

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Suburban)	
Natural Gas Company for an Increase in Gas)	Case No. 18-1205-GA-AIR
Distribution Rates)	
In the Matter of the Application of Suburban)	Case No. 18-1206-GA-ATA
Natural Gas Company for Tariff Approval)	
In the Matter of the Application of Suburban)	
Natural Gas Company for Approval of Certain)	Case No. 18-1207-GA-AAM
Accounting Authority)	

**DIRECT TESTIMONY
OF
NICHOLE M. CLEMENT
IN SUPPORT OF THE STIPULATION**

On Behalf of
THE SUBURBAN NATURAL GAS COMPANY

Management Policies, Practices, and Organization

Operating Income

Rate Base

Allocations

Rate of Return

Rates and Tariffs

X Other

June 7, 2019

1 **Q. Please state your name and business address.**

2 **A.** Nichole M. Clement, 551 Lake Cascades Parkway, Findlay, Ohio 45840.

3 **Q. By whom are you employed and in what capacity?**

4 **A.** Gilmore Jasion Mahler, LTD (GJM), Certified Public Accountant.

5 **Q. How long have you been associated with GJM?**

6 **A.** Approximately five and one-half years. Prior to GJM, I was associated with Pry
7 Professional Group (Pry) for over 18 years. GJM acquired Pry in 2013.

8 **Q. On whose behalf are you offering testimony in this proceeding?**

9 **A.** I have been authorized to appear and testify on behalf of Suburban Natural Gas Company
10 (Suburban or Company), the applicant in this case.

11 **Q. Please outline your educational background.**

12 **A.** I graduated from Bowling Green State University in 1994 with a degree in Business
13 Administration with a specialization in accounting. I received my Certified Public
14 Accountant designation in 1998. I have worked with public utility companies at Pry and
15 GJM for the past 24 years.

16 **Q. Have you previously submitted testimony before the Public Utilities Commission of**
17 **Ohio (Commission)?**

18 **A.** Yes. On August 17, 2007, I submitted testimony at the Commission on behalf of Suburban
19 in Case No. 07-689-GA-AIR, on September 14, 2010 in Case No. 10-763-GA-RDR, on
20 August 30, 2011 in Case No. 11-3234-GA-RDR, on August 30, 2012 in Case No. 12-1698-
21 GA-RDR, on August 30, 2013 in Case No. 13-1231-GA-RDR, on August 28, 2014 in Case
22 No. 14-1006-GA-RDR, on August 28, 2015 in Case No. 15-1048-GA-RDR, on August 31,
23 2016 in Case No. 16-1212-GA-RDR, on April 25, 2017 in Case No. 17-594-GA-ALT, on
24 August 24, 2017 in Case No. 17-1371-GA-RDR, on August 30 2018 in Case 18-0977-GA-

1 RDR, and on September 14, 2018 in Case No. 18-1205-GA-AIR. Also, I am generally
2 familiar with the ratemaking process and the accounting practices of public utilities.

3 **Q. What is the purpose of your testimony in this proceeding?**

4 **A.** The purpose of my testimony is to support the Stipulation entered into between Suburban
5 and Staff of the Commission (Staff) (collectively, Signatory Parties) and filed on May 23,
6 2019. I also sponsor certain terms of the Stipulation and related accounting issues, as well
7 as the reasonableness of those terms as part of the settlement package and how the
8 Stipulation addressed Suburban's objections to the Staff Report. Mr. Andrew J.
9 Sonderman, President and Chief Operating Officer of Suburban, will also support the
10 Stipulation and address the reasonableness of the Stipulation pursuant to the Commission's
11 three-part test.

12 **Q. What provisions of the Stipulation do you support?**

13 **A.** Specifically, I support Sections III.A.2, III.A.3, III.A.5, III.A.6, III.A.7, III.A.8, III.D, and
14 the Schedules attached to the Stipulation.

