BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion Energy Ohio re: Implementation of the Tax Cuts and Jobs Act of 2017.	))))	18-1908-GA-UNC
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion Energy Ohio for Approval of Tariff Revisions.	)))	18-1909-GA-ATA

APPLICATION

In accordance with R.C. 4909.18 and the October 24, 2018 Finding and Order of the Public Utilities Commission of Ohio (Commission) in Case No. 18-0047-AU-COI (the 18-0047 Order), The East Ohio Gas Company d/b/a Dominion Energy Ohio (DEO, the Applicant, or the Company) files this Application with the Commission seeking approval to resolve matters related to the Tax Cuts and Jobs Act of 2017 (TCJA) by proposing an approach to establish the rates and charges by and through which to fully return TCJA benefits to its customers.

In support of this Application, DEO states as follows:

1. DEO is an Ohio corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western, and southeast Ohio and, as such, is a public utility as defined by R.C. 4905.02, and a natural gas company as defined by R.C. 4905.03(E).

2. On October 24, 2018, the Commission issued the 18-0047 Order, in which it stated that "all Ohio rate-regulated utility companies should be directed to file applications 'not for an increase in rates,' pursuant to R.C. 4909.18, in a newly initiated proceeding, to pass along to consumers the tax savings resulting from the TCJA." 18-0047 Order at 18. The Commission also expressed that it "is open to any alternative proposals by utilities, provided such proposals

pass all tax savings on to customers, have the full agreement of Staff and provide for input from other interested stakeholders." *Id*.

3. In accordance with this Order, DEO is proposing the following means by which to recognize the pass through of tax savings resulting from the TCJA to customers:

TCJA Impact	Means of Recognition
TCJA Impacts Related to PIR and AMR Riders	Return through PIR and AMR Riders
Current FIT Expense Savings – Deferred during Stub Period	Return through Tax Savings Credit Rider (TSCR), with a one-time application of carrying charges on deferred balances since January 1, 2018
Current FIT Expense Savings – Prospective Impact	Recognize (*a*) through ongoing base-rate reductions or (*b*) as an offset to the PSMP regulatory asset
Normalized EDIT	Pass through TSCR pursuant to ARAM tax normalization rules
Non-Normalized EDIT	Pass through TSCR (*a*) over ten years or (*b*) over a more aggressive time period if in conjunction with a near-term base rate case or alternative regulation application

4. Additional detail on these proposals follows. It is not clear to DEO whether any of the approaches described in this Application constitute "alternative proposals" as that term is used in the 18-0047 Order. But either way, as DEO explains below, all of these proposals would "pass all tax savings on to customers," and DEO describes below its intention to gain the full agreement of Staff and to consider in good faith the input of other interested parties, with the goal of reaching an agreed-upon resolution of this Application with all interested parties, if possible.

A. Tax Impacts Reflected in PIR and AMR Riders.

5. DEO has already begun the process of returning TCJA savings to customers via the Pipeline Infrastructure Replacement (PIR) Cost Recovery Charge and the Automated Meter Reading (AMR) Cost Recovery Charge. *See* Case Nos. 17-2178- & 17-2179-GA-RDR.

6. Both the PIR and AMR Charges put into effect in May 2018 already reflect the reduction in the federal income tax (FIT) rate in two ways:

a. The pre-tax rate of return was revised to reflect the new 21-percent income tax rate; and

b. A credit adjustment was made to refund to customers an amount estimated to be the difference between the total billed to customers for the period January 2018 through April 2018 at the then-current PIR and AMR Charges and what the billed total would have been with the FIT rate at 21 percent.

7. Excess deferred income taxes (EDIT) amounts relating to the PIR and AMR Programs are being addressed in the currently pending filings. *See* Case Nos. 18-1587- & 18-1588-GA-RDR.

