Case No. 21-23-GA-RDR

Audit of the Plant in Service and Capital Expenditure Program for the 2020 Annual Adjustment to the CEP Rider Rate of Columbia Gas of Ohio, Inc.

Submitted on June 15, 2021

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DISCLAIMER

The word *audit* is intended, as it is commonly understood in the utility regulatory environment, to mean a regulatory review, a field investigation, or a means of determining the appropriateness of a financial presentation for regulatory purposes. It is not intended in its precise accounting sense as an examination of booked numbers and related source documents for financial reporting purposes. Neither is the term *audit* in this case an analysis of financial statement presentation in accordance with the standards established by the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB). The reader should distinguish regulatory reviews such as those that Blue Ridge performs from financial audits performed by independent certified public accountants.

This document and the opinions, analyses, evaluations, and recommendations are for the sole use and benefit of the contracting parties. There are no intended third-party beneficiaries, and Blue Ridge shall have no liability whatsoever to third parties for any defect, deficiency, error, or omission in any statement contained in or in any way related to this document or the services provided.

This report was prepared based in part on information not within the control of the consultant, Blue Ridge Consulting Services, Inc. While it is believed that the information that has been provided is reliable, Blue Ridge does not guarantee the accuracy of the information relied upon.

ORGANIZATION OF BLUE RIDGE'S REPORT

This report is organized according to the following major sections:

- *Executive Summary*: This section provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations presented in more detail in the body of the report.
- *Status of Case No. 20-49-GA-RDR Recommendations*
- *Elements of Analysis*: This section explains the following elements used in Blue Ridge's analysis: background; project purpose; project scope; definition of non-IRP/CEP investments; audit standard; materiality; information reviewed; interviews; field observations, policies and practices; and a brief summary of the variance analyses, transactional testing, and other analyses.
- *Project Requirements and Related Summary Conclusions*: This section identifies the requirements of the Request for Proposal for this project and specifies Blue Ridge's summary conclusions regarding those requirements.
- *Detailed Analysis, Findings, and Recommendations*: This section documents Blue Ridge's analyses that led to our observations, findings, and recommendations regarding the plant-in-service balances and expenditures of the Capital Expenditures Program (CEP). It includes the rationale and description of any recommended adjustments.
- *Appendices*: The appendices include information reviewed and workpapers that support recommended adjustments.

EXECUTIVE SUMMARY

In Case No. 17-2202-GA-ALT, Columbia Gas of Ohio, Inc. ("Columbia" or "Company") filed an application seeking authority from the Public Utilities Commission of Ohio (PUCO or "Commission") for a new alternative rate plan to establish a capital expenditure program (CEP) rider ("CEP Rider"). The Company stated that the purpose of the CEP Rider is to recover the post-in-service carrying costs, incremental depreciation expense, and property tax expense currently deferred pursuant to Columbia's capital expenditure program deferral ("CEP Deferral") as well as the corresponding assets to which these expenses are directly attributable in the capital expenditure program. The Commission granted the Company authority to establish a CEP Rider and authority to recover deferrals and the underlying assets for CEP investment from 2011 through 2017. The Company was also authorized to adjust the CEP Rider rate each year to collect from customers the prior calendar year's non-IRP capital expenditures and related deferrals. In Case Nos. 19-438-GA-RDR and 20-49-GA-RDR, the Company filed applications to adjust the CEP Rider rates for 2018 and 2019. The filings were subjected to an audit, and the Commission approved the CEP Rider rates, as adjusted and modified by the audit reports and Staff's recommendations.

On January 27, 2021, the Public Utilities Commission of Ohio ("Commission" or PUCO) issued a request for proposal seeking proposals to conduct a two-part audit of Columbia's CEP capital expenditures. The first part of the audit is to review and attest to the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2020, through December 31, 2020. The second part of the audit is to simultaneously assess and form an opinion on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period.[1] Blue Ridge Consulting Services, Inc. ("Blue Ridge") submitted a proposal and was selected to perform the review. Blue Ridge's investigation included data requests, interviews, field inspections, and analyses, including variance and detailed transactional testing among others.

