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.	))))	Case No. 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.	))))	Case No. 18-1909-GA-ATA

TESTIMONY
OF
JONATHAN J. BORER

RESEARCH AND POLICY DIVISION
RATES AND ANALYSIS DEPARTMENT

STAFF EXHIBIT NO. _____

TESTIMONY OF JONATHAN J. BORER

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

A. My name is Jonathan J. Borer. My business address is 180 East Broad Street, Columbus, Ohio 43215-3793.

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

A. I am employed by the Public Utilities Commission of Ohio (PUCO or Commission) as a Utility Specialist I in the Research and Policy Division of the Rates and Analysis Department. My duties include conducting investigations of assigned phases of rate case applications and other financial audits of public utility companies subject to the jurisdiction of the PUCO.

3. Q. **Would you briefly state your educational background?**

A. I earned a Bachelor of Science in Accounting and a Bachelor of Science in Management from Purdue University in 2014. In 2017, I attended the Annual Regulatory Studies Program offered by the Institute of Public Utilities as well as the National Association of Regulatory Utility Commissioners (NARUC) Utility Rate School.

4. Q. **Please briefly outline your work experience.**

A. I have been with the PUCO since November 2016 with my entire time spent in the Rates and Analysis Department. Prior to working at the PUCO, I was employed with Morgan Stanley within the Global Wealth Management Group.

5. Q. **Have you previously provided testimony before the PUCO?**

A. Yes. I have provided testimony in multiple cases before the Commission.

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

A. I will be addressing the specific aspects of the Staff Review and Recommendation with which The East Ohio Gas Company d/b/a Dominion Energy Ohio (Dominion or Company) does not agree. In addition, I will support Staff's recommendation to use December 31, 2017 as the date for which refundable Normalized Excess Deferred Income Tax (EDIT) balances be determined.

7. Q. **Please summarize the Staff recommendations with which Dominion disagrees.**

A. Dominion disagrees with four general aspects of Staff's recommendations:

1. Refunding the Federal Income Tax (FIT) adjustment through the Tax Savings Credit Rider (Rider TSCR). Additionally, Dominion seeks to have

the Commission affirm the calculation of FIT savings and proposed rate design[1] in the Company's TCJA Application (Application).

2. Using the Company's most recently approved long-term debt rate to calculate the carrying charges accrued on the tax savings resulting from the Tax Cuts and Jobs Act of 2017 (TCJA) deferred from January 1, 2018 until such time as a mechanism to pass back TCJA savings is implemented (Stub Period).

3. Refunding Non-Normalized EDIT over a period of six years.

4. Rejecting the Company's proposal to recover the incremental revenue requirement attributable to the effect of the amortization of EDIT on rate base (Financing Costs).

8. Q. **Describe Staff's recommendation regarding the FIT adjustment.**

A. Staff recommended that the FIT savings be incorporated into the Rider TSCR instead of a base rate reduction.

9. Q. **Does Staff disagree with the Company's calculation of the FIT adjustment and the rate design proposed in the application?**

A. No. To clarify, Staff found the Company's calculation to be reasonable. In addition, Staff supports the Company's recommendation to refund the FIT

[1] In its application, Dominion calculated the annual FIT savings to be 5.608 percent of non-discounted base revenues, and Dominion proposed to refund this as a percentage reduction to base rate charges on customer bills.

adjustment as a percentage reduction to base rates; however, Staff recommends that the FIT adjustment be incorporated into Rider TSCR as opposed to a base rate reduction.

10. Q. **Why does Staff recommend that the FIT adjustment be incorporated into Rider TSCR as opposed to a base rate reduction?**

A. Staff recommends refunding the FIT adjustment through Rider TSCR as it is more transparent to customers. For a typical customer, it is easier to understand that FIT savings are being passed back if there is a specific line item on the customer's bill to reflect the reduction. Staff maintains that this increased transparency is a benefit to all customers.

Staff disagrees with the Company's assertion that the FIT adjustment is not a specific dollar amount and will vary each year. Staff's position is that the FIT adjustment *is* a fixed amount of approximately $18.9 million annually, therefore, Rider TSCR is the appropriate mechanism through which the FIT adjustment is refunded to customers. Refunding the FIT adjustment through Rider TSCR would ensure that the correct amount is refunded to customers on an annual basis.

11. Q. **Why does Dominion disagree with Staff's recommendation regarding the carrying charges on the Stub Period?**

A. In its Application, Dominion proposed carrying charges of 3.00 percent be applied to the Stub Period balance. The Company suggested that this rate is reasonable given that it is the same rate applied to the deferred regulatory assets under the Company's Pipeline Safety Management Program (PSMP).