15 **Q. Please describe the Revenue Increase and Revenue Requirement in Section III.A.2.**
16 **and Section III.A.3. of the Stipulation.**

17 **A.** A key compromise of the Stipulation and adjustment to the rate base is the agreement to
18 phase in the revenue increase over three years (Section III.A.2.a). In Year 1 after the
19 Commissions' Order approving the Stipulation, the Revenue Increase will be \$1,168,030
20 and the Revenue Requirement will equal \$19,800,801. In Year 2, the Revenue Increase
21 will be \$1,532,278 and the Revenue Requirement will be \$20,165,049. In Year 3 and every
22 year thereafter until new rates are approved in a subsequent proceeding, the Revenue
23 Increase will be \$1,778,433 and the Revenue Requirement will be \$20,411,204 per year.

1 **Q. Please describe the Adjustments to Rate Base in Section III.A.5. of the Stipulation.**

2 **A.** As mentioned in the previous response, the Stipulation provides for a phase-in of the
3 revenue increase over a three-year period, which was based on the agreement that the 4.9-
4 mile DEL-MAR pipeline extension would be phased in over the same three-year period,
5 affecting rate base in each of the years of the phase-in. Accordingly, in Year 1,
6 approximately 50 percent of the book value of the pipeline extension including
7 depreciation and property taxes (as included in the working capital allowance) will be
8 included in rate base on the date of entry of the Commission's Order approving new rates
9 in this proceeding. In Year 2, approximately 80 percent of the book value of the pipeline
10 extension including depreciation and property taxes (as included in the working capital
11 allowance) will be included in rate base one year after the date of the Commission Order
12 approving new rates in this proceeding. In Year 3, 100 percent of the book value of the
13 extension will be included in rate base, two years after the date of the Commission's Order
14 approving rates in this proceeding and every year thereafter. In Years 2 and 3, the phase-
15 in will be allocated to customers based on the total number of customers at the time the
16 additional book value is added and will be based on the revenue distribution percentage
17 (exclusive of gas costs) that was established in Year 1.

18 The distribution plant adjustments and general plant adjustments recommended in the Staff
19 Report will be adopted except as specifically noted in the Stipulation.

20 **Q. Please describe the adjustment relating to Miscellaneous Operating Income in Section**
21 **III.A.6.a. of the Stipulation.**

22 **A.** Miscellaneous Revenues related to late payment fees, sales of merchandise, charging of
23 labor costs, meter setting fees, and insufficient funds/bad check charges of \$202,608 were
24 included in the Staff Report as an adjustment to test year operating revenue. As some level

1 of these revenues are expected to recur each year, the Signatory Parties agreed that it is
2 appropriate to impute an amount for Miscellaneous Revenues to include in operating
3 income and further agreed that the amount of \$202,608 is a reasonable level to include.

4 **Q. Do you support the adjustment to remove rider revenues and expenses in Section**
5 **III.A.6.b. of the Stipulation?**

6 **A.** Yes. Rider revenues and expenses are typically removed from operating income as the
7 revenue from a rider is a direct recovery of an expense incurred by the Company.
8 Therefore, the removal of rider revenue and expense has an overall net neutral impact on
9 test year operating income and expense.

10 **Q. What is the treatment of customer count on test year revenue in the Stipulation?**

11 **A.** The Signatory Parties agreed that the customer count in each tariff class (SGS, LGS, and
12 LGTS) should be annualized at the number in each class as of February 28, 2019 for
13 purposes of settlement.¹ This annualization will be adjusted on the first day of Year 2 and
14 Year 3, to coincide with the adjustment to rate base associated with the DEL-MAR pipeline
15 extension previously discussed.

16 **Q. Describe the agreement of the Signatory Parties regarding the second phase of**
17 **Suburban's straight fixed variable (SFV) rate design that was placed in effect on**
18 **November 10, 2018.**

19 **A.** In the Commission's Order in a prior case, the Commission authorized Suburban to
20 implement an approved SFV rate design in two phases.² The first phase was effective
21 November 10, 2017. The second phase was effective on November 10, 2018, fully
22 implementing the rate design change to SFV rates. Although Suburban did not realize
23 revenues associated with the full implementation of the SFV rate design since it was not in

¹ See Stipulation Section III.A.7.