Part 1 Plant In-Service Balances

For the first part of the audit, Blue Ridge reviewed the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals for the period January 1, 2020, through December 31, 2020. Through our analysis, Blue Ridge found that the Company was able to provide detailed continuing property records to support its plant-in-service balances, except as specifically indicated in the work order testing section of this report (steps T1–T13) . For the work order / projects detail that the Company provided, Blue Ridge found that all the work included in the projects sampled are capital in nature and the scope of work and cost detail coincided with the applicable FERC 300 accounts to which the work applies in accordance with the FERC Uniform System of Accounts (CFR 18). The projects were classified to the proper intangible distribution and general equipment FERC accounts.

The Company included detailed justification and support that the projects were necessary, reasonable, and prudent, except as specifically indicated in the Detailed Transactional Testing section of this report under testing step 13. Blue Ridge concluded that the projects are used and useful. We identified several growth projects that could generate revenue (testing step T11). Blue Ridge

[1] Case No. 21-23-GA-RDR Request for Proposal No. RAD21-CEP-1, pages 1–2.

reiterates its recommendation from prior audits that incremental revenue be clarified and tracked.

In reviewing depreciation, Blue Ridge confirmed the Company's calculations. We also found the depreciation accrual rates to be not unreasonable.

Part 2 Capital Expenditures Prudence Audit

For the second part of the audit, Blue Ridge purposed, as the RFP instructed, "to simultaneously assess and form an opinion on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period" (January 1, 2020, through December 31, 2020).

Blue Ridge examined the Company's policies and practices and found them, for the most part, to be satisfactory. However, the Company does not have procedures specific to capital spares. When asked, the Company provided policies by which capital spares are governed; however, they do not enumerate criteria or application specific to capital spares. Since capital spares would have particular associated criteria not necessarily the same as for other assets, Blue Ridge recommends that the Company develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares (e.g., long-lead time, system downtime, hardship to customers, unique or expensive asset, etc.). The policy should also have approval requirements.

Besides the lack of a specific capital spares procedure, Blue Ridge concluded that Columbia's controls were adequate and not unreasonable. Furthermore, we were satisfied with actions taken with regard to internal and other audits reviewed.

In evaluating cost drivers and containment, Blue Ridge found that the steps the Company is taking to control contractor costs both near- long-term are prudent and not unreasonable.

Blue Ridge suggests four adjustments:

Adjustment #1: In response to discovery, the Company provided a revised Schedule CEP-2, which decreased 2020 plant additions by $1,198,409 to remove "costs that are properly included in the Infrastructure Development Rider ("IDR") Case No. 21-521-GA-IDR."[2] Blue Ridge recommends that the CEP be adjusted to reflect this revision. The revision reduces the CEP revenue requirements by $199,579.

Adjustment #2: In the Field Inspections and Desktop Review portion of this audit, work order 1095.34200171287 was reviewed. The work was a Phase 3 retest of the transmission pipe to meet Columbia's standard GS 1500.010 that was not completed correctly during the Phase 1 and 2 commissioning. To retest, new unit of capital valves were installed thus making this project a capital betterment installation. Blue Ridge found the work order to be used and useful as outlined in its project justification statement. However, the project was necessary because the Company had failed to follow its stated internal policy in its previous test. The Company agreed that, had they followed the internal policy, the entire work order would not have been necessary.[3] Blue Ridge finds that since the additional work was a result of the Company's failure, it was, therefore, not prudent and should be removed from the CEP. The estimated effect on the CEP Revenue Requirements is a reduction of $71,564.

Adjustment #3: In the transactional testing for this audit (noted in the Detailed Transactional Testing section of this report under testing step T6C), work order 8889.34190126482, regarding a

[2] Columbia response to 2021 Blue Ridge Data Request 80.
[3] Columbia response to 2021 Blue Ridge Data Request 95.

roadway reconstruction project was overbudget by $55,835. Construction was scheduled to start in September 2018 in order to be completed by March 2019. In September 2018, resources were diverted to Massachusetts for incident remediation, and this project's start was delayed until January 2019. To meet the city's completion deadline, additional crews were allocated to this project, and night work was required. These factors resulted in the cost increases seen on the work order. Blue Ridge concludes that the Company's ratepayers should not pay for cost overruns that resulted from diversion of resources for work in other jurisdictions. The estimated effect on the CEP Revenue Requirements is a reduction of $7,670.