12. Q. **Why does Staff recommend that carrying charges should be based on the Company's most recently approved long-term debt rate?**

A. Staff finds that basing carrying charges on long-term debt is most appropriate because applying carrying charges based on the most recently approved long-term debt rate has been consistently applied in TCJA cases to date.[2]

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[2] *In the Matter of Ohio Power Company's Implementation of the Tax Cuts and Jobs Act of 2017*, Case No. 18-1007-EL-UNC, Finding and Order at 8 (October 3, 2018); *In the Matter of the Application of Duke Energy Ohio, Inc. for Implementation of the Tax Cuts and Jobs Act of 2017*, Case No. 18-1185-EL-UNC, Finding and Order (February 20, 2019) (approving the Application filed on July 25, 2018). See also *In the Matter of the Application of Duke Energy Ohio, Inc. for Implementation of the Tax Cuts and Jobs Act of 2017*, Case No. 18-1185-EL-UNC, Application at 4 (July 25, 2018); *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illumination Company and the Toledo Edison Company to Implement Matters Relating to the Tax Cuts and Jobs Act of 2017*, Case No. 18-1604-EL-UNC, Opinion and Order at 71 (July 17, 2019) (adopting the Stipulation filed on November 9, 2019). See also *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illumination Company and the Toledo Edison Company to Implement Matters Relating to the Tax Cuts and Jobs Act of 2017*, Case No. 18-1604-EL-UNC, Stipulation and Recommendation at n.6 (November 9, 2018); *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 at 22 (November 28, 2018).

13. Q. **Does Staff agree with Dominion's proposal to refund Non-Normalized EDIT balances over a period of 10 years?**

A. Staff's recommendation is that the Non-Normalized EDIT balances should be refunded over a period of 6 years (72 months).

14. Q. **How do EDIT balances affect a utility's rate base and revenue requirement?**

A. The unamortized balance of EDIT is used to offset a utility's rate base, so it functions as a reduction to a utility's revenue requirement. As the EDIT is amortized, the amount by which rate base is offset is reduced. All else being equal, this means that as EDIT is amortized, rate base increases, which in turn causes the revenue requirement to increase proportionally based on the utility's rate of return.

15. Q. **Describe the Financing Costs component of Dominion's Application.**

A. In its Application, Dominion proposed that Rider TSCR include a component to reflect the effect on the revenue requirement attributable to the amortization of EDIT. Generally speaking, the financing cost would be measured by the cumulative after-tax amortization of EDIT multiplied by the Company's post-TCJA pre-tax rate of return. Given that the Financing Cost represents the cumulative effect of the amortization of EDIT, this means that as EDIT is refunded to customers over time, the Financing Cost component of Rider TSCR would increase every year.

16. Q. **Does Staff recommend that Dominion recognize the Financing Costs in Rider TSCR?**

A. No. Staff's position is that a base rate case is the appropriate mechanism to recognize the effects of the amortization of EDIT. Staff asserts that the effect on rate base of amortizing EDIT should not be recognized in a new recovery mechanism. Staff acknowledges and does not object to the Company recovering, *in existing mechanisms*, increased revenue requirements associated with the amortization of EDIT that would naturally occur otherwise. For example, portions of the EDIT balances are attributable to the Company's Pipeline Infrastructure Replacement (PIR) Cost Recovery Charge and Automated Meter Reading (AMR) Cost Recovery Charge, so the rate base in those mechanisms will increase as the associated EDIT is amortized, and the Company will have the opportunity to collect the corresponding increase to the revenue requirement in each rider.

In its reply comments, the Company suggests the Financing Cost proposal "effectively mirrors the treatment approved by the Commission in AEP

Ohio's TCJA settlement[3] regarding normalized EDIT amortization."[4] This is a mischaracterization of AEP's TCJA settlement. AEP's TCJA settlement included a provision that excluded the effect of the amortization of EDIT on AEP's Distribution Investment Rider (DIR) revenue caps. This did not establish a new mechanism for AEP to recover similar Financing Costs. Given that a portion of the unamortized EDIT balance is already recognized in AEP's DIR, the effect of amortizing EDIT would have been recognized in the DIR regardless, so the TCJA settlement did not create a new recovery mechanism. Taking this into account, it is incorrect to suggest that the Financing Costs requested in this Application effectively mirrors AEP's TCJA settlement.

17. Q. **Why does Staff recommend that the Company should refund EDIT based on the balances as of December 31, 2017?**

A. Tax deferrals act as interest-free loans from the federal government. Although current base rates do not include these EDIT balances, the underlying capital investments will be incorporated into customer rates at the time the Company files for its next base rate case. This is a critically important fact because the purpose of interperiod tax allocation, also known

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3 *In the Matter of Ohio Power Company's Implementation of the Tax Cuts and Jobs Act of 2017,* Case No. 18-1007-EL-UNC, Opinion and Order at 5-6 (October 3, 2018).

4 *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*, Case No. 18-1908-GA-UNC, The East Ohio Gas Company d/b/a Dominion Energy Ohio Reply Comments on the Staff Review and Recommendation at 7 (March 26, 2019).

as tax normalization, is to allow both the utility and the ratepayers to recognize the same tax benefits over the life of an investment. If the Company does not have to refund all of its jurisdictional EDIT, then the Company will realize a permanent tax savings, which will never be realized by customers.

18. Q. **Does this conclude your testimony?**

A. Yes it does. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

CERTIFICATE OF SERVICE

This is to certify that the foregoing **Testimony of Jonathan J. Borer** has been served upon all of the parties of record in Case No. 18-1908-GA-UNC by electronic and/or U.S. mail, postage pre-paid mail this 10th day of September, 2019.

/s/ Andrew B. Shaffer
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