

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of The East Ohio Gas)	
Company d/b/a Dominion Energy Ohio for)	Case No. 19-0468-GA-ALT
Approval of an Alternative Form of)	
Regulation.		

**DIRECT TESTIMONY OF CELIA B. HASHLAMOUN
ON BEHALF OF
THE EAST OHIO GAS COMPANY D/B/A DOMINION ENERGY OHIO**

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1 **Direct Testimony of**
2 **Celia B. Hashlamoun**

3 **I. INTRODUCTION**

4 **Q1. Please state your name, business address and position.**

5 A. My name is Celia B. Hashlamoun. I am employed by The East Ohio Gas Company d/b/a
6 Dominion Energy Ohio (DEO or Company) in the Rates Department as a Regulatory
7 Specialist. My business address is 1201 East 55th Street, Cleveland, Ohio 44103.

8 **Q2. Please describe your educational background and professional experience.**

9 A. I graduated from the University of Akron in 2007 with a Bachelor of Science in Business
10 Administration concentrating in Corporate Finance. I joined DEO in February 2018 as a
11 Regulatory Specialist in the Rates Department. My primary responsibilities include the
12 planning and preparation of analyses that support various regulatory proceedings and
13 other business needs. In performing my work, I interact with various groups within DEO
14 that are responsible for business planning and reporting. Prior to joining DEO, I was
15 employed by FirstEnergy Corp., in the Rates and Regulatory Affairs Department. In my
16 role, I supported all of the FirstEnergy's distribution utility subsidiaries on various
17 regulatory ad-hoc analyses. Prior to working at FirstEnergy, I was employed at Plante &
18 Moran Corporate Finance as an Investment Banking Analyst.

19 **Q3. Are you familiar with DEO's Application?**

20 A. Yes. I assisted in the preparation of DEO's Pre-Filing Notice and Application, including
21 the collection of the data and assembly of Exhibit I schedules that support the Capital
22 Expenditure Program (CEP) Rider revenue requirement and the determination of
23 associated proposed rates.

1 **Q4. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is to present the revenue requirement and rate design
3 associated with DEO's proposed CEP Rider set forth in Application Exhibit I. My
4 analysis supports the request for an increase in revenue.

5 **II. PROPOSED CEP RIDER**

6 **Q5. Please describe DEO's proposed CEP Rider Revenue Requirement.**

7 A. The CEP Rider will allow the Company to earn a return on and of the net plant
8 investment attributable to the CEP, which was not included in the rate base from the
9 Company's last distribution rate case. *See* Case No. 07-829-GA-AIR. For the initial CEP
10 Rider charge, the revenue requirement reflects investment activity from October 1, 2011,
11 through December 31, 2018. The development of the proposed CEP rates and of the
12 revenue requirement is shown in Exhibit I. As shown in Schedule 2 of that exhibit, the
13 revenue requirement formula is rate base times pre-tax rate of return plus operating
14 expenses. Each component is then supported by a schedule or schedules, which are
15 further described below. The proposed charge for each rate schedule based on the
16 requested revenue requirement is shown on Exhibit I at Schedule 1.

17 **Q6. Please explain DEO's proposed CEP Rider rate design as shown on Exhibit I at**
18 **Schedule 1.**

19 A. The proposed CEP Rider charges were determined by allocating the revenue requirement
20 shown on Schedule 1 at line 1 to each of DEO's rate schedules. The allocation is based
21 on the cost of service used in DEO's last rate case. (*See* Exhibit I, Schedule 1, lines 2
22 through 15.) The resulting revenue requirement by rate schedule is shown at lines 16
23 through 21. The revenue requirement by rate schedule for customers receiving General
24 Sales Service, Energy Choice Transportation Service, General Transportation Service, or

1 Transportation Service for Schools¹ is then divided by the total number of actual bills
 2 issued for each rate class for the twelve-month period ended December 31, 2018, to
 3 arrive at the monthly CEP Rider. (*See id.* lines 23–26.) The revenue requirement for rate
 4 schedule Daily Transportation Service (DTS) was divided by the total number of DTS
 5 volumes for the twelve-month period ended December 31, 2018. The Firm Storage
 6 Service (FSS) charge was determined by dividing the total maximum storage capacity
 7 volumes contracted for the 2018/2019 season by the FSS allocated revenue requirement.
 8 The resulting charges by rate schedule are listed below:

<u>Rate Schedule</u>	<u>CEP Rider Rate</u>
GSS-R and ECTS-R	\$3.89/month
GSS-NR and ECTS-NR	\$11.06/month
LVGSS and LVECTS	\$51.64/month
GTS and TSS	\$447.70/month
DTS	\$0.0475/Mcf
FSS	\$0.1269/Mcf

16 **Q7. Please identify the components and schedules that support the calculation of CEP**
 17 **rate base shown on Exhibit I at Schedule 2.**

- 18 A. Rate base consists of the following components: cumulative capital additions, net of cost
 19 of removal and retirements, and accumulated provision for depreciation, net of cost of
 20 removal and retirements (*see* Schedule 3); a depreciation offset (Schedule 5); cumulative
 21 regulatory deferrals for depreciation, PISCC and property tax (Schedule 3); Accumulated

¹ This includes the following schedules: GSS-R, ECTS-R, GSS-NR, ECTS-NR, LVGSS, LVECTS, GTS, and TSS.