8. With respect to the PIR Charge, DEO is also proposing to address the impact of the FIT reduction on annual residential rate-increase caps in the following manner: DEO will recalculate the annual residential rate-increase caps approved by the Commission in Case No. 15-362-GA-ALT, which were set assuming the previous 35 percent FIT rate, to reflect the 21 percent FIT rate. To the extent that DEO's capital spending produces a revenue requirement that exceeds the amount that could be recovered within the recalculated rate increase cap in any year, DEO will reduce the proposed PIR revenue requirement so as not to exceed that amount.

B. TCJA-related Savings Associated with the Reduction in Current FIT Expense.

9. The following provisions describe DEO's proposal to *(a)* pass back the TCJA-related savings associated with the reduction in current FIT expense that have been deferred to date and (*b*) to recognize those savings prospectively either by a base rate reduction or as an offset to a regulatory asset.

Pass Back of Post-January 1, 2018 Deferred TCJA Savings

10. DEO has been deferring as a regulatory liability the difference between FIT expense embedded in existing base rates billed to customers and reduced FIT expense attributable to the TCJA since January 1, 2018, and will continue to accrue such amounts until such time as a mechanism to pass back TCJA savings is implemented on a prospective basis (the Stub Period). DEO proposes passing back Stub Period FIT savings to customers over a 12-month period, including a one-time application of carrying costs, via the newly proposed Tax Savings Credit Rider (TSCR). The TSCR will become effective when the prospective change in customer base rates or offset to a regulatory asset described below is implemented. Due to the timing of implementation, savings for the final months of the Stub Period may be estimated and subsequently trued-up to the actual amount.

11. In order to apply deferred TCJA savings to customer bills in the same manner as a change in customer base rates, the TSCR will be calculated and applied as a percentage of the base rate charges included in customer billings. The TSCR will be adjusted annually, appear as a separate line item on customer bills, and remain in effect until such time as new base rates are established in a subsequent base rate case proceeding.

12. Carrying charges will be applied to the monthly deferred regulatory liability balances associated with the reduction in current FIT expense over the Stub Period using the annual interest rate of 3.00 percent, which is the same rate imposed by stipulation to be applied

to monthly deferred regulatory assets accrued under DEO's Pipeline Safety Management Program (PSMP). The use of the same rate applied to a regulatory liability and regulatory asset, both of which will be accrued over relatively short time frames, provides symmetry and avoids the inconsistency of using one rate when customers owe the Company money but a different rate when the Company owes customers money. No further carrying costs will be accrued after the TSCR becomes effective.

Prospective Recognition of Reduction in FIT Expense

13. To address the prospective and ongoing impact of the reduction in FIT expense, DEO proposes two alternatives, depending on the Commission's policy objectives.

14. To the extent that the Commission desires to promptly pass back prospective savings, DEO proposes reducing base rates for all sales, transportation and storage service rate schedules by 5.608 percent, based on the test year information in DEO's last rate case. *See* Case No. 07-829-GA-AIR. The calculation of the percentage adjustment is set forth in Attachment A, which contains calculations of the reduction in the last rate case revenue requirement due to the TCJA, the ratio of that amount to non-discounted base rate revenues, and the resulting reduction in base rates. The Commission has approved a base-rate reduction to reflect the prospective reduction in FIT expense for at least one other gas utility. *See In re Columbia Gas of Ohio, Inc.*, Case No. 17-2202-GA-ALT; *see also In re Duke Energy Ohio, Inc.*, 18-1830-GA-UNC, Appl. at 3 (Dec. 21, 2018) (proposing 5.3 percent distribution base rate reduction to account for FIT rate reduction). Adjusting base rates in that fashion properly reflects the ratemaking determinations approved in DEO's prior rate case and avoids disrupting the relative economics and incentives across and within individual rate schedules.

