THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF THE EAST OHIO GAS COMPANY D/B/A DOMINION EAST OHIO FOR APPROVAL TO CHANGE ACCOUNTING METHODS ASSOCIATED WITH ITS PIPELINE SAFETY MANAGEMENT PROGRAM.	CASE NO. 15-1712-GA-AAM

FINDING AND ORDER

Entered in the Journal on November 14, 2018

I. SUMMARY

{¶ 1} The Commission finds that, pursuant to the approved process for the pipeline safety management program of The East Ohio Gas Company d/b/a Dominion Energy Ohio, the annual report filed June 1, 2018, should be accepted as filed.

II. PROCEDURAL BACKGROUND

{¶ 2} The East Ohio Gas Company d/b/a Dominion Energy Ohio (Dominion or Company) is a natural gas company, as defined in R.C. 4905.03, and a public utility, as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.13 authorizes the Commission to establish systems of accounts to be kept by public utilities and to prescribe the manner in which these accounts will be kept. Pursuant to Ohio Adm.Code 4901:1-13-13, the Commission adopted the Uniform System of Accounts (USOA), which was established by the Federal Energy Regulatory Commission, for gas and natural gas companies in Ohio, except to the extent that the provisions of the USOA are inconsistent with any outstanding orders of the Commission. Additionally, the Commission may require the creation and maintenance of such additional accounts as may be prescribed to cover the accounting procedures of gas or natural gas companies operating within the state.

{¶ 4} By Opinion and Order dated November 3, 2016, the Commission approved Dominion's application, pursuant to a Stipulation and Recommendation (Stipulation) filed by Dominion and Staff, to establish a regulatory asset and to defer, for accounting and financial reporting purposes, expenditures for its new pipeline safety management program (PSMP), as required by newly enacted federal pipeline safety regulations and state regulations regarding underground storage integrity. The new federal regulations required operators of gas distribution pipelines to develop and implement a distribution integrity management plan.

{¶ 5} In the Opinion and Order, Dominion received authority to revise its accounting procedures and to defer operations and maintenance costs incurred for the PSMP on or after January 1, 2016, with the annual amount not to exceed $15 million, including carrying costs of three percent per annum on the deferred balance, without compounding, as costs are incurred until recovery of the deferral commences. Unless otherwise ordered by the Commission, the deferral will expire not later than January 1, 2024. Recovery of any deferred PSMP-related costs will be addressed in a separate proceeding or in Dominion's next general rate case. As part of the Commission's approval of the PSMP, Dominion is required to file an annual report by June 1 of each year detailing, among other things, the expenditures, deferred expenses, baseline performance measures for each initiative, improvements of each initiative in comparison to the baselines, results of ongoing and future investigations, any mid-term adjustments, and efforts to identify efficiencies and to implement cost-savings measures. In addition, Dominion was also required to include with the annual report an audit report, prepared by an external auditor, as to the accuracy of Dominion's accounting for PSMP-related expenditures. Within 90 days of the Company filing the annual report, Staff shall file a report of its investigation (Staff Report). Dominion is afforded 30 days to accept or object to the Staff's recommendations. The Stipulation also requires biannual meetings between Dominion and Staff to review progress under the PSMP, any proposed changes, the results of any new or ongoing investigations or evaluations, cost-savings measures, and other related matters. Opinion and Order at ¶ 7.

{¶ 6} On June 1, 2017, in Case No. 17-1383-GA-AAM, Dominion filed its PSMP annual report for calendar year 2016 (2017 Annual Report), which was refiled in the above-noted case docket on August 3, 2017. In the 2017 Annual Report, Dominion proposed two new initiatives in response to rulemakings by the Pipeline and Hazardous Materials Safety Administration: the underground storage integrity program and the gathering rights of way maintenance initiative (2017 Annual Report at 3).

{¶ 7} On August 30, 2017, Staff filed its review and recommendation (2017 Staff Report). In the 2017 Staff Report, Staff recommended Dominion include, in future PSMP annual reports, a more comprehensive and detailed audit report that is similar to the external audit report included in the annual report filed by Columbia Gas of Ohio, Inc. (Columbia), in Case No. 14-1615-GA-AAM, on June 1, 2017 (Columbia Report). Otherwise, Staff stated that it had no other objections to Dominion's 2017 Annual Report and recommended that the Commission accept the report as filed. However, Staff noted that its lack of objection to Dominion's 2017 Annual Report should not be construed as support for future recovery of PSMP deferrals.