Adjustment #4: One such finding from our variance analysis included the Company's account 38200, which had retirements greater than additions due to the addition data not being passed from the work management system (WMS) to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia has been working with its IT group to resolve this problem. The Company believes that the additions were recorded to Company account 38300 (House Regulators) instead of 38200 (Meter Installations). The adjustment reduces the CEP revenue requirements by $21,440.

The impact to the CEP revenue requirements is summarized in the following table:

Table 1: Effect of Adjustments on CEP Revenue Requirements

Adj #	Description	Rate Base	Operating Exp	Revenue Req
	Company - As Filed	**$ 643,572,854**	**$ 64,447,902**	**$ 126,977,311**
1	Remove IDR-related plant additions	(1,393,702)	(66,898)	(199,579)
2	Remove expenditures based on imprudence findings	(511,519)	(22,867)	(71,564)
3	Remove project cost overruns	(54,742)	(2,459)	(7,670)
4	Reclass misallocated costs between Accounts 382 and 383	(1,982)	(21,252)	(21,440)
	Impact of All Adjustments	**(1,961,946)**	**(113,476)**	**(300,253)**
	Blue Ridge - Recommended	**$ 641,610,908**	**$ 64,334,426**	**$ 126,677,058**

Blue Ridge had other recommendations not including adjustments:

1. Adjustment #1 above resulted from the Company using cancelled work orders that cannot be moved into CWIP to identify IDR assets When a senior plant accountant left, the process was not followed. As a result, IDR plant was included in the CEP. Therefore, to avoid such an adjustment in the future, Blue Ridge recommends that the Company formally document the process to avoid relying on institutional knowledge.
2. In investigating variance analysis regarding additions and retirements, Blue Ridge found that one account had retirements greater than additions due to the addition data not being passed from the work management system to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia is still working with its IT department to determine how the problem came about and what to do to reolve it. Blue Ridge recommends that once the problem is resolved that the Company document what happened, how it happened, what was done to fix the problem, and determine the impact on net plant and the CEP. This issue should be followed up in the next audit of the CEP.
3. Blue Ridge is concerned with the lack of enumerated criteria and outline for consistent application that are specific to capital spares. Capital spares would have particular associated criteria not necessarily the same as for other assets. Blue Ridge recommends that the Company develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares (e.g., long-lead time, system downtime,

hardship to customers, unique or expensive asset, etc.). The policy should also have approval requirements.

4. Blue Ridge reviewed the SOX compliance audits for systems that feed CWIP. Several of the control steps remain incomplete. The Company stated that following the conclusion of Q4 testing there has not been nor will there be further updates to controls testing as it relates to fiscal year 2020 as NiSource completed its annual year-end close with the filing of the 10k form in February 2021. Blue Ridge recommends that for future audits, the Company make the uncompleted control steps a priority.
5. Blue Ridge found work order 0557.34190074489 and related work order 0558.34190074490 with no cost of removal charges, the Company did not know why retirement had not been recorded. Blue Ridge recommends that the Company determine the amount of the retirements and costs of removal for the two work orders and make the appropriate adjustments to the 2021 CEP.
6. Blue Ridge recommended in the last CEP audit report that incremental revenues be identified and tracked. The Company replied that in Staff's report in Case No. 19-438-GA-RDR, Staff commented, "The CEP deferral formula authorized in Case No. 12-3221-GA-UNC, et. al, was meant to be adjusted in Case No. 17-2202-GA-ALT to remove the incremental revenue offset as part of the Stipulation entered into in that case. However, Staff believes incremental revenues are an important component of the CEP deferral formula, and therefore, its removal from the formula should not be indefinite." Blue Ridge agrees with Staff regarding the importance of incremental revenues and reiterates its recommendation from prior audits that incremental revenue be clarified and tracked. Inclusion of incremental revenue in the CEP should be reevaluated in the Company's next base rate case. Although Growth projects had reduced costs in 2020 compared to an increasing trend since 2015 (with the number of miles installed and services reduced), the cost per mile and cost per service replaced actually increased. The increases were due to COVID-19 related safety requirements and their impact on crew efficiency permit application delays, and supply chain constraints. Thus, it is important to ensure incremental growth is properly controlled.