15. Alternatively, DEO recognizes that the Commission may prefer an approach that emphasizes longer-term gradualism and rate stability. Such an approach could be warranted in

light of the current low commodity-price environment that may not be in place when the Company next files an application for an increase in distribution charges. If the Commission desires to support these policy objectives, DEO would propose the following approach: Rather than implement a base-rate reduction, DEO would instead record the revenue generated by the 5.608 percent reduction as a regulatory liability and utilize that liability to offset the regulatory asset being deferred under PSMP. *See* Case No. 15-1712-GA-AAM. Such an approach would reduce future carrying costs accrued under PSMP and mitigate the rate increase that will otherwise occur when approved PSMP expenditures are recovered in future rates.

C. Excess Deferred Income Tax Balances

16. DEO is also proposing to return tax savings associated with excess deferred income taxes, or EDIT. There are two broad categories of EDIT: Normalized EDIT (a.k.a. protected), and Non-Normalized (a.k.a. unprotected). Including PIR- and AMR-related EDIT, DEO's estimated December 31, 2017 EDIT balances grossed up for federal taxes at the 21% FIT rate are:

Normalized (Plant Protected)	\$369.1 million
Non-Normalized, Plant-Related (Plant Unprotected)	\$ 27.8 million
<u>Non-Normalized (Unprotected)</u>	<u>\$181.5 million</u>
Total	\$578.4 million

17. DEO will confer with Staff regarding the Non-Normalized, Plant-Related (Plant Unprotected) EDIT balance to determine which components should be categorized as Normalized, with remaining amounts to be included in the Non-Normalized balance. While all EDIT amounts passed through to customers will include a federal tax gross-up, the corresponding reduction in total accumulated deferred income taxes (ADIT) will be calculated net of the tax gross-up.

18. As noted above, amortization of PIR- and AMR-related EDIT amounts will be passed through to customers via their respective rider mechanisms. For other EDIT amounts, DEO proposes the following methods of returning the Normalized and Non-Normalized EDIT balances:

Normalized EDIT

19. All normalized EDIT will be amortized and passed through to customers in accordance with the Internal Revenue Code (IRC) Average Rate Assumption Method (ARAM) tax normalization rules. In order to reflect the date certain amount in DEO's last rate case, the monthly amortization amount will be based on ADIT balances at March 31, 2007, adjusted for recognition of the turn-around through December 31, 2017. The amount of Normalized EDIT to be passed through to customers will be based on an annual amortization amount estimated at the time the initial TSCR rate is determined. Unlike Non-Normalized EDIT amortization, which will be ratable, the amount of Normalized EDIT amortized under ARAM changes each year. The year-to-year changes, associated with Normalized EDIT, will be reflected in the prospective TSCR rates.

20. Normalized EDIT amortized and re-deferred during the Stub Period, but not yet returned through rates, will be passed through to customers as part of the TSCR over a 12-month period, after which the portion of the TSCR attributable to the Stub Period will be eliminated. The current period Normalized EDIT amortization commencing in the month the TSCR is implemented will be passed through to customers as part of the TSCR until such time as new base rates reflecting an appropriate annualized test year amount are established in a subsequent base rate case proceeding.

Non-Normalized EDIT

21. Subject to the discussion in paragraphs 22 through 24 below, DEO will amortize and pass through the Non-Normalized EDIT balance as of December 31, 2017, over ten years. Unlike Normalized EDIT that must be amortized under ARAM rules, Non-Normalized EDIT has not been amortized and re-deferred and thus remains at its December 31, 2017 balance. Once the treatment of Non-Normalized EDIT is finalized and approved, the current period Non-Normalized EDIT amortization commencing in the month the TSCR is implemented will be passed through to customers as part of the TSCR until such time as new base rates reflecting an appropriate annualized test year amount are established in a subsequent base rate case proceeding.

22. DEO recognizes that other utilities have committed to amortizing Non-Normalized EDIT over more aggressive time periods in conjunction with the resolution of other matters, including applications to increase distribution charges. Given the significant size of DEO's Non-Normalized EDIT balance, and the associated cash-flow and financing impacts, DEO does not believe that such an aggressive approach would be prudent on a stand-alone basis.

