

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 TO ESTABLISH A
CAPITAL EXPENDITURE PROGRAM RIDER
MECHANISM.**

CASE No. 17-2202-GA-ALT

OPINION AND ORDER

Entered in the Journal on November 28, 2018

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I. SUMMARY

{¶ 1} The Commission approves and adopts the stipulation and recommendation resolving all issues related to Columbia Gas of Ohio, Inc.'s application for an alternative rate plan to initiate the capital expenditure program rate recovery mechanism.

II. DISCUSSION

A. *Applicable Law*

{¶ 2} Columbia Gas of Ohio, Inc. (Columbia or Company) is a natural gas company, as defined by R.C. 4905.03, and a public utility, as defined by R.C. 4905.02. As such, Columbia is subject to the jurisdiction of this Commission.

{¶ 3} Under R.C. 4929.05, a natural gas company may seek approval of an alternative rate plan by filing an application under R.C. 4909.18, regardless of whether the application is for an increase in rates. After an investigation, the Commission shall approve the plan if the natural gas company demonstrates, and the Commission finds, that the company is in compliance with R.C. 4905.35, is in substantial compliance with the policy of the state as set forth in R.C. 4929.02, and is expected to continue to be in substantial compliance with that state policy after implementation of the alternative rate plan. The Commission must also find that the alternative rate plan is just and reasonable.

{¶ 4} Pursuant to R.C. 4929.111, a natural gas company may file an application under R.C. 4909.18, 4929.05, or 4929.11 to implement a capital expenditure program (CEP) for any of the following: any infrastructure expansion, infrastructure improvement, or infrastructure replacement program; program to install, upgrade, or replace information technology systems; or any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction. In approving the application, the Commission shall authorize the natural gas company to defer or recover both of the following: a regulatory asset for post-in-service carrying costs (PISCC) on the portion of the assets of the CEP that are placed in service but not reflected in

rates as plant in service; and a regulatory asset for the incremental depreciation directly attributable to the CEP and the property tax expense directly attributable to the CEP but not reflected in rates. A natural gas company shall not request recovery of the PISCC, depreciation, or property tax expense under R.C. 4929.05 or R.C. 4929.11 more than once each calendar year.

B. Procedural History

{¶ 5} In Case No. 11-5351-GA-UNC, et al., the Commission modified and approved Columbia's application to implement a CEP for the period of October 1, 2011, through December 31, 2012, pursuant to R.C. 4909.18 and 4929.111. The Commission also approved Columbia's request to modify its accounting procedures to provide for the capitalization of PISCC on assets of the CEP placed into service but not reflected in rates as plant in service, as well as deferral of depreciation expense and property taxes directly attributable to those assets of the CEP that are placed into service but not reflected in rates as plant in service. Further, the Commission noted that the prudence and reasonableness of Columbia's CEP-related regulatory assets and associated capital spending would be considered in any future proceedings seeking cost recovery, at which time Columbia would be expected to provide detailed information regarding the expenditures for Commission review. *In re Columbia Gas of Ohio, Inc.*, Case No. 11-5351- GA-UNC, et al. (*CEP Deferral Case*), Finding and Order (Aug. 29, 2012), Entry on Rehearing (Oct. 24, 2012).

{¶ 6} In Case No. 12-3221-GA-UNC, et al., the Commission modified and approved Columbia's application to continue its CEP, including deferral of the related PISCC, depreciation expense, and property tax expense, in 2013 and succeeding years until such point as the deferral cap established in the *CEP Deferral Case* was reached.¹ The Commission once again noted that, while we approved the request for deferral authority, we did not authorize recovery of the deferred amounts at that time. Instead, as before, the

¹ The deferral cap is the point at which the accrued deferrals, if included in rates, would cause the rates charged to the Small General Service (SGS) class of customers to increase by more than \$1.50 per month.

question of recovery of the deferred amounts, including, without limitation, issues of prudence, proper computation, proper recording, and reasonableness, would be considered when Columbia filed an application to recover the deferred amounts. *In re Columbia Gas of Ohio, Inc.*, Case No. 12-3221-GA-UNC, et al., Finding and Order (Oct. 9, 2013).

{¶ 7} On October 27, 2017, in the above-captioned case, Columbia filed a notice of intent to file an application for approval of an alternative rate plan pursuant to R.C. 4929.05, 4929.051(A), and 4929.111.

{¶ 8} On December 1, 2017, Columbia filed an alternative rate plan application, along with supporting exhibits and testimony, pursuant to R.C. 4929.05, 4929.051(A), 4929.11, and 4929.111. The application seeks to establish a new rider mechanism to recover CEP costs (CEP Rider), including PISCC, incremental depreciation expense, and property tax expense deferred under the CEP, as well as the corresponding assets to which these expenses are directly attributable.

{¶ 9} By letter filed on March 19, 2018, Staff notified Columbia that Staff had determined that Columbia's application equated to an increase in rates and, as such, additional information was required unless waived. Further, the March 19, 2018 correspondence informed Columbia that the Company could contest Staff's determination, withdraw its application, or amend its application.

{¶ 10} On March 21, 2018, Columbia notified the Commission of its intent to amend its alternative rate plan application to be filed under R.C. 4929.111 and 4929.05 and to include the schedules set forth in R.C. 4909.18(A) to (D) and certain schedules required by the Commission's standard filing requirements in Ohio Adm.Code 4901-7-01.

{¶ 11} On April 2, 2018, as supplemented on April 16, 2018, Columbia filed its amended alternative rate plan application to establish the CEP Rider, along with amended testimony, pursuant to R.C. 4929.111, 4929.05, and 4909.18. Simultaneously, Columbia filed a motion for waivers of certain standard filing requirements. According to Columbia's

application, Columbia based its filing on a test year of the 12 months ending December 31, 2017, and a date certain of December 31, 2017. By Entry issued May 16, 2018, pursuant to Ohio Adm.Code 4901:1-19-02, the Commission granted Columbia's request for waivers of certain standard filing requirements subject to Columbia replying to any formal information request from Staff, even if the information requested was the subject of a waiver.