{¶ 8} By correspondence filed September 29, 2017, Dominion accepted Staff's recommendation and committed to work with its auditor to ensure that the audit report included with its next annual filing contained details substantially similar to the detail included in the referenced Columbia Report. Further, Dominion indicated that, to the extent additional guidance was needed, Dominion would consult with Staff on the annual filing. Finally, Dominion stated that, given Staff's lack of objection to the 2017 Annual Report, and the lack of any objection to Staff's recommendation, Dominion did not believe any additional proceedings were necessary.

{¶ 9} Consistent with the process agreed to by Dominion and Staff in the Stipulation, and approved by the Commission, no further action was necessary in regard to Dominion's 2017 Annual Report.

{¶ 10} On June 1, 2018, Dominion filed its PSMP annual report for calendar year 2017, with attachments A through C, and an independent audit report (2018 Annual Report).

{¶ 11} Consistent with the approved process, on August 29, 2018, Staff filed its review and recommendation (2018 Staff Report). In the 2018 Staff Report, Staff notes that, pursuant to the Commission's November 3, 2016 Opinion and Order, Dominion's PSMP consists of only four initiatives: the damage prevention initiative, the advanced workforce training initiative, the asset data collection initiative, and the quality assurance program. Staff recommends that the Commission direct Dominion to reduce the deferrals for calendar year 2017 by $769,513.62 in association with two new safety initiatives. Staff reasons that the two new initiatives, the underground storage integrity program and the gathering rights of way maintenance initiative, were never mentioned in Dominion's original application seeking authority to defer PSMP expenses nor does the application include, according to Staff, any discussion of other safety initiatives that may replace or be added to the original PSMP as approved by the Commission. Accordingly, Staff recommends that the Commission remove the associated program expenses from the 2017 deferrals. Staff further recommends that the Commission direct Dominion that it may not replace existing PSMP initiatives or defer costs associated with new initiatives without first obtaining authority to do so from the Commission.

{¶ 12} On September 28, 2018, Dominion filed its reply to the 2018 Staff Report. Dominion asserts that Staff's recommendation is incorrect and unfair. According to Dominion, Staff overlooks a provision of the application that specifically provided that the PSMP is intrinsically forward looking and, thus, subject to further development in response to changing conditions or regulations and, for that reason, Dominion may develop new initiatives (Application at 4-5). Dominion notes that the Company's ability to develop new initiatives and to revise the PSMP was not altered by the Stipulation nor modified by the Commission in the November 3, 2016 Opinion and Order. Further, Dominion argues, consistent with the approved process established in this proceeding, Staff was informed of

Dominion's intent to include the new initiatives during the biannual meeting held on May 10, 2017, where Dominion described both of the new initiatives, as well as in the 2017 Annual Report (2017 Annual Report, Attachment C at 8-9). Dominion points out that Staff did not raise any objection to the proposed initiatives in its 2017 Staff Report. Dominion concludes that the Staff's recommendation in the 2018 Staff Report is directly contradicted by the provisions of the application, the Stipulation, and the Commission's Opinion and Order, as well as the process for the PSMP.

{¶ 13} Dominion points out that, in the 2017 Staff Report, Staff made one recommendation regarding the detail to be included in future PSMP audit reports. Otherwise, Dominion declares that Staff had no objections to the information contained in Dominion's 2017 Annual Report and recommended that the Commission accept the report as filed. The Company states that it has deferred nearly $770,000 on the new initiatives for 2017 and, as of July 31, 2018, deferred nearly $3.6 million in reliance on the PSMP process. Dominion avers Staff had the opportunity to oppose the new initiatives by voicing its opposition at the biannual meeting or raising an objection to the initiatives presented in the 2017 Annual Report, where, if Dominion did not accept Staff's recommendation, the issue would have been presented to the Commission for a decision. While Dominion states that the Company does not object to the Commission prospectively modifying the procedures governing the PSMP, any such prospective modification of the process should not affect the initiatives enacted and the deferrals undertaken. Dominion avers it is unlawful and unfair for the Company to be penalized after it followed the Commission-approved PSMP process. Accordingly, Dominion asks that the Commission reject the Staff's recommendation to deny the accrued deferrals in the amount of $769,513.62 associated with the underground storage integrity program and the gathering rights of way maintenance initiative.

