suburban**
19 **in Case No. 07-689-GA-AIR, on September 14, 2010 in Case No. 10-763-GA-RDR, on**
20 **August 30, 2011 in Case No. 11-3234-GA-RDR, on August 30, 2012 in Case No. 12-1698-**
21 **GA-RDR, on August 30, 2013 in Case No. 13-1231-GA-RDR, on August 28, 2014 in Case**
22 **No. 14-1006-GA-RDR, on August 28, 2015 in Case No. 15-1048-GA-RDR, on August 31,**
23 **2016 in Case No. 16-1212-GA-RDR, on April 25, 2017 in Case No. 17-594-GA-ALT, on**
24 **August 24, 2017 in Case No. 17-1371-GA-RDR, and on August 30, 2018 in Case No. 18-**
25

0977-GA RDR. Also, I am generally familiar with the ratemaking process and the accounting practices of public utilities.

Q. What is the purpose of your testimony in this proceeding?

A. Under Ohio's statutory ratemaking formula, which I understand is generally consistent with other regulatory jurisdictions, the rates approved by the Commission in this proceeding must generate gross annual revenues sufficient to cover the costs incurred by the Company in providing service to its customers and provide the opportunity to earn a reasonable return on the investment in property and facilities used in providing such service.

Q. What sections of the Company's Application are you sponsoring in the proceeding?

A. I am sponsoring the following sections of the Commission's Standard Filing Requirements (SFRs) for Small Utilities: Section B (Rate Base), Section C (Operating Income), Section D (Rate of Return), and portions of Section E (Rates and Tariffs).

Q. Please explain the Section B (Rate Base) Schedules.

A. Schedule B-2.3 was the first schedule to be completed in determining the rate base for this case and was completed as follows. Each property account was listed and identified by the property NARUC number and description. The Total Beginning Balance shows the original cost of the Plant in Service at the last Date Certain, in Suburban's last rate proceeding, as of December 31, 2006. The original cost of additions, retirements, and transfers made between January 1, 2007 and May 31, 2018 and the projected cost of additions, retirements, and transfers made between June 1, 2018 and February 28, 2019 are listed by account and are used to determine the Total Ending Balance Original Cost of Plant in Service at the Projected Date Certain of February 28, 2019.

1 **Q. How do you define Original Cost?**

2 **A. “Original Cost,” as applied to utility plant, means the cost of such property to the person**
3 first devoting it to public service.

4 **Q. How is the Original Cost of the various items of property determined?**

5 **A. Records are maintained by Suburban in compliance with the Uniform System of Accounts.**
6 The original cost of each item of property is recorded by project number in the activity
7 module. After each item of property has been placed in service, the appropriate original
8 cost is transferred from construction work in progress to the appropriate plant in service
9 account. Each plant in service account is reviewed to assure that the proper original cost
10 has been added or subtracted (in the case of retirements). Each authorization (work order)
11 for expenditure or retirement is examined and analyzed for accuracy and, in most cases,
12 the appropriate ledger entries are also analyzed.

13 **Q. How do you determine that the various items of property are in service at the date**
14 **certain?**

15 **A. Each work order provides a completion report on which is recorded the date completed and**
16 date in service. The date in service is used for that determination. Those work orders are
17 tied back to original invoices and time records.

18 **Q. Describe how Schedule B-2 is completed.**

19 **A. After completing Schedule B-2.3, the Total Division Ending Balance amounts were carried**
20 forward as applicable to Schedule B-2.1 in the Total Company Column. As required by
21 the SFR, these balances were then allocated and adjusted to determine the Adjusted
22 Jurisdictional Plant in Service at the Projected Date Certain of February 28, 2019. Line
23 12, Adjusted Jurisdiction Column, Page 4 of Schedule B-2.1, shows the total Distribution
24 Plant in Service at the Projected Date Certain of February 28, 2019 in the amount of
25

1 \$37,257,173 and Line 13, Adjusted Jurisdiction Column, Page 5 of B-2.1, shows the total
2 General Plant in Service at the Projected Date Certain of February 28, 2019 in the amount
3 of \$2,487,080. As detailed on Schedule B-2.2, there is a proposed adjustment to Plant in
4 Service to include capital leases that have been previously approved in rate base, totaling
5 \$727,227, that are included in the Adjustment Column of Schedule B-2.1, Page 4 of 5, Line
6 4. The adjusted jurisdictional original cost balances are then carried forward to Schedule
7 B-2 by Major Property Groupings and this total is then carried forward to Line 1 on
8 Schedule B-1. The Total Plant in Service at the Projected Date Certain of February 28,
9 2019 is \$39,744,253.