{¶ 12} By Entry issued May 9, 2018, Blue Ridge Consulting Services, Inc. (Blue Ridge) was selected as the auditor to evaluate Columbia's CEP.

{¶ 13} By correspondence issued May 17, 2018, Staff notified Columbia that, with the Commission's approval of the request for waivers, the Company's amended application, as filed on April 2, 2018, and supplemented on April 16, 2018, was in compliance with the filing requirements for an alternative rate plan application pursuant to R.C. 4929.05 and Ohio Adm.Code 4901:1-19-06(C). By Entry dated May 29, 2018, the amended application was deemed to have been filed as of April 2, 2018.

{¶ 14} On September 4, 2018, Blue Ridge filed its audit report.

{¶ 15} On September 14, 2018, Staff filed its report of investigation (Staff Report).

{¶ 16} To assist the Commission with its review of Columbia's CEP application, by Entry issued September 19, 2018, a procedural schedule was established such that motions to intervene were due by September 24, 2018, objections were due by October 15, 2018, expert testimony was due by October 29, 2018, and the hearing was scheduled to commence on November 6, 2018.

{¶ 17} Motions to intervene were filed by the following entities: Industrial Energy Users-Ohio (IEU), Ohio Partners for Affordable Energy (OPAE), Ohio Energy Group (OEG), Ohio Consumers' Counsel (OCC), The Kroger Company (Kroger), Ohio Manufacturers' Association Energy Group (OMAEG), Retail Energy Supply Association (RESA), and Interstate Gas Supply, Inc. (IGS).

{¶ 18} On October 15, 2018, objections to Columbia's amended application, the audit report and/or the Staff Report were filed by IEU, OPAC, IGS, Columbia, RESA, OEG, Kroger, OCC, and OMAEG.

{¶ 19} Columbia filed the supplemental testimony of Diana M. Beil on October 22, 2018.

{¶ 20} On October 25, 2018, Columbia, Staff, OCC, OPAC, IEU, OEG, OMAEG, Kroger, and IGS filed a Stipulation and Recommendation (Stipulation) to resolve all the issues in this proceeding.

{¶ 21} On October 26, 2018, RESA filed a motion to vacate the procedural schedule and to establish a new procedural schedule, and a request for expedited ruling. On October 29, 2018, Columbia filed a memorandum contra RESA's motion to vacate the procedural schedule.

{¶ 22} On October 29, 2018, Columbia also filed a motion to strike the objections to the Staff Report filed by RESA.

{¶ 23} On October 29, 2018, Columbia and OCC filed testimony in support of the Stipulation.

{¶ 24} By Entry issued October 30, 2018, the following parties were granted intervention in this case: IEU, OPAC, OEG, OCC, Kroger, OMAEG, IGS, and RESA. Further, the October 30, 2018 Entry granted, in part, and denied, in part, RESA's motion to vacate the procedural schedule such that RESA's testimony in opposition to the Stipulation was due on November 2, 2018. However, the remainder of the procedural schedule, as established in the September 19, 2018 Entry, was not altered.

{¶ 25} By correspondence filed November 2, 2018, RESA joined the Stipulation as a signatory party. In recognition of RESA's joining the Stipulation, on November 2, 2018,

Columbia filed a motion to withdraw its motion to strike RESA's objections to the Staff Report.

{¶ 26} The hearing was held as scheduled on November 6, 2018. At the hearing, two witnesses offered testimony in support of the Stipulation. Columbia offered the testimony of Melissa L. Thompson, and OCC presented testimony from Wm. Ross Willis. Admitted into evidence at the hearing was the Stipulation (Joint Ex. 1); Columbia's notice of intent to file an alternative rate plan application filed on October 27, 2017 (Co. Ex. 1); Columbia's correspondence to public officials dated October 27, 2017 (Co. Ex. 2); Columbia's amended application filed on April 2, 2018 (Co. Ex. 3); the amendment to the amended application filed on April 16, 2018 (Co. Ex. 7); the amended testimony of Melissa L. Thompson and Diana M. Beil filed on April 2, 2018 (Co. Ex. 4 and Co. Ex. 5, respectively); the supplemental testimony of Ms. Thompson in support of the Stipulation filed on October 29, 2018 (Co. Ex. 6); the testimony of Wm. Ross Willis in support of the Stipulation filed on October 29, 2018 (OCC Ex. 1); the audit report filed by Blue Ridge on September 4, 2018 (Staff Ex. 1); and the Staff Report filed on September 14, 2018 (Staff Ex. 2).

C. Summary of the Application

{¶ 27} In its amended application, Columbia proposes to implement the CEP Rider to recover the deferred expenses for CEP assets, PISCC, incremental depreciation expenses, and the associated property tax expense on the assets. As proposed by Columbia, the CEP Rider rates would be a fixed monthly charge, to be phased in on a biennial basis. Columbia asserts that, by phasing in the recovery of the CEP deferral and underlying assets in 2018, the deferred accrual will be less than if the deferral continues until it reaches the SGS rate impact threshold established in Case No. 11-5351-GA-UNC, et al., and Case No. 12-3221-GA-UNC, et al. In the application, Columbia proposes the following CEP Rider rates for the recovery of CEP deferrals for assets placed in service on or before December 31, 2017, for the SGS customer class:

Rates Effective August 1	2018	2020	2022
Maximum SGS Class CEP Rider Rate	\$3.28	\$4.17	\$4.92
CEP Asset Investment Year	2011-2015	2011-2016	2011-2017
CEP Deferral Balance Through	Dec. 31, 2017	Dec. 31, 2019	Dec. 31, 2021

(Co. Ex. 3 at Ex. A at 6).