III. Commission Conclusion

{¶ 14} The Commission notes that Staff recommends that approximately $769,514 in PSMP deferrals for calendar year 2017 be denied, on the basis that the expenditures were incurred in association with two new initiatives that were not specifically approved as part of Dominion's PSMP. However, the Commission approved the implementation of Dominion's PSMP and the deferral of PSMP costs as described in the Company's application, consistent with the Stipulation. Opinion and Order at ¶ 7. In the application, Dominion proposed the original four initiatives based on the federal and state regulations *in effect at that time. Further, Dominion proposed that the PSMP be subject to further* development. Specifically, the application states:

> [T]he PSMP is intrinsically forward looking and thus subject to further development. Such development could be in response to planned investigations under the PSMP or in response to changing conditions or regulations. In response to such contingencies [Dominion] may develop new initiatives, and it intends to measure the effectiveness of all initiatives, which may reveal that various initiatives should be enhanced or scaled back. Given the dynamic nature of the PSMP, [Dominion] proposes biannual meetings with Staff to keep it apprised of current progress under the PSMP, the results of new and ongoing investigations and evaluations, and any proposed changes to the program.

(Application at 4-5.)

{¶ 15} Neither the Stipulation nor the Commission's November 3, 2016 Opinion and Order modified this aspect of Dominion's PSMP application. Contrary to Staff's position, the Commission-approved PSMP allows Dominion to propose new initiatives and to revise previously implemented initiatives. It was and continues to be the Commission's intent that, with the approved biannual meetings and annual report process in place, Dominion would be permitted to propose, and Staff would have the opportunity to investigate and review, new initiatives and to revise or discontinue initiatives within the established parameters for the PSMP. Accordingly, the Commission finds that Dominion properly proposed the new underground storage integrity program and the gathering rights of way maintenance initiative in its 2017 Annual Report. Staff, in its 2017 Staff Report, raised no issues nor made any recommendation as to the proposed new initiatives. In light of Staff's lack of objection to the proposed initiatives, Dominion implemented the proposed initiatives and deferred expenditures for calendar year 2017. Staff's recommendation that the deferrals be reduced by approximately $769,514 for calendar year 2017, on the basis that the new initiatives are beyond the scope of the approved PSMP, should be denied.

{**¶ 16**} We note that our consideration of deferred amounts under Dominion's PSMP does not constitute ratemaking. *Elyria Foundry Co. v. Pub. Util. Comm.*, 114 Ohio St.3d 305, 2007-Ohio-4164, 871 N.E.2d 1176. As a result, recovery of any deferred amounts is not guaranteed. Recovery of the deferred amounts will be addressed in a subsequent proceeding.

{**¶ 17**} The Commission also notes that, going forward, Dominion may, in addition to reporting on PSMP initiatives conducted in 2018, propose new initiatives or revisions for 2019, in accordance with the established parameters of the PSMP. Dominion, consistent with the approved Stipulation, shall use its best efforts to identify and implement efficiencies and cost-saving measures to minimize PSMP deferrals. If the Staff, in the Staff Report, objects to any new or revised initiatives for 2019, the Company shall have 30 days to accept or object to Staff's recommendation. If Dominion files objections, the Commission may establish a procedural schedule as it deems appropriate. This report process will be continued annually until the sunset date established in the Stipulation, January 1, 2024, unless otherwise ordered by the Commission. (Stipulation at 2-4.)

IV. ORDER

{**¶ 18**} It is, therefore,

{**¶ 19**} ORDERED, That Dominion's 2018 Annual Report be accepted as filed. It is, further,

{¶ 20} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future investigation or proceeding involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 21} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Asim Z. Haque, Chairman

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Secretary