23. Although an application to increase distribution charges is not currently pending for DEO, the Company intends to file either an application to increase its base rates or an application to establish an alternative rate plan for the recovery of costs related to its Capital Expenditure Program (CEP) in 2019. *See* Case Nos. 11-6024-, 12-3279- and 13-2410-GA-UNC. DEO believes that the Non-Normalized EDIT balance could permit the recognition of significant customer benefits in conjunction with such other filing. In conjunction with a filing providing rate relief, DEO believes it would be feasible to consider a more aggressive amortization period, which could both speed the pass through of the Non-Normalized EDIT balance, and offset a

significant portion of the impact that would otherwise accompany a base rate increase or cost recovery under alternative regulation.

24. DEO intends to confer with Staff, and is willing to confer with other interested parties, regarding the possibility of combining the recognition of Non-Normalized EDIT balance with a future filing providing rate relief. If such an approach is taken, DEO may seek to consolidate such a future filing with this proceeding, to withdraw or modify the proposals in this Application regarding Non-Normalized EDIT, or to take such other action that appears reasonably necessary to implement the approach ultimately decided upon.

Financing Costs

25. As DEO's EDIT balances are amortized, ADIT will decrease by a corresponding amount, net of the FIT gross-up. Since for ratemaking purposes ADIT is treated as non-investor supplied funds and used to offset rate base, reductions in ADIT will increase rate base, other things being equal. In order to reflect the ratemaking impact of the EDIT pass through, the associated financing cost as measured by DEO's post-TCJA pre-tax rate of return on the cumulative increase in rate base must be recognized.

26. DEO proposes to offset otherwise applicable TSCR amounts by such financing cost by doing the following:

a. Preparing a schedule of the monthly EDIT-related amount to be passed through the TSCR, such monthly amount to reflect the sum of the Normalized and Non-Normalized EDIT grossed up for federal taxes;

   i. *Note*: Pursuant to the approach described above, each of the first twelve months will include one-twelfth of the Stub Period amount to be passed through as well as the current period EDIT amortization that will continue until such time as new base rates reflecting an appropriate annualized test year amount are established in a subsequent base rate case proceeding.

b. Removing the tax gross-up portion of each monthly amount to quantify the reduction in ADIT;

c. Determining the resulting cumulative increase in rate base attributable to the reduction in ADIT;

d. Developing an average monthly balance of the cumulative rate base increase based on the prior and current month's balances divided by 2;

e. Calculating the monthly financing cost by multiplying each month's average balance calculated in the preceding paragraph d. by DEO's post-TCJA pre-tax return on rate of 9.91% divided by 12; and

f. Summing the monthly financing cost for the upcoming year and using that figure to reduce the TSCR amount to be passed through to customers over that period.

An example of the above calculations using hypothetical figures is included as Attachment B.

True-Up of Pass Back Amounts and Actual TCJA Savings

27. The difference between the aggregate amount passed back through the TSCR and the actual TCJA impacts, net of the financing cost amounts described above, accrued over the Stub-Period and post-Stub-Period time frames will be recognized as a regulatory asset or liability as appropriate. The resolution of the resulting regulatory asset or liability will be addressed in DEO's next base rate case proceeding.

28. DEO has already begun the process of discussing these proposals with Staff. DEO intends to continue discussions into 2019 with a goal of resolving any Staff concerns and, if possible, filing a Stipulation to resolve any and all issues presented by this Application. DEO has also engaged in a discussion with the Office of the Ohio Consumers' Counsel (OCC) regarding

this Application, and similarly intends to consider any concerns raised by OCC and, if possible, to identify mutually agreeable resolutions of such concerns. DEO is also willing to consider any input from any other interested party that may involve itself in this proceeding.

29. Given that elements of its proposal to return TCJA benefits to customers have not yet been finalized, DEO is not filing proposed revised tariff pages at this time. After such proposals have been finalized and resolved, DEO intends to file tariff pages in this docket that reflect and implement the approach ultimately settled upon.