{¶ 28} Further, Columbia would continue to defer expenses for CEP investments placed in service after December 31, 2017, until the Company requests recovery in a separate proceeding. In the proposed April 30 biennial filing to commence starting in 2020, Columbia proposes to request to adjust the CEP Rider for actual deferrals and to reconcile for any over- and under-recovery of the CEP Rider. (Co. Ex. 3 at 6.)

D. Summary of the Audit Report and the Staff Report

1. BLUE RIDGE AUDIT REPORT

{¶ 29} As stated previously, on September 4, 2018, Blue Ridge filed its audit report. As part of the audit, Blue Ridge was directed to conduct a two-phase evaluation of Columbia's CEP capital expenditures. The first phase included a review of the accounting accuracy and used and useful nature of Columbia's non-infrastructure replacement program (IRP)² capital expenditures and related assets and the corresponding depreciation reserve since the date certain of the Company's most recent base rate case, December 31, 2007, in Case No. 08-72-GA-AIR, et al., through December 31, 2017. The second phase of the

² Columbia's IRP consists of three capital components: an accelerated main replacement program, hazardous customer service line replacement, and automated meter reading (AMR) device installation. Projects that do not meet the criteria of the IRP are categorized as one of the various types of CEP projects. The CEP project categories are: Replacement/Public Improvement/Betterment; Acquisitions; Growth; Support Services; Information Technology; and Distribution Integrity Management Plan Implementation (Staff Ex. 1 at 30-31.)

audit consisted of assessing and determining the necessity, reasonableness, and prudence of Columbia's non-IRP capital expenditures and related assets, with an emphasis on the CEP expenditures and assets from October 1, 2011, through December 1, 2017. As part of its investigation, Blue Ridge issued data requests, conducted interviews and field inspections, and performed analyses, including variance analysis and detailed transactional testing.

a. Phase 1 - Plant In Service Balances

{¶ 30} Based on Blue Ridge's investigation, consistent with the parameters of the audit, the auditor recommends Columbia's non-IRP plant in service balance be adjusted for cost overruns associated with three work orders. In each case, the project was more than 20 percent over budget and Columbia did not explain the reasons why the projects went over budget. Accordingly, Blue Ridge recommends Columbia's plant in service be reduced by a total of \$205,710 in association with the three work orders,³ plus the associated depreciation reserve balances on the assets. After investigating the information on Columbia's accumulated depreciation balances, Blue Ridge determined that the Company's CEP deferral depreciation reserve reflects the cumulative depreciation expense since the CEP was established. However, Blue Ridge also found that Columbia calculates the cumulative depreciation expense using a composite depreciation rate, as opposed to on a Federal Energy Regulatory Commission (FERC) account basis, and the cumulative depreciation expense is not based on the balances within the Company's books and records. Columbia agreed to work with Staff to provide non-IRP gross plant and reserve balances by FERC account and to incorporate any necessary adjustments to depreciation expense and the reserve for the depreciation calculation. Blue Ridge also recommends that Columbia perform a depreciation study with the FERC subaccounts added since the Company's last rate case and that the rates be updated accordingly. (Staff Ex. 1 at 8, 18-25.)

³ More specifically, Blue Ridge recommends the plant in service be reduced by \$49,577 for work order 0555.34120122190; reduced by \$122,502 for work order 0561.34160139991; and reduced by \$33,631 for work order 0565.34130062345.

{¶ 31} Blue Ridge states that Columbia relocates meters from the interior to the exterior of residences and, typically, the cost is charged as an expense. However, Blue Ridge notes that, when Columbia relocates meters, in conjunction with service line replacements, the Company capitalizes the cost of the entire project. While Blue Ridge does not disagree with Columbia's process, Blue Ridge states that the process gives Columbia the latitude to avoid the relocation of interior meters until the service lines are replaced and Columbia does not track the meters relocated on an annual basis. Therefore, Blue Ridge declares that Columbia does not know the cost including installation for relocated meters being expensed compared to the cost of relocated meters being capitalized. In its report, Blue Ridge recommends that Columbia track more closely the relocation of meters so that the Company can demonstrate why the cost of meters moved from inside to outside should be capitalized and included in the CEP. (Staff Ex. 1 at 7-8, 30, 34-35.)

{¶ 32} Further, Blue Ridge found that all the work included in the Company's detailed transactional testing in the projects sampled were capital in nature and the scope of the work and cost detail coincided with the applicable FERC accounts to which the work applied in accordance with the FERC Uniform System of Accounts. (Staff Ex. 1 at 7, 19, 29.)

{¶ 33} Blue Ridge notes that Columbia calculates incremental revenue by identifying increases or decreases in the annual average number of customers served by rate schedule since its last rate case, as opposed to the monthly change in the number of customers, consistent with an agreement with Staff. *CEP Deferral Case*, Finding and Order (Aug. 29, 2012) at 3-4, 11. Blue Ridge recommends, and Columbia agrees, to work with Staff to review this calculation and incorporate any necessary offset. (Staff Ex. 1 at 8, 36.) Finally, based on a selected number of field inspections reviewed by the auditor, Blue Ridge concluded that the assets included in the CEP did not appear to be over built, alternatives were adequately considered, and the assets appeared to be used and useful and are beneficial to Columbia's ratepayers (Staff Ex. 1 at 7-8, 15, 19, 22-23, 29, 30, 34-35, 36, 48-53).

b. Phase 2 – Capital Expenditures Prudence Audit

{¶ 34} As part of the second phase of the audit, the auditor did not find any indication that the non-IRP capital expenses and assets for the period January 1, 2008, through December 31, 2017, were unnecessary, unreasonable, or imprudent except in regard to the cost overruns discussed above. Blue Ridge did not perform a management audit but reviewed Columbia's processes and controls, which appear to be sufficient so as not to adversely affect the balances in the distribution utility net plant in service. (Staff Ex. 1 at 9.)