10
11 The next component of rate base to be considered was the Depreciation Reserve. The total
12 Ending Balance of Schedule B-2.3, Page 4 and 5, was restated on Page 5 and 6 of Schedule
13 B-3 as Total Plant Investment. The account balances for the depreciation reserve were then
14 set forth in the Total Company Reserve Balance Column and allocated and adjusted using
15 the same procedure as was used for the Plant in Service in Schedule B-2.1. The total
16 Suburban Reserve for Accumulated Depreciation as of Projected Date Certain, February
17 28, 2019, shown on Schedule B-3, Page 1 of 6, Line 9, under Adjusted Jurisdiction is
18 \$9,656,236. The same amount is restated on Schedule B-1, Page 1 of 1, Line 2 under the
19 Company Proposed Amount Column as \$9,656,236.

20 **Q. How was Schedule B-5 completed?**

21 A. Schedule B-5 calculates an Allowance for Working Capital of \$356,118. It includes a cash
22 element of working capital, interest on customers' deposits, material and supplies, as well
23 as a reduction for operating taxes, customer deposits, deferred bad debt and deferred

1 Percentage of Income Payment Plan (PIPP) Rider amounts. The methodology used in the
2 calculations are as described on the schedule.

3 **Q. How was Schedule B-6 completed?**

4 **A.** Lines 8 and 9 of Schedule B-1 set forth amounts of \$(703,306) and \$(3,863,251),
5 respectively, as Other Items. These amounts include deferred income-budget billings and
6 deferred income taxes, all of which are identified on Schedule B-6. The deferred income
7 tax amount includes the excess accumulated deferred income tax amount at December 31,
8 2017 relating to the reduction in the statutory federal income tax rate from 35% to 21%
9 effective January 1, 2018.

10 **Q. Would you now summarize Schedule B-1?**

11 **A.** Yes. At the Projected Date Certain of February 28, 2019, the Plant in Service less
12 Depreciation Reserve, plus Working Capital and less Other Items results in a Jurisdictional
13 Rate Base of \$25,877,578.

14 **Q. Please explain what is contained on Schedule C-1.**

15 **A.** This Schedule contains the Company's proforma income statement for the twelve months
16 ended February 28, 2019, the test year in this proceeding, and reflects three months of
17 actual data and nine months of projected data, as adjusted for ratemaking purposes. As
18 shown on the Schedule, the portion of the Company for which a rate increase is sought
19 would, on an adjusted test year basis, experience operating loss of \$(649,180) under its
20 current rates, which produces a rate of return of -2.51%. The proposed rates would, on a
21 proforma basis, produce net operating income of \$1,879,161, which represents a rate of
22 return on the Company's rate base of 7.26%.

1 **Q. What is the nature of the amounts shown in Schedule C-2 in the Column captioned**
2 **“Adjustments”?**

3
4 **A.** These amounts are adjustments to reflect conditions existing at the time of the filing of the
5 Application or events that are anticipated during the test year, which did not prevail during
6 the entire test year. When applying the adjustments to the amounts in the Unadjusted
7 Revenues and Expenses Column, the operating loss is increased from (\$254,087) to
8 \$(649,180) as shown on the Adjusted Revenues and Expenses Column on Schedule C-2.