STATUS OF CASE NO. 20-49-GA-RDR RECOMMENDATIONS

Blue Ridge Consulting Services, Inc. ("Blue Ridge") performed the Plant-in-Service and Capital Expenditure Program Audits of Columbia Gas Ohio, Inc. ("Company" or "Columbia") in Case Nos. 19-438-GA-RDR and 20-49-GA-RDR. In its Order in those cases, the Public Utilities Commission of Ohio (PUCO or "Commission") had included recommendations from Commission Staff (Staff) and the Ohio Consumers' Counsel (OCC). Additionally, Staff had adopted Blue Ridge Recommendations in its reports (dated July 15, 2019, and June 30, 2020, respectively). Blue Ridge requested the status of recommendations still outstanding as listed below. Following each recommendation is Columbia's response regarding the recommendation's status[4] and Blue Ridge's associated comments based upon observations from this compliance audit.

a) Staff Recommendation: Revise deferred income taxes on liberalized depreciation for vintage 2017 and 2019 plant in service.

   Columbia Response: Columbia revised its deferred income taxes on liberalized depreciation for vintage 2017 and 2019 plant in service.

   Blue Ridge's Comments: Blue Ridge is satisfied with the actions taken. No additional work is necessary.

b) Staff Recommendation: Track meter relocations on an annual basis and indicate whether the costs are expensed or capitalized.

   Columbia Response: Columbia performs meter relocations with two types of job orders: 565 (capital job order) and 2313 (expense job order). These job orders are not solely for meter relocations but are used for other types of associated work. Please see "21-0023-GA-RDR BRCS Set 1, No. 5 Attachment A" for the total 565 and 2313 job orders for calendar year 2020.

   Blue Ridge's Comments: Blue Ridge is satisfied with the actions taken. No additional work is necessary.

c) Staff Recommendation: Formally document policies and procedures for the preparation and approval of work orders, damage claims, accounting/journal entries, or allocations.

   Columbia Response: Please see Columbia's Response to BRCS Data Request Set 1, No. 20 and "21- 0023-GA-RDR BRCS Set 1 No. 5 Attachment B," "21-0023-GA-RDR BRCS Set 1 No. 5 Attachment C," and "21-0023-GA-RDR BRCS Set 1 No. 5 Attachment D" for the preparation and approval or work orders. Please see "21-0023-GA-RDR BRCS Set 1 No. 5 Attachment E" for damage claims. Please see "21-0023-GA- RDR BRCS Set 1 No. 5 Attachment F" for accounting/journal entries. Please see "21-0023-GA-RDR BRCS Set 1 No. 5 Attachment G" and "21-0023-GA-RDR Set 1 No. 5 Attachment H" for allocations.

   Blue Ridge's Comments: Blue Ridge reviewed the new policies for preparation and approval of work orders, damage claims, accounting/journal entries, and allocations and is satisfied with the actions taken. No additional work is necessary on this specific recommendation (although Blue Ridge has an additional Policy and Practice recommendation in this year's audit report).

[4] Columbia response to 2021 Blue Ridge Data Request 5.

d) Staff Recommendation: Track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in service are both used and useful and not overbuilt either in length or diameter.

Columbia Response: Please see "21-0023-GA-RDR BRCS Set 1 No. 5 Attachment I" for Columbia's policy that explains how growth projects are scoped to meet their goals to ensure that the assets placed in service are both used and useful and not overbuilt in length or diameter.

Blue Ridge's Comments: Blue Ridge reviewed the new policy. The policy states Columbia's position that projects are not to be overbuilt by design and then details the planning, engineering, and timing Columbia performs to ensure projects conform in specification to the applicant's plan and demand requirements. No additional work is necessary.

e) Staff Recommendation: Continue to ensure retirements and cost of removal are recorded at the same time as the replacement assets.