{¶ 35} Blue Ridge reviewed internal audit reports performed on various aspects of Columbia's operations that could impact utility plant in service balances, as well as applicable Sarbanes-Oxley Act and FERC audits. Blue Ridge determined that Columbia's controls were adequate and not unreasonable. Further, Blue Ridge was satisfied with the actions taken by Columbia in regard to the internal and other audits reviewed. (Staff Ex. 1 at 9.) Blue Ridge notes that capital spending has increased 63 percent since 2012, the first full year of the CEP, and by 149.5 percent from 2012 through 2017. Columbia identified growth-related activities, including service line and pipeline installation and the associated labor costs, as the primary factor contributing to the increase in spending since 2012. Other factors contributing to the increase in costs are a constrained labor market, increased restoration requirements, and increased permitting fees for local and state governments, as well as the rise in the volume of relocation work, and shared services projects. The auditor acknowledged that Columbia is implementing sound cost containment measures, which are slowing the impact but cannot negate the fact that Ohio is a constrained market. (Staff Ex. 1 at 9-10.)

2. STAFF REPORT

{¶ 36} As noted above, the Staff Report was filed on September 14, 2018. Staff adopts the audit report filed by Blue Ridge and, based on the audit of Blue Ridge, recommends that Columbia take the following steps: (1) work with Staff to better identify expenses versus capitalized costs associated with meter relocations; (2) perform a new

depreciation study prior to the Company's next rate case; (3) provide non-IRP gross plant and reserve depreciation balances by FERC account; and (4) adjust plant balances to remove cost overruns identified by Blue Ridge by \$205,710, thereby reducing the proposed amount of the CEP Rider. Further, Staff recommends that Columbia file the adjusted plant balances in this docket with the revised plant balances to serve as the basis for reconciliation in the Company's next base rate case. Finally, with respect to the increase in overall capital spending noted by Blue Ridge, Staff recommends that Columbia be directed to work with Staff to identify reasonable annual caps. (Staff Ex. 2 at 7.)

E. *Summary of the Stipulation*

{¶ 37} The Stipulation filed October 25, 2018, was intended by Columbia, Staff, OCC, OP&E, IEU, OEG, OMAEG, Kroger, IGS, and RESA (Signatory Parties) to resolve all issues raised in this proceeding. The Signatory Parties state their agreement that the Stipulation is supported by adequate data and information, represents a just and reasonable resolution of the legal and policy issues raised in the proceeding, meets the Commission's criteria for assessing the reasonableness of a stipulation, and should be accepted and approved by the Commission (Joint Ex. 1 at 1-2). The following is a summary of the terms agreed to by the Signatory Parties and presented to the Commission for approval; this summary is not intended to replace or supersede the Stipulation:

CAPITAL EXPENDITURE PROGRAM REVIEW

1. Columbia's amended application to establish the CEP Rider should be approved by the Commission without modification except as provided within the Stipulation. The CEP Rider will recover the PISCC, incremental depreciation expense, and property tax expense; provide for a return on and of the corresponding assets to which these expenditures are directly attributable in Columbia's CEP (CEP Investment); and reflect a reduction for base rate depreciation expense as detailed below. (Joint Ex. 1 at 2.)

2. The initial CEP Rider rates, incorporating CEP Investment through December 31, 2017, will be effective not later than Columbia's first billing cycle in 2019 and should be established as set forth in Table 1:

TABLE 1

	Charge per meter per month
SGS Rate ⁴	\$3.51
GS Rate ⁵	\$29.29
LGS Rate ⁶	\$566.69
CEP Assets Recovered	Oct. 2011 - Dec. 2017
Rate Base Depreciation Offset	Oct. 2011 - Dec. 2017

(Joint Ex. 1 at 1-2.)

3. Blue Ridge audited Columbia's CEP Investment from October 2011 through December 31, 2017, the result of which is a disallowance of \$205,710. The customer rates set forth in Table 1 incorporate this disallowance. (Joint Ex. 1 at 3.)

4. Blue Ridge conducted a thorough "necessity, prudence, and reasonableness" review of Columbia's plant in service balances from December 31, 2007, to December 31, 2017. The Staff Report recommends

4 SGS includes Small General Sales Service, Small General Schools Sales Service, Small General Transportation Service, Small General Schools Transportation Service, Full Requirements Small General Transportation Service, and Full Requirements Small General Schools Transportation Service.

5 General Service (GS) includes General Sales Service, General Schools Sales Service, General Transportation Service, General Schools Transportation Service, Full Requirements General Transportation Service, and Full Requirements General Schools Transportation Service.

6 Large General Service (LGS) includes Large General Sales Service, Large General Transportation Service, and Full Requirements Large General Transportation Service.

that the plant balances from the Blue Ridge audit serve as the basis for reconciliation in Columbia's next rate case. When Columbia files its next rate case, the baseline for the plant in service necessity, prudence, and reasonableness review will begin with the plant balances as of December 31, 2017. Further, any plant in service as of December 31, 2017, net of retirements to this plant in service as of the date certain in Columbia's base rate case application in 2021, will be deemed necessary, reasonable, and prudent for any future ratemaking proceedings.⁷ (Joint Ex. 1 at 3.)

5. As an alternative to a future reduction in rate base, there will be an immediate adjustment to CEP Investment in the form of a depreciation offset of \$289.9 million, for the period October 2011 through December 31, 2017, which is to the benefit of consumers. Using Staff's depreciation calculation, with several adjustments, Columbia's revenue requirement for the CEP Investment from October 2011 through December 31, 2017, is lowered from \$109,436,639.47 to \$74,486,252.84. The CEP Rider rates set forth in Table 1 reflect the base rate depreciation offset and the revised depreciation calculation. (Joint Ex. 1 at 4.)
6. All future annual CEP Rider revenue requirement filings for establishing CEP-related charges to consumers shall reflect the base rate depreciation offset until the CEP Rider is reset by the Commission's order in Columbia's 2021 base rate case (Joint Ex. 1 at 4).