9 **Q. Could you describe your adjustment totaling \$(1,961,761) to Operating Revenues on**
10 **Schedule C-2, Line 3, of the Adjustments Column?**

11
12 **A.** The revenue in the Unadjusted Revenue and Expenses Column of Schedule C-2 reflects
13 the actual jurisdictional revenue for 3 months ending May 31, 2018 and the projected
14 jurisdictional revenue for the 9 months ending February 28, 2019. The consumption and
15 revenue as stated on E-4 represent the actual jurisdictional consumption for the 3 months
16 ending May 31, 2018 and the projected jurisdictional revenue for the 9 months ending
17 February 28, 2019. The revenues shown on the Unadjusted Revenue and Expenses Column
18 on C-2, Line 3, of \$19,910,880 are adjusted for rider revenue as enumerated on Schedule
19 C-3.2. The adjustment includes amounts for the gross receipts tax rider of \$955,152, MCF
20 tax rider revenue of \$84,942, Uncollectible Expense (UEX) Rider revenue of \$11,895,
21 PIPP Rider revenue of \$280,177 and Infrastructure Replacement Program (IRP) Rider
22 revenue of \$14,431, totaling \$1,346,597. This amount is then subtracted from the
23 \$19,910,880 and the annualized total revenue of \$17,949,119 on Schedule E-4, Page 2 of
24 2, Current Revenue Total Column, Line 32 is subtracted from the subtotal to compute the
25 adjustment to revenue as shown on C-3.1 of \$(615,164).
26

1 **Q. Would you please describe the adjustments under the heading “Operating Expenses”**
2 **of Schedule C-2, Line 8 of the Adjustments Column?**

3
4 **A. The adjustments are as follows:**

- 5 1. The purchased gas expenses in the Adjustments Column of Schedule C-2 reflects
6 the adjustment to arrive at actual jurisdictional expense for the 3 months ending
7 May 31, 2018 and the projected jurisdictional expense for the 9 months ending
8 February 28, 2019 at current rates, as summarized on Schedule C-3.1. The
9 consumption and expense as stated on E-4 represent the actual jurisdictional
10 consumption for the 3 months ending May 31, 2018 and the projected jurisdictional
11 expense for the 9 months ending February 28, 2019. The purchased gas expense
12 shown on C-2, Unadjusted Revenue and Expenses Column, Line 6, of \$11,481,648
13 is subtracted from the annualized total purchase gas expense of \$10,903,572 on
14 Schedule E-4, Page 1 of 2, Annualized Gas Cost Revenue Column, Line 17 to
15 compute the net adjustment to purchase gas expense as shown on C-3.1 of
16 \$(578,076).
- 17 2. The operations and maintenance expense includes an adjustment for UEX Rider
18 expense of \$11,895, PIPP Rider expense of \$280,177 and IRP Rider expense of
19 \$14,431, totaling \$306,503, as summarized on Schedule C-3.2.
- 20 3. The annual interest on customer deposits is not included in Operating Expense, and
21 therefore an adjustment on Schedule C-3.3 shows the computation of the annual
22 customer deposits’ interest at the Projected Date Certain of February 28, 2019 of
23 \$3,536.

- 1 4. The rate case expense for this case is estimated to be \$265,000 on Schedule C-3.4,
2 Line 3. The proposed, three-year amortization period results in an adjustment
3 decreasing test year expenses by \$30,226.
- 4 5. The charitable contributions included in the test year of \$23,163 have been
5 excluded through the adjustment reflected on C-3.5.
- 6 6. The social and service club dues included in the test year of \$18,710 have been
7 excluded through the adjustment reflected on C-3.6.
- 8 7. An adjustment for known and scheduled pay increases as a result of an independent
9 market survey of the Company's hourly and salaried positions and known
10 additional hires has been included as reflected on C-3.7 of \$236,477.
- 11 8. An adjustment for a decrease in professional fees in the amount of \$201,483 as
12 reflected on Schedule C-3.9 has been included to remove abnormal professional
13 fees experienced during the proforma test year ending February 28, 2019.

14 **Q. Would you explain your adjustments to depreciation expense on C-2, Line 10, of the**
15 **Adjustments Column?**

16
17 **A. The depreciation expense in the Unadjusted Revenue and Expenses Column of Schedule C-**
18 2 includes depreciation on assets placed in service as of the Projected Date Certain of
19 February 28, 2019. It has been the Commission's practice to calculate the annual
20 depreciation expense on the property in service at date certain; therefore, this calculation
21 has been made on Schedule B-3.2, Pages 4 of 5 and 5 of 5, Calc. Depr. Expense Column,
22 as \$1,177,545, resulting in an adjustment to depreciation expense of \$190,344 as shown on
23 Schedule C-3.10.

