BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

OBJECTIONS OF COLUMBIA GAS OF OHIO, INC. TO THE STAFF REPORT OF INVESTIGATION

In accordance with R.C. 4909.19(C) and Ohio Adm. Code 4901:1-19-07(F), Columbia Gas of Ohio, Inc. ("Columbia" or "the Company") files its formal objections to the report that the Staff of the Public Utilities Commission of Ohio ("Staff Report") filed on September 14, 2018, in this proceeding. Columbia reserves the right to file Supplemental Direct Testimony in support of the objections below.

1. Depreciation Study (Staff Report at 7)

Blue Ridge commented that Columbia uses depreciation rates approved by the Commission in Case No. 08-72-GA-AIR, et al.[1] Accordingly, Blue Ridge recommended that Columbia perform a depreciation study, "reflecting the numerous subaccounts that have been added since the last rate case," and update the depreciation rates.[2] Staff agreed and recommended that Columbia "[p]erform a new depreciation study prior to the Company's next rate case."[3] Columbia objects to this recommendation because it exceeds the scope of this proceeding, which is to review CEP Investment from October 2011 through December 31, 2017. Columbia conducted a depreciation study prior to its last base rate case[4] and will perform a new depreciation study in conjunction with its next base rate case filing.

---

1 *Id.* at 8.

2 *Id.*

3 Staff Report at 7.

4 *See In re Application of Columbia Gas of Ohio, Inc. for Authority to Revise its Depreciation Accrual Rates*, Case No. 08-0075-GA-AAM, Application of Columbia Gas of Ohio, Inc. to Revise Depreciation Accrual Rates (Feb. 1, 2008).

2. <u>Annual Caps</u> (Staff Report at 7)

Blue Ridge reported that Columbia's spending on growth-related activities increased 149.5% between 2012 and 2017.[5] Staff interpreted Blue Ridge's report to mean that overall capital spending had increased 149.5% from 2012 to 2017, "with Growth-related activities being the largest annual spend category."[6] Based on that finding, Staff recommended that "Columbia work with Staff to identify reasonable and meaningful annual caps * * * in order to keep costs under control and to ensure ratepayers are not burdened with excessive and unnecessary plant investments."[7]

Columbia objects to this recommendation on three grounds. First, as indicated above, Staff appears to have misinterpreted the Blue Ridge finding on which it based its recommendation. Second, annual caps are not needed to control costs or protect ratepayers from excessive and unnecessary plant investments. Blue Ridge's audit concluded that Columbia "is implementing sound cost containment strategies," and Blue Ridge "found nothing to indicate that [Columbia's CEP expenses and assets] were unnecessary, unreasonable, or imprudent."[8] Third, Staff's recommendation is unclear. Columbia's Amended Application seeks to establish a Capital Expenditure Program ("CEP") Rider to recover the post-in-service carrying costs, incremental depreciation expense, and property tax expense deferred pursuant to Columbia's capital expenditure program deferral through December 31, 2017, as well as the corresponding assets in the CEP to which these expenses are directly attributable. Imposing annual caps on increases in the CEP Rider would make sense only if Columbia were permitted to continue deferring post-2017 CEP-related expenses and assets after the Commission approves the CEP Rider, and if the CEP Rider were converted into an on-going rider with annual adjustments. If Staff were to support converting the CEP Rider into an on-going, annually adjusted rider, Columbia would be willing to discuss establishing annual caps on that Rider as part of settlement negotiations in this proceeding.

---

[5] Blue Ridge Audit Report at 54.

[6] Staff Report at 7.

[7] *Id.*

[8] Blue Ridge Audit Report at 60 and 23.

3. Recovery Period of Deferrals (Staff Report at 8)

For purposes of calculating Columbia's CEP Rider revenue requirement, "[d]eferred expenses, such as deferred depreciation, property taxes, and deferred PISCC, are amortized over the life of the associated assets using the current depreciation rate" once "Columbia starts recovering the associated expense through the CEP Rider."[9] Staff recommends, instead, that "a composite asset life [of 50 years] should be used to establish the amortization period[,] * * * for an accrual rate of 2%, which should be used to amortize the deferrals."[10]

Columbia objects to Staff's recommendation for three reasons. First, adopting a longer amortization period will cause customers to pay more. Columbia's composite current depreciation rates result in an amortization period of 37 years, rather than 50 years. Second, the extension of the amortization period will result in the recovery of these deferrals beyond the useful life of the capital investment upon which the deferred expenses were incurred. Third, Columbia calculated its depreciation accrual rates in this case in the same manner it used to calculate depreciation accrual rates for Rider IRP, and Columbia sees no reason to take a different approach here.

4. Rate Base Depreciation Expense Calculation (Staff Report at 8)

Columbia objects to Staff's recommendation that Columbia should calculate its rate base depreciation expense using plant additions.[11] Calculating rate base depreciation expense on a net plant basis is consistent with generally accepted accounting principles ("GAAP").

5. Rate Base Depreciation Expense Offset (Staff Report at 8)

Staff recommends that "the Commission create an offset of $289.9 million * * * 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."[12]

[9] Amended Application, Exhibit A, at 5.

[10] Staff Report at 8.