⁷ OCC does not agree to this paragraph of the Stipulation and preserved its rights to make any arguments in any other cases, including Columbia's next rate case, regarding the plant in service and rate base, including as to necessity, prudence, lawfulness, and reasonableness, dating back to Columbia's last rate case.

7. The CEP Rider rates set forth in Table 1 incorporate beneficial offsets that account for Columbia's reduced federal income taxes resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA) (Joint Ex. 1 at 4).

ONGOING CEP RIDER STRUCTURE

8. For CEP Investment incurred after December 31, 2017, Columbia is authorized to defer expenses associated with CEP Investment until such costs are recovered via an adjustment to Columbia's CEP Rider rates. The deferrals shall be those authorized in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM. Columbia may adjust the CEP Rider rates each year to collect from customers the prior calendar year's CEP Investment and related deferrals.⁸ (Joint Ex. 1 at 4.)
9. Beginning in 2019, and by February 28 of each year, Columbia will file an annual application to adjust its CEP Rider rates to collect from customers the CEP Investment and related deferrals through December of the prior calendar year. Each annual application will contain schedules based on 12 months of actual data for the prior calendar year, and the rate of return used to develop the revenue requirement for each application will be based on the capital structure and cost of capital authorized by the Commission in Columbia's most recent base rate case, Case No. 08-72-GA-AIR, et al. (Joint Ex. 1 at 4-5.)⁹
10. Staff or its designee shall review Columbia's annual filing to determine the necessity, prudence, lawfulness, and reasonableness of the CEP Investment for the prior calendar year. Unless Staff finds Columbia's

⁸ Signatory Parties are not precluded from ultimately challenging whether specific deferrals are properly included in the charge to customers.

⁹ Signatory Parties are not precluded from ultimately challenging whether specific deferrals are properly included in the charge to customers.

annual application to be unjust and unreasonable, or a party granted intervention by the Commission files an objection to the annual filing or to Staff's review that is not resolved by July 31 of each year, the new CEP Rider rate will become effective by September 1 following the February filing. If either of those two contingencies occurs, Columbia will propose an expedited hearing process in order to effectuate, to the extent practicable, the implementation of the CEP Rider rates by September 1 or the first billing cycle of the revenue month following the Commission's decision. Each application to revise the CEP Rider rates will true up revenues collected with revenues estimated in future filings. Columbia will work with Staff and the Signatory Parties in the 2021 base rate case to discuss: (a) adjusting the timing of the filing of the annual IRP application so as to coordinate with the filing of the annual CEP Rider application; (b) whether the CEP Rider and IRP should be combined into one rider; (c) the future of the CEP Rider and IRP; and (d) how audits of rider charges could be improved for customers. (Joint Ex. 1 at 5.)

11. In an effort to mitigate the impact of the CEP Rider charges to customers, the Signatory Parties agree to the rate caps reflected in Table 2 corresponding to the CEP Investment, the related deferrals, and base rate depreciation offset through December 31, 2022 (Joint Ex. 1 at 5).

TABLE 2

Rate Effective	Sept. 1, 2019	Sept. 1, 2020	Sept. 1, 2021	Sept. 1, 2022 <i>until base rates go into effect with the 2021 rate case</i>
SGS Rate Cap	\$4.56	\$5.61	\$6.66	\$7.71
GS Rate Cap	\$38.83	\$48.05	\$57.41	\$66.91
LGS Rate Cap	\$740.96	\$918.00	\$1,098.12	\$1,281.45
CEP Assets Recovered	Oct. 2011 - Dec. 2018	Oct. 2011 - Dec. 2019	Oct. 2011 - Dec. 2020	Oct. 2011 - Dec. 2021

(Joint Ex. 1 at 5-6.)

If Columbia seeks to continue the CEP Rider or its equivalent beyond its next base rate case, Columbia must file an application in conjunction with that base rate case for an alternative rate plan for collection from customers of CEP Investment in calendar years 2022 and beyond. Any such application for an alternative rate plan shall include specific annual rate caps and annual audits.¹⁰ The CEP Rider or its equivalent is intended to be an ongoing rider.¹¹ As part of the next base rate case, the Signatory Parties agree to discuss updating the CEP Rider annually with CEP Investment in calendar year 2022 and beyond, and to discuss corresponding increases for the rate classes set in that base rate case. Additionally, the CEP Rider rate caps set forth in Table 2 will also cap

¹⁰ The Stipulation preserves the Signatory Parties' rights to argue that any charges proposed to be collected through the CEP Rider are contrary to ratemaking standards and/or are otherwise unreasonable or unlawful.

¹¹ OCC does not agree to this sentence; the Stipulation preserves OCC's rights to make any arguments in any other cases, including Columbia's next base distribution rate case or alternative rate plan case, regarding the necessity, prudence, lawfulness, or reasonableness of an ongoing CEP Rider.

Columbia's capital expense deferral authority in calendar years 2018 through 2021. Any future CEP Investment placed in service during calendar year 2022 and beyond is deferred within Columbia's Commission-approved authority for the CEP Investment in Case No. 12-3221-GA-UNC and 12-3222-GA-AAM. (Joint Ex. 1 at 6-7.)

12. A. Columbia will meet with interested Signatory Parties to determine the feasibility and cost effectiveness of implementing information technology system enhancements related to commercial and industrial Choice customers, which shall include but not be limited to:

1. An electronic portal that provides historic usage data of commercial and industrial Choice customers and can be accessed by competitive retail natural gas service (CRNGS) providers with proper authorization from customers (Joint Ex. 1 at 7).
2. A mechanism that allows a CRNGS provider to provide uninterrupted and continuous service to commercial and industrial customers' premises (without being reverted back to the standard service offer for one billing cycle) in the event of a customer name or ownership change, provided that the CRNGS provider gives proper and timely notice to Columbia of the customer's consent. (Joint Ex. 1 at 7.)

