A Report by the Staff of the Public Utilities Commission of Ohio

Dominion East Ohio Gas
Case Number 20-1634-GA-ALT

April 5, 2021

Ohio | Public Utilities Commission

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Form of Regulation.	))))	Case No. 20-1634-GA-ALT

Jenifer French, Chair
M. Beth Trombold, Acting Chair
Lawrence K. Friedeman, Commissioner
Daniel R. Conway, Commissioner
Dennis Deters, Commissioner

To the Honorable Commission:

In accordance with the provisions of Ohio Administrative Code Section 4901:1-19-07, the Commission's Staff submits its investigation findings and recommendations within the Staff Report.

The Staff Report was prepared by the Commission's Rates & Analysis Department. The Staff Report is intended to present for the Commission's consideration, the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to the above captioned proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein. The Staff Report, however, is legally cognizable evidence upon which the Commission may rely in reaching a decision in this matter. (See *Lindsey v. Pub. Util. Comm.*, 111 Ohio St. 6 (1924)).

Respectfully submitted,

David Lipthratt
Chief, Accounting and Finance Division
Public Utilities Commission of Ohio

TABLE OF CONTENTS

	Page
INTRODUCTION	1
BACKGROUND	1
DEO'S APPLICATION AND PROPOSED CHANGES TO THE PIR PROGRAM	4
STAFF'S INVESTIGATION	5
STAFF'S CONCLUSIONS AND RECOMMENDATIONS BY TOPIC AREA	6
CONCLUSION	9

Dominion East Ohio Gas
Case No. 20-1634-GA-ALT

Introduction

In accordance with R.C. Sections 4929.05, 4929.051(B), 4929.11, and 4909.18, on December 8, 2020, The East Ohio Gas Company d/b/a Dominion East Ohio (DEO or Company) filed an application (Application) in the above captioned case seeking approval by the Public Utilities Commission of Ohio (Commission) of an alternative rate plan to continue its Pipeline Infrastructure Replacement Program (PIR Program) and PIR Cost Recovery Charge (PIR Rider) for a five-year period, 2022 through 2026. The Company proposes to keep the scope, structure, and timeframes of the PIR Program the same as the Commission approved in Case No. 15-362-GA-ALT (15-362 case), the case where the PIR Program was most recently reauthorized. The Staff of the Public Utilities Commission of Ohio (Staff) has completed its investigation of DEO's Application and makes the conclusions and recommendations set forth below.

Background

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 communities. As such, DEO is a public utility as defined by R.C. 4905.02 and 4905.03 and is subject to the Commission's jurisdiction. DEO filed its Application in this case pursuant to R.C. 4929.05, 4929.051(B), 4929.11, and 4909.18. R.C. 4929.05 specifically governs approval of alternative rate plans for natural gas companies. This section provides that the Commission shall approve an alternative rate plan if the applying natural gas company sufficiently demonstrates, and the Commission finds, that the natural gas company: (1) is in compliance with R.C. 4905.35, prohibiting discriminatory or preferential treatment in the provision of its services, (2) is expected to continue to be in substantial compliance with R.C. 4929.02 governing the State's policy relating to natural gas goods and services, and (3) has proposed an alternative rate plan that is just and reasonable.[1] In addition, the natural gas company has the burden of proof to show that its proposed alternative rate plan meets all of the preceding requirements.[2]

The Company's PIR Program was first authorized by a Commission Opinion and Order on October 15, 2008 in DEO's most recent base rate case, Case No. 07-829-GA-AIR, *et al* (2007 Rate Case Order). The Company's PIR Program initially called for replacement of 4,100 miles of bare steel, cast iron, and other metallic (BS/CI) pipelines in its distribution system over a 25 year period (commencing in 2008) and provided that DEO would assume ownership and ongoing responsibility for all customer-owned service lines when such lines were separated from service in order to replace associated mainlines or to repair leaks. The 2007 Rate Case Order also authorized DEO to establish the PIR Rider to recover its PIR investments from customers, adopted a process for Staff and intervenor review of DEO's annual applications to increase the PIR Rider, and established a cap on annual PIR Rider increases. The PIR Program was initially authorized for a five-year period.