² *In the Matter of the Application of Suburban Natural Gas Company for Approval of an Alternative Form of Regulation to Initiate a Revenue Decoupling Mechanism*, Case No. 17-594-GA-ALT, Finding and Order (November 1, 2017).

1 place during the entire test year, the Signatory Parties agreed to include revenue in the test
2 year for settlement purposes as if the second phase of the SFV rates had been effective for
3 the entire test year.

4 **Q. Please describe the adjustments to Test Year Expense in Section III.A.8. of the**
5 **Stipulation.**

6 **A.** The Signatory Parties agreed to the following adjustments to test year expenses:

- 7 1. Rate case expenses shall be amortized over five years (as opposed to three
8 years as included in Suburban's Application).
- 9 2. Expenses associated with miscellaneous revenue in the amount of \$28,780
10 shall be included in test year expense. These expenses consist of the costs of
11 sales for labor charged and costs of sales for merchandise sold and are directly
12 associated with the miscellaneous revenue included in the amount of
13 \$202,608 in operating revenue.
- 14 3. Property tax expenses at the valuation level known shall be included for the
15 existing 20-mile DEL-MAR pipeline, which had previously been leased by
16 Suburban under a lease agreement approved by the Commission in Case No.
17 05-380-GA-AIS.³ Suburban's lease payments, which included a component
18 of property tax, for the DEL-MAR pipeline were being recovered through its
19 Gas Cost Recovery (GCR) Rider. On February 28, 2019, DEL-MAR Pipeline
20 Co., Inc., formerly DEL-MAR Pipeline Co., LLC, merged into Suburban and
21 the lease no longer exists resulting in Suburban now being directly
22 responsible for property taxes associated with the 20-mile DEL-MAR

³ *In the Matter of the Application of Suburban Natural Gas Company for Authority to Enter into a Long-Term Pipeline Lease Agreement with DEL-MAR Pipeline Co., LLC, Case No. 05-380-GA-AIS, Finding and Order (June 8, 2005).*

1 pipeline. In addition, property tax expenses relating to plant materials and
2 supplies as of the date certain and new plant additions as included in rate base
3 in each of the three years of the phase-in shall be included in the calculation
4 of property tax expense at the 2018 property tax rate known.

5 4. Payroll expenses shall be annualized at the level experienced as of the end of
6 the test year on February 28, 2019 and the test year shall include 26 pay
7 periods for salaried employees (bi-weekly pay) and 52 pay periods for hourly
8 employees and associated payroll taxes. Capitalized payroll shall be removed
9 at the rate of 11.80 percent, resulting in an Operating and Maintenance
10 percentage allocation of payroll of 88.20 percent in test year expense.

11 5. The monthly lease expense in the amount of \$6,503.25 for a new building,
12 the Troutman Road Operations Center, shall be included as a known and
13 measurable operating expense in the test year.

14 6. Expenses related to employee benefits shall be included in the test year,
15 including \$150,000 of expense relating to the company's 401k plan in the
16 form of a "profit-sharing" program (as defined by the Internal Revenue
17 Service). Suburban agrees to fund the profit-sharing program to the benefit of
18 its employees of an amount not less than the \$150,000 included in test year
19 expenses in the Stipulation annually until new distribution rates are approved
20 in a subsequent rate proceeding to be filed no later than October 31, 2025. In
21 addition, partial reimbursement of employees' fitness center dues should be
22 excluded and education expenses should be adjusted to the three-year
23 historical average of those expenses and included at that level.