30. In support of its Application, DEO submits the following attachments to this Application:

a. Attachment A – Calculations of Base Rate Reductions

b. Attachment B – Financing Cost Calculation Example

31. This Application neither proposes an increase in any rate or charge nor will it adversely affect customers. As such, this Application should not require either a hearing or any requirement to publish legal notice.

WHEREFORE, DEO respectfully requests that the Commission allow an opportunity for discussions between DEO, Staff, and other interested parties regarding the proposals in this Application, approve any further proposals and resolutions as submitted by the Company following such discussions, and grant any other necessary and proper relief.

Dated: December 31, 2018

Respectfully submitted,

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ATTORNEYS FOR THE EAST OHIO GAS COMPANY D/B/A DOMINION ENERGY OHIO

ATTACHMENT A

East Ohio Gas Company d/b/a Dominion Energy Ohio
Case No. 07-829-GA-AIR
Revenue Requirements

		With Tax Reform	Opinion & Order	Variance
		(A)	(B)	(A - B)
(1)	Rate Base	$ 1,404,744,493	$ 1,404,744,493	$ -
(2)	Adjusted Operating Income	$ 103,655,760	$ 93,250,390	$ 10,405,371
(3)	Rate of Return Required	8.49%	8.49%	0.00%
(4)	Required Operating Income (1) x (3)	$ 119,262,807	$ 119,262,807	$ -
(5)	Income Deficiency (4) - (2)	$ 15,607,047	$ 26,012,417	$ (10,405,371)
(6)	Gross Revenue Conversion Factor	1.328948	1.615183	(0.286235)
(7)	Revenue Increase Required (5) x (6)	$ 20,740,953	$ 42,014,814	$ (21,273,861)
(8)	Revenue Increase Recommended	$ 20,740,953	$ 40,500,000	$ (19,759,047)
(9)	Test Year Adjusted Operating Revenues	$ 1,025,835,884	$ 1,025,835,884	$ -
(10)	Revenue Requirement	$ 1,046,576,837	$ 1,066,335,884	$ (19,759,047)

ATTACHMENT A

East Ohio Gas Company d/b/a Dominion Energy Ohio
Case No. 07-829-GA-AIR
Calculation of Gross Revenue Conversion Factor

		Tax Reform	Order
(1)	Gross Revenue	100.000000	100.000000
(2)	Uncollectibles (1) x 0.000000% (a)	-	-
(3)	Net Revenue (1) - (2)	100.000000	100.000000
(4)	Ohio Gross Receipts Tax (3) x 4.7500% (b)	4.750000	4.750000
(5)	Income Before Federal Income Taxes (3) - (4)	95.250000	95.250000
(6)	Federal Income Taxes (5) x Tax Rate	20.002500	33.337500
(7)	Operating Income Percentage (5) - (6)	75.247500	61.912500
(8)	Gross Revenue Conversion Factor (1) / (7)	1.328948	1.615183

ATTACHMENT A

Tax Cuts and Jobs Act (TCJA) Impact on Test Year Revenues in Case No. 07-829-GA-AIR

Test Year TCJA Revenue Requirement Impact	$	19,759,047
Gross Receipts Tax Rider		4.6044%
Test Year TCJA Base Rate Revenue Impact	$	18,889,308
Base Rate Revenues (Year 3 Rates) - System Total	$	356,259,232
Negotiated Arrangement Revenues		
GTS	$	8,019,036
DTS	$	6,274,709
Off-System	$	1,663,321
FSS (Per E-4.1 FSS)	$	3,464,392
Total Negotiated Arrangement Revenues	$	19,421,459
Base Rate Revenues - Non-Discounted	$	336,837,773
TCJA Impact as % of Non-Discounted Revenues		5.608%

ATTACHMENT A

THE EAST OHIO GAS COMPANY d/b/a DOMINION ENERGY OHIO
TCJA Base Rate Credit by Rate Block