---

1 R.C. 4929.05(A).
2 R.C. 4929.05(B).

The PIR Program was reauthorized for another five-year period on September 14, 2016 in Case No. 15-362-GA-ALT. By an Opinion and Order signed on that date, the Commission approved, among other things, DEO's request for authorization to extend the PIR program and PIR Cost Recovery Charge to recover costs for another five-year period, beginning with 2017 investment and ending, at the latest, with 2021 investment.

As of the end of 2019, on a percentage basis, DEO has completed replacement of approximately 34 percent of the total pipeline mileage targeted for replacement under the PIR Program. The following chart breaks down the mileage replaced of the various categories of target infrastructure as of the end of 2019:

Infrastructure Category	Number of Miles	Mileage Replaced	Mileage Remaining
Bare Steel	4,008	1,404	2,604
Ineffectively Coated	1,450	427	1,023
Cast Iron	35	32	3
Wrought Iron	78	51	27
Copper	1	1	0

In this case, DEO filed notice of its intent to file an application for approval to continue its PIR Program on October 30, 2020, and filed its Application on December 8, 2020. Pursuant to 4901:1-19-07(A)(1), O.A.C., on January 12, 2021, the Director of the Commission's Rates & Analysis Department filed a letter in the case indicating that DEO's Application complies with the Commission's alternative rate plan filing rules. On January 14, 2021, an Attorney Examiner assigned to this case issued an Entry establishing the following procedural schedule:

- February 10, 2021 – Deadline for filing of motions to intervene
- February 17, 2021 – Deadline for filing of comments on DEO's Application
- March 3, 2021 – Deadline for the filing of reply comments
- April 5, 2021 – Deadline for the filing of the Staff Report
- May 5, 2021 – Deadline for filing objections to the Staff Report

On February 17, 2021, OCC and OPAE filed comments. On March 3, 2021 DEO filed reply comments.

<u>DEO's Application and Proposed Changes to the PIR Program</u>

In the Application, DEO seeks to continue the PIR Program and the PIR Cost Recovery Charge under the existing scope and procedures subject to two modifications. First, the Company requests the program be extended. In the Application, DEO requests authorization to extend the PIR Program and the PIR Cost Recovery Charge to recover costs for another five-year period beginning with investment as of January 1, 2022 and ending with investment as of December 31, 2026, unless this period is modified in DEO's base rate case to be filed no later than October 2024. Second, the Company requests in the Application the continuance of the previously approved[3] three-percent annual increases to support DEO's continued accelerated replacement of bare-steel pipeline and other target infrastructure. The Company asserts in the Application the it has efficiently and prudently managed the PIR Program since its inception and it has not been subject to any finding of imprudence in any PIR cost recovery proceeding. DEO states that the PIR Programs remain a critical component of DEO's efforts to provide safe and reliable service to its customers.

In the Application, DEO proposes the following cap increases applicable for 2022 through 2026:

Investment Year	**Estimated Capital Investment**	**Proposed Residential Rate Cap Increase**
2022	$226 million	$1.73/month
2023	$233 million	$1.74/month
2024	$240 million	$1.82/month
2025	$247 million	$1.76/month
2026	$254 million	$1.77/month

Note that the increased level of the cap applicable to 2024 investment reflects the impact of the conclusion in 2023 of the Post-in-Service Carrying Cost (PISCC) Excess Deferred Income Taxes (EDIT) amortization[4], for which no credit to the revenue requirement is included for 2024.

Staff's Investigation

Staff investigated DEO's proposal to renew the PIR Program for another five-year period and proposed Program modifications by reviewing the Application, supporting testimony, and issuing data requests to obtain detailed information regarding the proposed Program changes, cost pressures impacting the planned progression of the Program through 2020, and as well as planned pipeline replacement mileage over the course of the 5-year extension. Based on this investigation, Staff makes the conclusions and recommendations by topic area that are set forth below.