1 **Q. Can you explain your adjustments to taxes other than Income on C-2, Line 11 of the**
2 **Adjustments Column?**

3
4 **A.** An adjustment is included for the gross receipts tax rider of \$955,152 and MCF tax rider of
5 \$84,942, totaling \$1,040,094, as summarized on Schedule C-3.2. An adjustment is also
6 included for increased property tax expenses relating to expansion scheduled to be
7 completed by the date certain, February 28, 2019, in the amount of \$306,254 as reflected
8 on Schedule C-3.8.

9 **Q. Would you explain your computation of the adjustment to the federal income tax on**
10 **Schedule C-2, Line 12 of the Adjustments Column?**

11
12 **A.** A federal income tax adjustment is shown on Schedule C-3.11, which computes the federal
13 income tax expense effect of the adjustments on Schedules C-3.1 to C-3.10. The total effect
14 of the proposed adjustments is a reduction to income of \$500,117. A tax rate of 21% is then
15 applied to arrive at a tax benefit of \$105,025 from the proposed adjustments.

16 **Q. Would you summarize your Schedule C-3 and how it relates to your test-year**
17 **operating income?**

18
19 **A.** Schedule C-3 shows the adjustments by income statement grouping. The net of the Total
20 Revenue Adjustments and Total Expense Adjustments is \$(395,093) and can be found on
21 Schedule C-2, Adjustments Column, Line 15. Applying the adjustments to the Unadjusted
22 Revenue and Expenses Column results in the Adjusted Revenue and Expenses Column.
23 The adjusted test year operating income is \$(649,180) and the amounts in the Adjusted
24 Revenue and Expenses Column are carried forward to Schedule C-1, in the Adjusted
25 Revenue and Expenses Column.

26 **Q. Has the Company begun amortization of the excess accumulated deferred income tax**
27 **amount at December 31, 2017 relating to the reduction in the statutory federal income**
28 **tax rate from 35% to 21%, effective January 1, 2018?**
29

1 **A.** Yes. The Company has calculated the weighted average of the remaining useful life of the
2 property, plant and equipment that generated the excess deferred income tax amount to be
3 287 months. The Company began amortization of the amount effective January 1, 2018.

4 **Q.** **You are also responsible for Section D, please explain what is contained on Schedule**
5 **D-1.**

6
7 **A.** Schedule D-1 is entitled “Rate of Return Summary” and, under the SFR format, includes
8 information necessary to compute the weighted cost of capital of the Company. Schedule
9 D-1 indicates that Suburban has no preferred stock and, thus, has a capital structure that is
10 comprised of \$17,707,439 of long-term debt and \$16,181,399 of common equity.

11 **Q.** **Please explain Schedule D-2.**

12 **A.** Schedule D-2 shows Suburban’s short-term debt obligations as of the projected date certain
13 along with the applicable interest rate and the annualized interest requirement.

14 **Q.** **Please explain Schedules D-3 and D-4.**

15 **A.** Schedules D-3 and D-4 indicate the embedded cost of debt and preferred stock respectively,
16 of the Company. As previously mentioned, Suburban does not have preferred stock. As
17 calculated on Schedule D-3, the embedded cost of debt for Suburban is 4.53%.

18 **Q.** **Have you determined an appropriate rate of return to be applied to the rate base**
19 **valuation for purposes of establishing a reasonable earnings opportunity for**
20 **Suburban?**

21
22 **A.** Yes.