Rate Family	Block	Rate	Break	Reduction	New Rate
GSS		$17.58	Fixed	($0.99)	$16.59
GSS Non-Res		$20.00	Fixed	($1.12)	$18.88
LVGSS		$60.00	Fixed	($3.36)	$56.64
GTS		$120.00	Fixed	($6.73)	$113.27
DTS		$377.00	Fixed	($21.14)	$355.86
TSS		$40.00	Fixed	($2.24)	$37.76
GTS	1	$1.2500	100	($0.0701)	$1.1799
	2	$0.9900	500	($0.0555)	$0.9345
	3	$0.8750	2,000	($0.0491)	$0.8259
	4	$0.7110	2,000+	($0.0399)	$0.6711
TSS	1	$1.5000	100	($0.0841)	$1.4159
	2	$1.1500	500	($0.0645)	$1.0855
	3	$0.8000	500+	($0.0449)	$0.7551
DTS	1	$1.0803	5,000	($0.0606)	$1.0197
	2	$0.6500	50,000	($0.0365)	$0.6135
	3	$0.1663	50,000+	($0.0093)	$0.1570
LVGSS	1	$1.2500	100	($0.0701)	$1.1799
	2	$0.9700	500	($0.0544)	$0.9156
	3	$0.8000	500+	($0.0449)	$0.7551
GSS-NR	1	$0.3780	50	($0.0212)	$0.3568
	2	$1.1980	50+	($0.0672)	$1.1308

TCJA impact as a percetange of non-discounted revenues: 5.608%

ATTACHMENT B

Financing Cost Example

Month	Monthly EDIT Amount Passed Back Through TSCR (Note 1)	Monthly EDIT Amortization and ADIT Reduction	Rate Base Increase Based on Cumulative ADIT Reduction	Average Monthly Balance of Rate Base Increase	Monthly Financing Cost	Annual TSCR Offset
		-	-	-	-	
1	253.16	200	200	100	0.83	
2	253.16	200	400	300	2.48	
3	253.16	200	600	500	4.13	
4	253.16	200	800	700	5.78	
5	253.16	200	1,000	900	7.43	
6	253.16	200	1,200	1,100	9.08	
7	253.16	200	1,400	1,300	10.74	
8	253.16	200	1,600	1,500	12.39	
9	253.16	200	1,800	1,700	14.04	
10	253.16	200	2,000	1,900	15.69	
11	253.16	200	2,200	2,100	17.34	**Year 1**
12	253.16	200	2,400	2,300	18.99	**118.92**
13	126.58	100	2,500	2,450	20.23	
14	126.58	100	2,600	2,550	21.06	
15	126.58	100	2,700	2,650	21.88	
16	126.58	100	2,800	2,750	22.71	
17	126.58	100	2,900	2,850	23.54	
18	126.58	100	3,000	2,950	24.36	
19	126.58	100	3,100	3,050	25.19	
20	126.58	100	3,200	3,150	26.01	
21	126.58	100	3,300	3,250	26.84	
22	126.58	100	3,400	3,350	27.67	
23	126.58	100	3,500	3,450	28.49	**Year 2**
24	126.58	100	3,600	3,550	29.32	**297.30**
25	158.23	125	3,725	3,663	30.25	
26	158.23	125	3,850	3,788	31.28	
27	158.23	125	3,975	3,913	32.31	
28	158.23	125	4,100	4,038	33.34	
29	158.23	125	4,225	4,163	34.38	
30	158.23	125	4,350	4,288	35.41	
31	158.23	125	4,475	4,413	36.44	
32	158.23	125	4,600	4,538	37.47	
33	158.23	125	4,725	4,663	38.50	
34	158.23	125	4,850	4,788	39.54	
35	158.23	125	4,975	4,913	40.57	**Year 3**
36	158.23	125	5,100	5,038	41.60	**431.09**

Pre-Tax Rate of Return 9.91%

Note 1 - Amounts include an FIT gross-up calculated as follows:

FIT Rate	21%
Gross-Up Factor	1.2658