1 Deferred Income Taxes (ADIT) on liberalized depreciation (Schedule 7); and deferred
2 income tax on deferred PISCC and property tax, which are determined by multiplying the
3 cumulative deferred PISCC and property tax amounts by the federal income tax rate of
4 21%.

5 **Q8. Please explain the information set forth on Schedule 3 and how that information is**
6 **reflected in Schedule 2.**

7 A. Schedule 3 shows the CEP Annual Capital Investment and Deferral Summary. Certain
8 rate base components (namely, capital additions, cost of removal, retirements,
9 accumulated provision for depreciation, and deferrals by category) are displayed annually
10 and cumulatively from program inception in October 1, 2011, through December 31,
11 2018. The cumulative values are used in the computation of revenue requirement on
12 Schedule 2. Each annual value reflects what was filed in the Annual Informational Filings
13 filed as part of the CEP through 2017. The 2018 Annual Informational Filing is being
14 filed concurrently with this Application.

15 **Q9. Please explain the purpose of including the depreciation offset as a reduction to CEP**
16 **rate base.**

17 A. For accounting purposes, as depreciation expense is recovered, the accumulated
18 depreciation reserve increases, therefore reducing rate base. The depreciation offset was
19 created to represent the portion of depreciation expense that has been collected from
20 customers through base rates, but not yet recognized as an offset to rate base. The offset
21 effectively provides a credit to customers by reducing CEP rate base.

22 **Q10. Please describe how the depreciation offset set forth on Schedule 5 and supported by**
23 **Schedule 6 was calculated.**

24 A. The Calculation of the Depreciation Offset is shown on Schedule 5. First, a composite
25 depreciation rate was calculated. To calculate this rate, the annualized depreciation

1 expense utilized in the Company's last base rate case was divided by the associated gross
2 plant in service. This resulted in a composite rate of 2.55 percent. Next, 2007 total
3 retirements, net of PIR and AMR retirements, were subtracted from the gross plant in
4 service from the last base rate case, resulting in a plant in service, net of retirements
5 value. The resulting value was the beginning value of the following year. This
6 methodology was followed annually through December 31, 2018.

7 Beginning in October 2011, at the inception of the CEP deferral, the composite
8 depreciation rate was applied to the plant in service, net of retirements value, resulting in
9 an annual depreciation offset value. This was computed annually, and the cumulative
10 depreciation offset value shown on Schedule 5 at line 16 appears as a rate base
11 component on Schedule 2 at line 10.

12 Schedule 6 shows the support for the data used on Schedule 5 at Column C.
13 Schedule 6 shows total retirements net of asset retirement obligations, which are
14 published in the Company's annual report filed with the Commission. Asset retirement
15 obligations are not included in rate base. Retirements included in the calculation of PIR
16 rates are excluded from the total, resulting in the net retirements used in the depreciation
17 offset calculation.

18 **Q11. Please explain why deferred taxes are shown as a reduction to the net CEP**
19 **investment?**

20 A. Deferred taxes are a non-investor source of funds, resulting from a tax treatment of
21 expense that is different from the book treatment. Recognition of deferred taxes measures
22 DEO's net investment. These non-investor sources of funds, which are reflected as an
23 offset to the net CEP investment, include deferred taxes resulting from the use of higher

1 tax depreciation and the recognition of the tax deduction available to DEO related to
2 deferred PISCC and property taxes.

3 **Q12. Please describe how deferred taxes were calculated.**

4 A. Exhibit I at Schedule 7 shows deferred taxes on liberalized depreciation associated with
5 the CEP cumulatively through December 31, 2018. Deferred taxes on liberalized
6 depreciation represent the federal income tax liability associated with the difference
7 between depreciation allowed for income tax purposes, which is determined in
8 accordance with tax rules, compared with depreciation calculated for book purposes,
9 which is determined in accordance with accounting rules. The formula for the deferred
10 tax on PISCC and property tax deferrals shown on Exhibit I at Schedule 2 is cumulative
11 deferral balance times the Company's federal income tax rate of 21 percent.