B. Columbia shall meet with interested Signatory Parties on a regularly scheduled basis to discuss the proposed enhancements identified in Paragraph 12(A), with the first meeting occurring within 60 days of an order approving the Stipulation (Joint Ex. 1 at 7).

C. Columbia shall use good faith efforts to implement the information technology system enhancements related to commercial and industrial Choice customers pursuant to Paragraph 12(A), if the enhancements have been determined to be feasible and cost effective prior to its 2021 base rate case filing (Joint Ex. 1 at 7).

FEDERAL TAX REFORM

13. As recommended by the Staff Report, and in order to reflect the impact of the TCJA on Columbia's pre-tax rate of return, the pre-tax rate of return for Columbia's CEP Investment to be recovered in 2019 and future years will be 9.52 percent unless and until the Commission modifies the rate of return in Columbia's 2021 base rate case. This adjusted pre-tax rate of return is shown in Exhibit 2 to the Stipulation. (Joint Ex. 1 at 8.)
14. Columbia will offset its base rates for the benefit of customers (approximately \$121 million) to reflect the reduced federal tax rates enacted as part of the TCJA. Subject to other proceedings that may affect the final amount of tax saving returned to customers, the total benefit of the TCJA to Columbia customers (in base rates and Columbia's IRP) will be approximately \$284 million. The reduction in base rates resulting from the need to pass back to customers excess deferred income taxes will be based on deferred tax balances at December 31, 2007, which were used in the establishment of current base rates adjusted for recognition of the turn-around through December 31, 2017. Normalized excess deferred taxes will be passed back to customers using the average rate assumption method, the amount of which included in rates is for rates in 2018 and will continue until the next base rate case. Non-normalized excess deferred taxes will be passed back to customers over a six-year period. Columbia is authorized to adjust its base rates to reflect the elimination of the reduction in base

rates directly related to the pass back of non-normalized excess deferred taxes upon completion of the six-year period. This methodology for the pass back of excess deferred taxes shall also be the methodology used in Columbia's next IRP adjustment case to pass back excess deferred taxes. (Joint Ex. 1 at 8.)

The base rate revisions set forth in Table 3 should be effective January 1, 2019:

TABLE 3

Small General Service

	Current Rate	Tax Rate Reduction	New Rate
SGS Rate	\$17.81	(\$1.06)	\$16.75
SGS Schools Rate	\$16.92	(\$1.01)	\$15.91

General Service

	Current Rate	Tax Rate Reduction	New Rate
GS Rate	\$22.50	(\$1.34)	\$21.16
First 25 Mcf	\$1.7183 per Mcf	(\$0.1022)	\$1.6161 per Mcf
Next 75 Mcf	\$1.3000 per Mcf	(\$0.0773)	\$1.2227 per Mcf
Over 100 Mcf	\$1.0325 per Mcf	(\$0.0613)	\$0.9712 per Mcf
GS Schools Rate	\$21.37	(\$1.27)	\$20.10
First 25 Mcf	\$1.6324 per Mcf	(\$0.0971)	\$1.5353 per Mcf
Next 75 Mcf	\$1.2350 per Mcf	(\$0.0734)	\$1.1616 per Mcf
Over 100 Mcf	\$0.9809 per Mcf	(\$0.0582)	\$0.9227 per Mcf

Large General Service

	Current Rate	Tax Rate Reduction	New Rate
LGS Rate	\$595.00	(\$35.47)	\$559.53
First 2,000 Mcf	\$0.4110 per Mcf	(\$0.0245)	\$0.3865 per Mcf
Next 13,000 Mcf	\$0.2520 per Mcf	(\$0.0150)	\$0.2370 per Mcf
Next 85,000 Mcf	\$0.2200 per Mcf	(\$0.0132)	\$0.2068 per Mcf
Over 100,000 Mcf	\$0.1740 per Mcf	(\$0.0105)	\$0.1635 per Mcf
LGS - Mainline	\$595.00	(\$35.47)	\$559.53
All Gas Consumed	\$0.1740 per Mcf	(\$0.0105)	\$0.1635 per Mcf
Co-op Trans. Service	\$0.00	\$0.00	\$0.00
First 25 Mcf	\$1.0096 per Mcf	(\$0.0600)	\$0.9496 per Mcf
Over 25 Mcf	\$0.9334 per Mcf	(\$0.0557)	\$0.8777 per Mcf

(Joint Ex. 1 at 8-9.)

15. To return to customers Columbia's \$22,593,862 in over-collection of taxes as a result of the enactment of the TCJA, Columbia will establish a TCJA credit. The over-collection is the result of the impact of the 14 percent federal rate reduction and excess accumulated deferred income taxes pass back not being reflected on customer bills from January 1, 2018, through December 31, 2018. This pass back will include interest computed at Columbia's long-term debt rate on the 14 percent federal tax rate reduction from January 1, 2018, until Columbia begins billing base rates that reflect the impact of the TCJA. Columbia agrees to and will display the short-term TCJA credits set forth in Table 4 as a separate line item on customers' bills, which line item will cease when the over-collection is returned to customers. (Joint Ex. 1 at 10.)

TABLE 4**Small General Service**

	TCJA Credit
SGS Rate Delivery Charge	\$1.06
SGS Schools Rate Delivery Charge	\$1.06

General Service

	TCJA Credit
GS Rate Delivery Charge	\$9.02
GS Schools Rate Delivery Charge	\$9.02

Large General Service

	TCJA Credit
LGS Rate	\$0.0082/Mcf

Co-op Trans. Service

	TCJA Credit
Co-op Trans. Service	\$0.0003/Mcf

(Joint Ex. 1 at 10.)

16. Columbia will revise its bill formats to include the TCJA credit and the CEP Rider. Sample bill formats are shown in Exhibit 3 to the Stipulation. (Joint Ex. 1 at 10.)