- 1 7. The Application filed by Suburban had included an adjustment of \$201,483
2 to professional fees (primarily consisting of legal fees) to normalize legal fees
3 included in test year to the most recent three-year average of legal fees
4 incurred by the Company. The Signatory Parties agreed that an adjustment
5 of \$300,000 will instead be included to normalize professional fees. Staff
6 agreed to withdraw a proposed exclusion of certain Professional Fees, which
7 were relating to Professional Contract Labor as these fees are unrelated to
8 legal fees and are anticipated being incurred each year by Suburban.
- 9 8. Miscellaneous expenses in Account 91202 of \$17,710 for business meal
10 expenses, Account 91200 of \$866 for travel expenses and Account 93506 of
11 \$33 for building and shop maintenance expenses shall be excluded from test
12 year expenses as the Signatory Parties agreed that these expenses are either
13 non-recurring in nature or expenses that will not be passed along to customers.
- 14 9. Interest on customer deposits shall be reclassified as an operating expense as
15 Suburban filed in its Application.
- 16 10. Charitable contributions in the amount of \$23,163 shall be excluded from test
17 year expense as Suburban filed in its Application.
- 18 11. Social and Service club dues and expenses in the amount of \$18,710 shall be
19 excluded from test year expense as Suburban filed in its Application.

20 **Q. Please explain Attachment A, Schedule A-1.**

21 A. Schedule A-1 of Attachment A is an overall financial summary and compares the
22 Application filed by Suburban to the Stipulation agreed to by the Signatory Parties. The

1 Stipulation recommends a revenue increase of \$1,168,030 and revenue requirement of
2 \$19,800,801 in Year 1 of the Phased in rates.

3 **Q. Please explain Attachment A, Schedule A-2.**

4 A. Schedule A-2 of Attachment A is the computation of the gross revenue conversion factor
5 utilizing an effective federal income tax rate of 21 percent and resulting in a gross revenue
6 conversion factor of 1.265823.

7 **Q. Please explain Attachment A, Schedule B-1.**

8 A. Schedule B-1 of Attachment A is the jurisdictional rate base summary and compares the
9 amounts of rate base as proposed in the Application prior to adjustments to the Staff
10 Proposed Amount, which are the Stipulated amounts agreed to by the Signatory Parties.
11 The Stipulation recommends a total jurisdictional rate base of \$21,155,890 in Year 1 of the
12 phased-in rates.

13 **Q. Please explain Attachment A, Schedule B-2 to Schedule B-2.2b.**

14 A. Schedule B-2 of Attachment A is the plant in service summary by major property groupings
15 for Year 1 of the phased-in rates. It reconciles the amount of plant in service included in
16 the Application to the Adjusted Amount agreed to by the Signatory Parties in the
17 Stipulation and totals \$35,198,417, which is then included in Schedule B-1. Schedules B-
18 2.1, pages 1 through 5, further break down the plant in service by accounts and subaccounts
19 in more detail and support Schedule B-2. Schedules B-2.2 itemize the adjustments to plant
20 in service as agreed to in the Stipulation.

21 **Q. Please explain Attachment A, Schedule B-3 to B-3.2**

22 A. Schedule B-3 of Attachment A is the reserve for accumulated depreciation for Year 1 of
23 the phased-in rates and reconciles the amount of reserve for accumulated depreciation

1 included in the Application to the Adjusted Amount agreed to by the Signatory Parties in
2 the Stipulation of \$9,676,859. Schedules B-3.1 itemize the adjustments to the depreciation
3 reserve as agreed to in the Stipulation. Schedules B-3.2 indicate the depreciation accrual
4 rates, the jurisdictional reserve balances by account and calculates the depreciation expense
5 for the test year.

6 **Q. Please explain Attachment A, Schedule B-5.**

7 A. Schedule B-5 of Attachment A is the allowance for working capital for Year 1 of the
8 phased-in rates and indicates a total working capital allowance of \$613,052. It includes a
9 cash element of working capital, material and supplies as well as a reduction for operating
10 taxes, deferred bad debt and deferred PIPP amounts. The methodologies used in the
11 calculations are as described on the schedule.