[11] *See id.*

[12] *Id.*

Columbia objects to this recommendation for two reasons. First, Columbia's current tariffed base rates are not the subject of Columbia's Amended Application, except to the extent the Commission adjusts those rates to reflect recent federal tax reforms. Any adjustment of those rates should be addressed in Columbia's next base rate case, and not in this proceeding. Second, any effort to offset Columbia's recovery of deferred CEP-related expenses and assets to make up for a purported past over-recovery under Columbia's Commission-approved tariffs would constitute unlawful retroactive ratemaking.[13]

6. Single Rate (Staff Report at 9)

Columbia's Amended Application proposed a fixed CEP Rider charge that would be adjusted every two years to gradually recover both the CEP Deferral balance associated with assets placed in service on or before December 31, 2017, and the underlying related investments. The initial rate, effective August 1, 2018, would reflect CEP assets from investment years 2011 through 2015 and the CEP Deferral balance through December 31, 2017. The rate would be adjusted effective August 1, 2020, and would reflect CEP assets through investment year 2016 and the CEP Deferral balance through December 31, 2019. And it would be adjusted again, effective August 1, 2022, and would reflect CEP assets through investment year 2017 and the CEP Deferral balance through December 31, 2021. For Small General Service (SGS) Class customers, the maximum CEP Rider rates for 2018, 2020, and 2022 would be \$3.28, \$4.17, and \$4.92, respectively. For General Service (GS) Class customers, the maximum CEP Rider rates for 2018, 2020, and 2022 would be \$27.64, \$35.86, and \$42.91, respectively. And for Large General Service (LGS) Class customers, the maximum CEP Rider rates for 2018, 2020, and 2022 would be \$531.14, \$685.55, and \$882.40, respectively.

Staff, in comparison, "recommends a single rate rather than a phase-in rate": \$3.35 for SGS Class customers, \$27.95 for GS Class customers, and \$540.69 for LGS Class customers.[14] Staff further recommends that this rate should remain in effect until Columbia files its next rate case.[15]

---

[13] *See, e.g., In re Application of Columbus S. Power Co.,* 138 Ohio St.3d 448, 2014-Ohio-462, ¶49 (holding that the Commission properly refused to offset Columbus Southern Power's recovery of deferred fuel costs as a means to refund certain purportedly unlawful charges to customers, on the grounds that doing so would be an unlawful refund in violation of *Keco Industries*).

[14] Staff Report at 9.

[15] *Id.*

Columbia would not object to a single CEP Rider rate for each rate class to remain in effect until Columbia's next base rate case. However, Columbia objects to the rates that Staff has proposed, because the proposed rates do not reflect the use of current depreciation accrual rates, reflect computation of a reserve for depreciation calculated on gross plant additions, and include a rate base depreciation expense offset to which Columbia objected above.

7. Annual Filing (Staff Report at 9)

Staff further recommends that Columbia "make an annual filing to account for over/under collections and modifications in the amortization of deferrals."[16] Columbia objects to this because an annual true-up is unnecessary if the CEP Rider rate is a fixed rate to remain in effect until Columbia's next base rate case, as Staff has recommended. If Staff were to support converting the CEP Rider into an ongoing, annually adjusted rider, Columbia would be willing to discuss a true-up process as part of settlement negotiations in this proceeding.

Respectfully submitted,

/s/ Eric B. Gallon
Eric B. Gallon (0071465)
(Counsel of Record)
Mark Stemm (0023146)
Emily Lane (0095947)
Porter Wright Morris & Arthur LLP
41 South High Street
Columbus, OH 43215
Telephone: (614) 227-2190
Email: egallon@porterwright.com
mstemm@porterwright.com
elane@porterwright.com

[16] *Id.*

Stephen B. Seiple, Asst. General Counsel
(0003809)
Joseph M. Clark, Sr. Counsel (0080711)
Columbia Gas of Ohio, Inc.
290 W. Nationwide Blvd.
P.O. Box 117
Columbus, OH 43216-0117
Telephone: (614) 460-4648
(614) 460-6988
Email: sseiple@nisource.com
josephclark@nisource.com

(Willing to accept service by e-mail)

Attorneys for
COLUMBIA GAS OF OHIO, INC.

CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned hereby certifies that a copy of the foregoing document is also being served via electronic mail on the 15th day of October, 2018, upon the parties and movant listed below:

Ohio Attorney General's Office	jodi.bair@ohioattorneygeneral.gov robert.eubanks@ohioattorneygeneral.gov
Industrial Energy Users – Ohio	fdarr@mwncmh.com mpritchard@mwncmh.com
The Kroger Co.	paul@carpenterlipps.com dutton@carpenterlipps.com
The Office of the Ohio Consumers' Counsel	bryce.mckenney@occ.ohio.gov
Ohio Energy Group	dboehm@BKLlawfirm.com mkurtz@BKLlawfirm.com kboehm@BKLlawfirm.com jkylercohn@BKLlawfirm.com
Ohio Manufacturers' Association Energy Group	bojko@carpenterlipps.com dressel@carpenterlipps.com
Ohio Partners for Affordable Energy	cmooney@ohiopartners.org
Retail Energy Supply Association	mjsettineri@vorys.com glpetrucci@vorys.com
Interstate Gas Supply, Inc.	mnugent@igsenergy.com joliker@igsenergy.com

/s/ Eric B. Gallon
Eric B. Gallon

Attorney for
COLUMBIA GAS OF OHIO, INC.