BASE RATE CASE COMMITMENT

17. Columbia will file an application to adjust its base rates with a test period of calendar year 2021 and a date certain that is prior to the filing date of that rate case unless otherwise ordered by the Commission. In the event it does not file the base rate case by July 1, 2021, Columbia will file revised tariff sheets by August 1, 2021, that revise the CEP Rider rate to \$0 effective

September 1, 2021, and will not exercise its deferral authority for assets placed in service beginning January 1, 2022, and beyond until Columbia files a rate case. Columbia's deferral authority granted in Case No. 12-3221-GA-UNC and 12-3222-GA-AAM shall remain unchanged for assets placed in service beginning January 1, 2022, and beyond so long as Columbia meets its rate case filing commitment. In anticipation of an ongoing CEP Rider after the new base rates are in effect, Columbia agrees to provide to the Signatory Parties budgets for the CEP capital for calendar years 2021, 2022, and 2023 as part of its base rate case application. (Joint Ex. 1 at 11.)

TARIFFS

18. The tariff sheets attached as Stipulation Exhibit 4 contain the agreed upon CEP Rider rates for charges to customers, and such rates, provisions, terms, and conditions should be effective for bills rendered on or after the date the final tariff sheets are filed at the Commission (Joint Ex. 1 at 11).

F. Consideration of the Stipulation

{¶ 38} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding upon the Commission, the terms of such an agreement are accorded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992), citing *Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). This concept is particularly valid where the stipulation is unopposed by any party and resolves all issues presented in the proceeding in which it is offered.

{¶ 39} The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. *See, e.g., In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 1994); *In re Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT, Opinion and Order (Mar. 30, 1994); *In re Ohio*

Edison Co., Case No. 91-698-EL-FOR, et al., Opinion and Order (Dec. 30, 1993); *In re Cleveland Elec. Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (Jan. 31, 1989); *In re Restatement of Accounts and Records*, Case No. 84-1187-EL-UNC, Opinion and Order (Nov. 26, 1985). The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?

The Supreme Court of Ohio has endorsed the Commission's analysis using these criteria to resolve cases in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 629 N.E.2d 423 (1994), citing *Consumers' Counsel* at 126. The Supreme Court of Ohio stated in that case that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission.

{¶ 40} Columbia witness Melissa Thompson and OCC witness Wm. Ross Willis provided testimony in support of the Stipulation. Both witnesses averred their belief that the Stipulation satisfies each of the Commission's criteria for evaluation of the reasonableness of a stipulation, and each recommends that the Commission approve and adopt the Stipulation without modification. (Co. Ex. 6 at 4, 7; OCC Ex. 1 at 4.)

1. IS THE SETTLEMENT A PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?

{¶ 41} Regarding the first element of the Commission's reasonableness test, Ms. Thompson pointed out that all parties involved in the proceeding joined the Stipulation as a Signatory Party and that, as a group, the parties represent a diverse range of interests. Ms.

Thompson explained that the Stipulation represents a comprehensive compromise resulting from an open process of extensive negotiations in which all the parties were represented by capable counsel and technical experts. Mr. Willis, too, noted the diversity of represented interests, the intensive negotiations, and the parties' histories of active participation in Commission proceedings and knowledgeable, experienced counsel. (Co. Ex. 6 at 4, 5; OCC Ex. 1 at 5.)

2. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT RATEPAYERS AND THE PUBLIC INTEREST?

{¶ 42} Both Ms. Thompson and Mr. Willis testified that the settlement, as a package, benefits Columbia's customers and the public interest. Ms. Thompson stated that the Stipulation benefits ratepayers and the public interest because it will promote safety and reliability by ensuring that Columbia can timely recover its capital investments and, thus, continue investing in the replacement and betterment of its system through the CEP. Similarly, she explained that the Stipulation also benefits customers because it will enhance customer service. Again pointing to the timely recovery of capital investments, Ms. Thompson expounded on the benefits of growing Columbia's system to provide service to new customers and to providing increased load capacity to existing customers. In other words, she testified that both the system and the customers it serves receive benefits from the installation or improvement of mains and service lines, measuring and regulation stations, district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, and the like, all of which is facilitated by the Stipulation. Ms. Thompson further cited the reduced financial impact for customers—specifically, the significant reduction from the maximum SGS Class rate from the \$5.14 proposed in Columbia's application to the \$3.51 SGS Class rate realized in the Stipulation—as an example of how the Stipulation benefits ratepayers. (Co. Ex. 1 at 5-6.)

{¶ 43} Mr. Willis' testimony focused more on the financial benefits to ratepayers. Mr. Willis directed the Commission's attention first to the \$289.9 million depreciation offset to the CEP Investment for the period October 2011 through December 31, 2017. Next, he

noted tax-related rate reductions of approximately \$284 million related to the TCJA and an additional \$22.6 million to be refunded from the period January 2018 through December 31, 2018. Mr. Willis also spoke to the settlement's inclusion of annual caps on the CEP Rider rates that Columbia's customers are charged, which caps also limit Columbia's capital expense deferral authority. As further evidence of the benefits conferred upon ratepayers, Mr. Willis remarked that Columbia will reduce the base rates established in its last rate case by approximately \$121 million to reflect the reduced federal tax rate. (OCC Ex. 1 at 5-8.)

3. DOES THE SETTLEMENT PACKAGE VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?

{¶ 44} Finally, Mr. Willis and Ms. Thompson averred that the Stipulation does not violate any important regulatory principle or practice. Particularly, Mr. Willis testified that the Stipulation represents appropriate ratemaking in that Columbia's reduced tax expense is reflected as offsets to consumers' monthly bills. And, Ms. Thompson observed that the CEP Rider resulting from the Stipulation meets the state policy set forth in R.C. 4929.02. Thus, according to Ms. Thompson, the Stipulation promotes state policy by ensuring that Columbia is given the opportunity to timely recover its investments in public improvement, growth capital, shared services, and information technology, which enhances Columbia's ability to continue to offer adequate, reliable, and reasonably priced natural gas services and goods. (Co. Ex. 6 at 7; OCC Ex. 1 at 8-9.)