12 **Q. Please explain Attachment A, Schedule B-6.**

13 A. Lines 8, 9, and 10 of Schedule B-1 set forth amounts of \$(703,306), \$(333,715) and
14 \$(3,941,700), respectively, as Other Items. These amounts include deferred income-budget
15 billings, customer deposits and deferred income taxes, all of which are identified on
16 Schedule B-6.

17 **Q. Please explain Attachment A, Schedule C-1.**

18 A. Schedule C-1 of Attachment A contains the Adjusted Revenues and Expenses per the
19 Stipulation for the twelve months ending February 28, 2019, the test year in this
20 proceeding, and applies the proposed increase as included in the Application to the
21 Adjusted Revenues and Expenses. The schedule indicates that this would result in a rate
22 of return of 14.85 percent, which is higher than the return sought in the Application and/or
23 agreed to by the Signatory Parties in the Stipulation. As such, the increase utilized is that

identified in Schedule A-1 as \$1,168,030, resulting in the 7.26 percent rate of return agreed upon in the settlement.

Q. Please explain Attachment A, Schedule C-2.

A. Schedule C-2 of Attachment A summarizes the adjustments to Net Operating Revenues and Expenses agreed to by the Signatory Parties in the Stipulation to reflect conditions existing at the time of the filing of the Application or events that are anticipated during the test year, which did not occur during the entire test year. When applying the adjustments to the amounts in the Unadjusted Revenues and Expenses Column, the operating loss is decreased from (\$254,087) to an operating income of \$613,174 as shown on the Adjusted Revenues and Expenses Column on Schedule C-2.

Q. Please explain Attachment A, Schedule C-3.

A. Schedule C-3 of Attachment A shows the adjustments by income statement grouping as agreed to by the Signatory Parties in the Stipulation. The net of the Total Revenue Adjustments and Total Expense Adjustments is \$867,261 and can be found on Schedule C-2, Adjustments Column, Line 15. Applying the adjustments to the Unadjusted Revenue and Expenses Column results in the Adjusted Revenue and Expenses Column on Schedule C-1. The adjusted test year net operating income is \$613,174 and the amounts in the Adjusted Revenue and Expenses Column are carried forward to Schedule C-1, in the Adjusted Revenue and Expenses Column.

Q. Please explain Attachment A, Schedules C-3.1 to C-4.

A. Schedules C-3.1 to C-4 of Attachment A contain adjustments to the income statement as included in the Application and further adjusted in the Stipulation. The adjustments to

operating income, expenses and ultimately net operating income (loss) are explained in detail in the Application and previously in my testimony.

Q. Please explain Attachment A, Schedule D-1.

A. Schedule D-1 of Attachment A is entitled “Rate of Return Summary” and, under the Standard Filing Requirements format, includes information necessary to compute the weighted cost of capital of the Company. Schedule D-1 indicates that Suburban has no preferred stock and, thus, has a capital structure that is comprised of \$17,707,439 of long-term debt and \$16,181,399 of common equity. The Signatory Parties in the Stipulation agree upon supporting an overall 7.26 percent rate of return (resulting from a 10.25 percent return on common equity and a 4.53 percent cost of debt).

Q. Please explain Attachment A, Schedule D-2.

A. Schedule D-2 of Attachment A shows Suburban’s short-term debt obligations as of the projected date certain along with the applicable interest rate and the annualized interest requirement.

Q. Please explain Attachment A, Schedules D-3 and D-4.

A. Schedules D-3 and D-4 of Attachment A indicate the embedded cost of debt and preferred stock respectively, of the Company. As previously mentioned, Suburban has no preferred stock. As calculated on Schedule D-3, the embedded cost of debt for Suburban was 4.53 percent at the time of Suburban’s Application.