Columbia Response: Columbia's Plant Accounting department ensures that retirements and cost of removal are recorded at the same time as the replacement assets.

Blue Ridge's Comments: Blue Ridge is satisfied with the actions taken. No additional work is necessary.

f) Staff Recommendation: Continue to track incremental revenues.

Columbia Response: Please see Columbia's Response to Staff Data Request No. 2. Columbia has not recognized incremental revenue in calendar year 2020. As the Staff Report noted in Case No. 19-438-GA-RDR, "the CEP deferral formula authorized in Case No. 12-3221-GA-UNC, *et. al*, was meant to be adjusted in Case No. 17-2202-GA- ALT to remove the incremental revenue offset as part of the Stipulation entered into in that case. However, Staff believes incremental revenues are an important component of the CEP deferral formula and, therefore, its removal from the formula should not be indefinite." See Staff Report at 3.

Blue Ridge's Comments: Blue Ridge agrees with Staff as to the importance of incremental revenues. Blue Ridge reiterates its recommendation that incremental revenue be identified and tracked. Inclusion of incremental revenue in the CEP should be reevaluated in the Company's next base rate case.

g) Staff Recommendation: Staff recommends that Columbia address these issues by March 1, 2021, in its next annual CEP application, by providing the following: "a statement by an officer that Columbia has complied with the recommendations, details of the steps Columbia has taken to comply with the recommendations, and upon request, written documentation to demonstrate compliance."

Columbia Response: Please see the Affidavit of Douglas Nusbaum attached to Columbia's Application filed in this proceeding.[5]

Blue Ridge's Comments: Blue Ridge is satisfied with the actions taken. No additional work is necessary.

[5] Columbia response to 2021 Blue Ridge Data Request 49.

ELEMENTS OF ANALYSIS

BACKGROUND

Since 1953, Section 4905.22 of the Ohio Revised Code (R.C.) has required utilities in Ohio to "furnish necessary and adequate service" and "provide such instrumentalities and facilities as are adequate and in all respects just and reasonable." In September 2011, R.C. 4929.111 permitted natural gas companies to apply to the Commission for approval of a capital expenditure program (CEP) for investment related to: infrastructure expansion, improvement, or replacement; programs to install, upgrade, or replace technology systems; or, programs to comply with government rules and regulations. With approval of a CEP, natural gas companies can establish a regulatory asset to defer for future recovery the post in-service carrying costs ("capitalized interest" or PISCC) and depreciation and property tax expenses associated with the CEP assets.

In Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM, Columbia sought and was granted authority to create a CEP and to begin deferring the related PISCC and depreciation and property tax expenses (the CEP Deferral) for capital investments that were not part of its accelerated infrastructure replacement program (IRP). The Commission authorized the CEP Deferral for the period October 1, 2011, through December 31, 2012, and determined that Columbia could accrue the deferral only up to the point where the deferred amount would exceed $1.50 per month for the Small General Service (SGS) class of customers if it were included in customer rates.

Subsequently, in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM, the Commission authorized Columbia to continue the CEP Deferral beyond 2012, up to the point where the deferred amount would exceed $1.50 per month for the SGS class of customers if it were put into rates. The Commission also restated its determination that it would consider the prudence, reasonableness, and magnitude of the CEP Deferral and capital expenditures when Columbia applied for recovery.

In Case No. 17-2202-GA-ALT, the Company sought and was granted authority to establish a CEP Rider and authority to recover deferrals (as authorized in Case Nos. 12-3221-GA- UNC and 12-3222-GA-AAM) and the underlying assets for CEP investment from 2011 through 2017. The Company was also authorized to adjust the CEP Rider rate each year to collect from customers the prior calendar year's non-IRP capital expenditures and related deferrals. The Commission prescribed annual rate caps by customer class per year.