12 **Q13. Why did DEO use the pre-tax rate of return of 9.91 percent in developing the**
13 **revenue requirement upon which the CEP Rider rates are determined?**

14 A. This pre-tax rate of return reflects the federal income tax rate reduction associated with
15 the 2017 Tax Cuts and Jobs Act (TCJA) applied to the rate of return on rate base
16 authorized in DEO's last rate case. This is the same return used by DEO in its AMR and
17 PIR Charges recently approved by the Commission. (*See* Case Nos. 18-1587- & 18-1588-
18 GA-RDR.) It is also the same rate of return used by DEO to calculate the impact of
19 deferrals on customers in projecting CEP rate impacts to ensure compliance with the
20 \$1.50 rate cap. Finally, this approach is also consistent with the CEP Rider recently
21 approved by the Commission for Columbia Gas of Ohio, Inc. *See, e.g.*, 17-2202 Order at
22 16 (Nov. 28, 2018) ("the rate of return used to develop the revenue requirement for each
23 application will be based on the capital structure and cost of capital authorized by the
24 Commission in Columbia's most recent base rate case").

1 **Q14. Please identify the components and schedules that support the calculation of**
2 **operating expense shown on Exhibit I at Schedule 2.**

3 A. Operating expense consists of five components: annualized depreciation and property tax
4 expense shown on Schedule 8; and the amortization of deferred PISCC, depreciation
5 expense, and deferred property tax expense shown on Schedule 9.

6 **Q15. Please explain the Annualized Depreciation and Property Tax Expense calculation**
7 **on Schedule 8 and how that information is shown on Schedule 2.**

8 A. Schedule 8 sets forth Annualized Depreciation and Property Tax Expense. Annualized
9 depreciation expense represents the depreciation expense on cumulative capital additions,
10 net of cost of removal and retirements, as of December 1, 2018. This expense is
11 calculated by multiplying the value of the assets at the date certain for this Application by
12 the depreciation rate of the underlying assets. Annualized property tax expense represents
13 property tax expense on cumulative capital additions, net of cost of removal and
14 retirements, as of December 31, 2018, for the period that the adjusted CEP Rider will be
15 in effect. This expense is calculated by multiplying the value of the assets at the date
16 certain for this Application by the estimated 2018 effective tax rate of 1.3846 percent.
17 The annualized depreciation expense and annualized property tax expense are shown on
18 Schedule 2 at lines 23 and 24, respectively. Inclusion of these expenses are prudent and
19 necessary business expenses that will be incurred by DEO on an ongoing basis, and will
20 enable DEO to cease deferring depreciation and property tax expense on assets for which
21 a CEP recovery rate is implemented. This recovery is consistent with the approved
22 determination of the CEP Rider revenue requirement in Case No. 17-2202-GA-ALT.
23 (*See, e.g., 17-2202 Stip., Ex. 1 (Oct. 25, 2018).*)

1 **Q16. Please explain the amortization of deferred depreciation, property tax and PISCC**
2 **expense calculation on Schedule 9 and how that information is shown on Schedule 2.**

3 A. Schedule 9 sets forth the Annual Amortization of Deferrals. This amortization recovers
4 accumulated deferred PISCC, depreciation expense and property tax expense as of
5 December 31, 2018 over the composite life of the assets. The composite life amortization
6 rate was computed based on CEP capital additions, net of cost of removal and retirements
7 as of December 31, 2018. Details of the composite asset life rate computation are shown
8 on Schedule 10. The amortization of deferred PISCC, amortization of deferred
9 depreciation expense and amortization of deferred property tax expense are shown on
10 Schedule 2 at lines 25 through 27. Amortization will not start until DEO commences
11 recovery through rates and is calculated based on the cumulative deferral balance.

12 **III. CONCLUSION**

13 **Q17. Does this conclude your direct testimony?**

14 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony was served by electronic mail to the following on this 1st day of May, 2019:

Christopher Healey
Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215-4213
christopher.healey@occ.ohio.gov

Colleen Mooney
Ohio Partners for Affordable Energy
P.O. Box 12451
Columbus, Ohio 43212-2451
cmooney@opae.org

Frank P. Darr
Matthew R. Pritchard
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, Ohio 43215
fdarr@mcneeslaw.com
mpritchard@mcneeslaw.com

Jodi Bair
Robert Eubanks
Attorney General's Office
Public Utilities Section
30 East Broad Street, 16th Floor
Columbus, Ohio 43215
jodi.bair@ohioattorneygeneral.gov
robert.eubanks@ohioattorneygeneral.gov

/s/ Rebekah J. Glover

One of the Attorneys for The East Ohio Gas
Company d/b/a Dominion Energy Ohio

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Summary: Text Direct Testimony of Celia B. Hashlamoun electronically filed by Ms. Rebekah J. Glover on behalf of The East Ohio Gas Company d/b/a Dominion Energy Ohio