23 **Q.** **By what principles should the Commission be guided in determining a fair rate of**
24 **return for purposes of this proceeding?**

25
26 **A.** The United State Supreme Court, in its decisions in Bluefield Waterworks Company v.
27 Public Service Commission, 262 U.S. 679 (1923), and Federal Power v. Hope Natural Gas
28 Company, 320 U.S. 591 (1944), detailed what have come to be regarded as the basic

standards for determining a fair rate of return. As summarized by the Commission Staff in the Staff Report of Investigation issued December 20, 1996 in Copley Square Water Company, Case No. 96-0573-WW-AIR (at page 12), these cases establish that the rate of return authorized should be commensurate with the returns being earned on investments in other business undertakings that have similar or corresponding risks and should be sufficient to enable the regulated utility to maintain its credit standing and financial integrity and attract capital at reasonable costs.

Q. What type of analysis have you performed in developing a recommendation of an appropriate rate of return for Suburban for purposes of this case?

A. I have performed a weighted average cost of capital analysis to provide evidence of a fair rate of return for Suburban.

Q. What is a weighted average cost of capital analysis?

A. A Company's total capitalization is typically comprised of long-term debt, preferred stock, and common equity. Each component of the capital structure has a cost rate associated with it. Identifying that cost rate, applying it to the ratio of the relevant component to the total capitalization, and summing the results for all three components produces the overall weighted cost of capital to the company. The result of this analysis, which is consistent with the Bluefield and Hope standards discussed above, serves as evidence of a fair rate of return for the company under study. The common equity amount is the amount of projected at Date Certain of February 28, 2019. The 10.25% equity return was determined to be reasonable after review of the market conditions, returns on investments attended by corresponding risk, and discussion with the Company.

1 **Q. Are you also responsible for portions of Section E?**

2 **A. Yes. I am responsible for Schedule E-3.1, Customer Charge Rationale; Schedule E-4, Class**
3 **and Schedule Revenue Summary; and Schedule E-5, Typical Bill Comparison.**

4 **Q. Please explain Schedule E-4.**

5 **A. Schedule E-4 summarizes the proposed and current revenue annualized. The Sales**
6 **represent the actual consumption for the 3 months ending May 31, 2018 and the projected**
7 **consumption for the 9 months ending February 28, 2019.**

8 **Q. Please describe Schedule E-5, Pages 1, 2 and 3.**

9 **A. Schedule E-5 compares the current Suburban bill to the proposed Suburban bill at various**
10 **levels of consumption for the three classes of customers proposed in the rate structure:**
11 **small general service, large general service, and large general transportation. It also**
12 **indicates the increase and percent of increase for each level of consumption shown. In**
13 **Case No. 17-0594-GA-ALT, the Commission authorized Suburban to implement a**
14 **straight-fixed-variable (SFV) rate design in two phases with the first phase being**
15 **implemented November 1, 2017 and the second phase being implemented on November 1,**
16 **2018. Since the second phase will be implemented prior to the enactment of rates from**
17 **this proceeding, the rates that will be in effect on November 1, 2018 were utilized as the**
18 **basis for the current rates to more accurately reflect the change in billings to customers**
19 **when the new proposed rates take effect.**

20 **Q. How has the Company complied with the Commission's Order in Case No.**
21 **18-47-AU-COI?**

22 **A. In addition to the calculations described above in the Section C Schedules, the Company**
23 **has reduced the federal tax rate utilized in the gross revenue factor calculation to reflect the**
24 **newly enacted statutory federal income tax rate of 21% that is effective January 1, 2018.**
25

1 Furthermore, the Company has booked a regulatory liability for the estimated reduction in
2 federal income tax resulting from The Tax Cuts and Jobs Act of 2017 (TCJA) in accordance
3 with the Commission's Order. The Company plans to seek approval from the Commission
4 through a separate filing as to the manner and time period over which these amounts will
5 be refunded to customers.

6 **Q. Do you have any corrections to the Company's filing?**

7 **A.** No, not at this time.

8 **Q. Does this conclude your direct testimony in this proceeding?**

9 **A.** Yes, it does.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing document was served on September 14, 2018 by electronic mail upon the parties listed below.

/s/ Kimberly W. Bojko
Kimberly W. Bojko

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Summary: Testimony Direct Testimony Of Nichole M. Clement electronically filed by Mrs. Kimberly W. Bojko on behalf of Suburban Natural Gas Company