Proposal to Modify Application and Procedural Schedule Dates

Staff recommends modifying the Company's application date and the associated procedural schedule to align with Vectren's Distribution Replacement Rider application timeframe. This modification would enable Staff to more effectively and efficiently audit the Company's

[3] The East Ohio Gas Co., Case No. 15-362-GA-ALT, Opinion & Order (September 14th, 2016)

[4] The deferred taxes associated with PISCC represent amounts that have been funded by customers and the Commission has ordered that customers are entitled to receive the EDIT associated with PISCC, per Case No. 18-1587-GA-RDR.

Application. This modification would also allow Staff to complete an audit of a full calendar year of actuals data versus nine months of actual data and 3 months of forecasted data. This modification would eliminate the need for Staff to complete a bifurcated audit that overlaps two distinct audit periods.

Proposal to Continue Three Percent Annual Increase to PIR Investment Levels

As noted above, DEO recommends that the Commission reauthorize the PIR Program for another five-year period under the same processes, terms, and conditions that were adopted for the Program in Case No. 15-362-GA-ALT including a continuation of the three percent per year growth in the annual PIR investment and a corresponding increase to the PIR rate increase caps. The three percent annual growth in the PIR investment levels results in the PIR rate increase caps growing by $0.01 per year, with the exception of 2024, which the Company proposes to include an additional increase of $0.07 per year to account for the conclusion of the PISCC EDIT amortization. Staff continues to hold the position that the Company adhere to the original 25-year timeframe of the PIR Program, and complete the PIR Program by 2033. Therefore, Staff recommends the Commission approve the Company's proposal to increase PIR investment by three percent annually, with corresponding increases to PIR rate increase caps.

PIR Program Rate of Completion

During Staff's investigation, Staff requested information from the Company to detail the planned mileage of PIR-related pipeline to be replaced over the years 2022 through 2026. The Company indicated it plans to replace approximately 175 miles of pipeline each year, or 875 miles during the entire five-year extension. In total, the Company is planning to replace over 5,550 miles of pipeline under the PIR program.[5] As of December 31, 2019, the Company states it has completed replacement of 34 percent, or 1,914 miles, of the total pipeline mileage targeted for replacement under the PIR program.[6] Additionally, the Company estimates that approximately 146 miles of pipeline were replaced in 2020.[7] Assuming 175 miles will be replaced in 2021, and planned mileage replacement targets during the extension period are met, the Company will have replaced a total of 3,110 miles of pipeline by the end of 2026.[8] This would mean the Company will have completed only 56 percent of the planned mileage since the inception of the program, with only 7 years remaining to complete the program by 2033.

Staff has significant concern as to whether the Company will be able to complete the PIR replacement program by the end of 2033. Staff notes that the Company has requested and received approval to increase investment levels and rate caps to help address this issue. With Staff's concerns regarding the PIR program appearing to be behind schedule in mind, Staff recommends that the Commission keep the 25-year time period it originally adopted for completing the PIR and direct DEO to continue to use its best efforts to replace all target pipe under the Program by the end of 2033.

[5] Application at 1

[6] Testimony at 4

[7] See response to Staff DR #1. Staff notes that the Company indicated this is an estimate of mileage replaced in 2020 given that the Company's GIS data had not yet been fully updated.

[8] 2,060 miles replaced through 2020 plus 175 miles replaced in each of the six years from 2021 – 2026.

Company's Next Base Rate Case and the PIR

The Company will file a base distribution rate case no later than October 2024, which will be during the extension period of the PIR. As part of this rate case, Staff recommends that Company embed the PIR assets into the Company's rate base and the PIR associated EDIT be included in the Company's Tax Savings Credit Rider

Conclusion

Based on the investigation described above, Staff recommends that the Commission approve DEO's Application as modified by Staff's conclusions and recommendations made herein.