Q. Please explain Attachment A, Schedule E-5, Pages 1, 2 and 3.

A. Schedule E-5 compares the current Suburban bill to the proposed Suburban bill in Year 1 at various levels of consumption for the three classes of customers proposed in the rate structure: Small General Service, Large General Service, and Large General Service

1 Transportation. It also indicates the increase and percent of increase for each level of
2 consumption shown in Year 1. As explained previously, the Commission authorized
3 Suburban to implement a SFV rate design in two phases with the first phase being
4 implemented November 10, 2017 and the second phase being implemented on
5 November 10, 2018. Since the second phase was implemented prior to the enactment of
6 new rates from this proceeding, the rates in effect commencing on November 10, 2018
7 were utilized as the basis for the current rates to more accurately reflect the change in
8 billings to customers in Year 1.

9 **Q. Please explain Attachment C to the Stipulation.**

10 **A.** Attachment C is an overall financial summary for Year 1, Year 2, and Year 3 of the phased-
11 in rates proposed under the Stipulation. In Year 1 after the Commissions' Order approving
12 the Stipulation, the Revenue Increase will be \$1,168,030 and the Revenue Requirement
13 will equal \$19,800,801; in Year 2, the Revenue Increase will be \$1,532,278 and the
14 Revenue Requirement will be \$20,165,049. In Year 3 and every year thereafter until new
15 rates are approved in a subsequent proceeding, the Revenue Increase will be \$1,778,433
16 and the Revenue Requirement will be \$20,411,204 per year.

17 **Q. How does the Stipulation address the implication of the Tax Cuts and Jobs Act of**
18 **2017 (TCJA)?**

19 **A.** As part of the Stipulation, the Company agrees to reverse the regulatory liability
20 amortization proposed in its Application and further agrees that a reduction in rate base for
21 the excess deferred income tax amount resulting from the Tax Cuts and Jobs Act of 2017
22 (TCJA) is appropriate as reflected in Attachment A, Schedule B-6. In addition, the
23 Signatory Parties to the Stipulation agree that it is appropriate to return to customers the
24 Protected Excess Deferred Taxes using the Average Rate Assumption Method (ARAM) or

1 an acceptable alternative method and the return or collection to or from customers of
2 Unprotected Excess Deferred Taxes over a ten-year period as noted in Section III.D.2.b
3 and Section III.D.2.c of the Stipulation. In order to accomplish the return and/or collection
4 of Protected and Unprotected Excess Deferred Taxes, Suburban agrees to file a GA-ATA
5 Case, as an application not for an increase in rates under R.C. 4909.18, to establish a Tax
6 Credit Rider. Suburban's application in the future tax proceeding will propose that the Tax
7 Credit Rider be allocated to each rate class based on the percentage of base distribution
8 revenues for each rate class per the Stipulation schedules. Suburban intends to further
9 propose that the allocation of the Tax Credit Rider related to the share of base distribution
10 revenue attributed to Miscellaneous Revenue in the Stipulation schedules be distributed to
11 each rate class pursuant to its respective share of the non-Miscellaneous Revenue collected
12 by the Company. Further, the application will include a one-time carrying charge in the
13 initial rate based upon the long-term debt rate as applied to the monthly balance of the
14 deferrals to reflect the time lag in implementing the federal income tax savings in rates as
15 noted in Section III.D.3.c.

16 **Q. Is the Stipulation reasonable and in the public interest?**

17 A. Yes. The Stipulation is a compromise of complex rate issues that balances the interests of
18 all parties. It allows Suburban to recover its costs and earn a fair and reasonable rate of
19 return while providing natural gas services to its customers at reasonable rates.

20 **Q. Does this conclude your direct testimony in support of the Stipulation in this**
21 **proceeding?**

22 A. Yes, it does.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing was served on June 7, 2019, by electronic mail upon the persons listed below.

/s/ Brian W. Dressel

Brian W. Dressel

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Case No(s). 18-1205-GA-AIR, 18-1206-GA-ATA, 18-1207-GA-AAM

Summary: Testimony Clement Testimony in Support of Stipulation electronically filed by Mr. Brian W Dressel on behalf of Suburban Natural Gas Company