III. COMMISSION CONCLUSION ON THE STIPULATION

{¶ 45} The Commission has reviewed the testimony in support of the Stipulation and notes that, as all parties involved in this proceeding are Signatory Parties, the record contains no evidence in opposition to the Stipulation. We agree with Ms. Thompson and Mr. Willis that the Stipulation appears to be the product of serious bargaining among capable, knowledgeable parties representing interests ranging from consumers and community groups to commercial and industrial sectors, not to mention Staff and Columbia. Further, the Commission finds that the Stipulation, as a package, benefits ratepayers and the public interest. Importantly, the Stipulation incorporates and brings to fruition the

benefits to customers of the lower corporate income tax rate instituted by the TCJA. Under the Stipulation, Columbia will offset its base rates by approximately \$121 million to reflect reduced federal tax rates. Combined with similar offsets in other proceedings before the Commission, Columbia's customers are expected to see approximately \$284 million in benefits directly related to the TCJA. Furthermore, Columbia customers will realize over \$22 million related to over-collected taxes for the period January 1, 2018, through December 31, 2018. Additional, tangible benefits to customers include a \$289.9 million depreciation offset, lowering Columbia's revenue requirement related to the CEP Investment from \$109.4 million to \$74.5 million, and annual caps on CEP Rider rates across all rate classes. These financial benefits should not overshadow the benefits to the system as a whole; the Stipulation also promotes a safer, more reliable system and an enhanced customer experience. Columbia will be better able to timely recover its capital investments, which will encourage and promote investment in the distribution system for new and existing customers. Moreover, there is no evidence that the Stipulation violates any important regulatory principle or practice. To the contrary, the Stipulation establishes a CEP Rider that meets the state policies and promotes the availability of adequate, reliable, and reasonably priced services and goods; recognizes the intent of the TCJA by returning dollars to consumers' pockets; and promotes investment in a safer, more reliable distribution system. Given these facts, we find that the Stipulation satisfies all three criteria of our test for reasonableness. Accordingly, the Commission concludes that the Stipulation entered into by the parties is reasonable and should be adopted.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

{¶ 46} Columbia is a natural gas company and a public utility as defined by R.C. 4905.03 and R.C. 4905.02, respectively. As such, Columbia is subject to the jurisdiction of this Commission.

{¶ 47} On October 27, 2017, Columbia filed a notice of intent to file an application for approval of an alternative rate plan under R.C. 4929.05. Columbia noted that the application would request approval to establish a CEP Rider.

{¶ 48} On December 1, 2017, Columbia filed an alternative rate plan application, along with supporting exhibits and testimony, pursuant to R.C. 4929.05, 4929.051(A), 4929.11, and 4929.111. By letter dated March 19, 2018, Staff notified Columbia that the application was for an increase in rates and, as such, additional information must be filed unless waived.

{¶ 49} On March 21, 2018, Columbia notified Staff of its intent to amend its alternative rate plan application to be filed under R.C. 4929.111 and 4929.05 and to include the schedules set forth in R.C. 4909.18(A) through (D) and certain schedules required by the Commission's standard filing requirements in Ohio Adm.Code 4901-7-01.

{¶ 50} On April 2, 2018, as supplemented on April 16, 2018, Columbia filed its amended application for an alternative rate plan to establish a CEP Rider, along with amended testimony, pursuant to R.C. 4929.111, 4929.05, and 4909.18.

{¶ 51} The following parties were granted intervention in this case: OCC, OPAE, IEU, OEG, OMAEG, Kroger, IGS, and RESA.

{¶ 52} On September 4, 2018, Blue Ridge filed its audit report.

{¶ 53} On September 14, 2018, the Staff Report was filed.

{¶ 54} On October 25, 2018, a Stipulation was filed by Columbia, Staff, OCC, OPAE, IEU, OEG, OMAEG, Kroger, and IGS. On November 2, 2018, RESA, the only remaining party, filed a correspondence stating that RESA was joining the Stipulation as a Signatory Party. The Stipulation was intended to resolve all of the issues in the case.

{¶ 55} The evidentiary hearing in this matter was held on November 6, 2018.

{¶ 56} The Stipulation meets the criteria used by the Commission to evaluate stipulations, is reasonable, and should be adopted.

{¶ 57} Columbia and its amended application, as modified by the Stipulation, meet the conditions for approval of an alternative rate plan, as set forth in R.C. 4929.05(A).

V. ORDER

{¶ 58} It is, therefore,

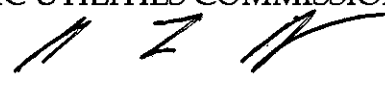
{¶ 59} ORDERED, That the Stipulation be adopted and approved in its entirety. It is, further,

{¶ 60} ORDERED, That Columbia be authorized to file tariffs, in final form, consistent with this Opinion and Order. Columbia shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 61} ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date upon which the final tariff pages are filed with the Commission. It is, further,

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

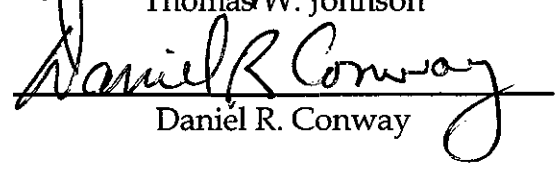
THE PUBLIC UTILITIES COMMISSION OF OHIO


Asim Z. Haque, Chairman


M. Beth Trombold


Thomas W. Johnson

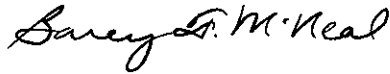

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Secretary