Each year, the CEP Rider application should contain schedules based on twelve months of actual data for the prior calendar year. The rate of return used in development of the revenue requirement in each application will be based on the capital structure and cost of capital authorized by the Commission in Columbia's most recent base rate case, Case No. 08-72-GA-AIR.

The PUCO issued a request for proposal seeking proposals to conduct a two-part audit of Columbia's CEP capital expenditures. The first part of the audit is to review and attest to the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2020, through December 31, 2020. The second part of the audit is to simultaneously assess and form an opinion on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period.[6] Blue Ridge submitted a proposal and was selected to perform the review.

[6] Case No. 21-23-GA-RDR Request for Proposal No. RAD21-CEP-1, pages 1–2.

PURPOSE OF PROJECT

As defined in the RFP, the audit was to address two parts with the following scope:

Part 1 Plant-in-Service Balances: Review and attest to the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2020, through December 31, 2020.

Part 2 Capital Expenditures Prudence Audit: Simultaneously assess and form an opinion on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period (January 1, 2020, through December 31, 2020).

PROJECT SCOPE

The project scope, as delineated in the RFP, addresses the following items:

Part 1 Plant-in-Service Balances

- Determine total Company plant in service for each account and subaccount from January 1, 2020, through December 31, 2020.
- Audit Columbia's plant in service to determine the proper value for non-IRP investments by account and subaccount.
- Determine total Company depreciation reserve for each account from January 1, 2020, through December 31, 2020.
- Audit Columbia's depreciation reserve to determine the proper value for non-IRP investments by account and subaccount.
- Provide a determination as to the accuracy and completeness of Columbia's historical plant records and continuing property record.
- Ensure plant-in-service transactions were properly classified as capital expenditures.
- Identify subaccounts and/or functions for the determination of allocation factors and/or depreciation expense.
- Perform physical inspections to confirm the assets are used and useful.
- Provide a report of findings that includes the rationale and description of any recommended adjustments.

Part 2 Capital Expenditure Prudence Audit

- Review Case Nos. 11-5351-GA-UNC, 12-3221-GA-UNC et al., 17-2202-GA-ALT, 19-438-GA-RDR, 20-49-GA-RDR, and 21-23-GA-RDR.
- Read and become familiar with all applicable testimony and workpapers.
- Identify and assess the necessity, reasonableness, and prudence of Columbia's non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
- Identify and assess the necessity, prudence, lawfulness, and reasonableness of Columbia's policies and practices for plant additions, new construction, plant replacement, and plant retirements for the period January 1, 2020, through December 31, 2020.
- Identify and assess the necessity, reasonableness, and prudence of the principal causes for increases in Columbia's non-IRP capital expenditures for the period January 1, 2020, through December 31, 2020.

- Identify and assess the reasonableness and prudence of Columbia's cost-containment strategies and practices in the use of outside contractors for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
- Identify and assess the reasonableness and prudence of Columbia's cost-containment strategies and practices in the use of internal Company labor for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
- Utilize the Blue Ridge team's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of any other Columbia capital spending policies and practices or lack of such practices not specifically identified herein.
- Recommend and support specific adjustments to the non-IRP plant-in-service balance based on any findings of lack of necessity, unreasonableness, or imprudence.
- Review and verify all CEP-related schedules to ensure accuracy of the required CEP formula, including plant and reserve balances, annualized expenses for PISCC, property tax, depreciation, and incremental revenue.
- Review and verify deferral beginning balances for PISCC, property tax, and depreciation.
- Recommend and support specific adjustments pertaining to the CEP schedules.

Definition of Non-IRP / CEP Investments

The audit focuses on non-IRP investments recovered through the CEP Rider. Per the August 29, 2012, Order in Case No. 11-5351-GA-UNC, CEP includes (a) any infrastructure expansion, infrastructure improvement, or infrastructure replacement program; (b) any program to install, upgrade, or replace information technology systems; and (c) any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

Per Columbia's application in Case No. 11-5351-GA-UNC (dated October 3, 2011), the CEP includes the following components: (a) Replacement / Public Improvement / Betterment; (b) Acquisitions; (c) Growth; (d) Support Services; (e) Information Technology; (f) Distribution Integrity Management Plant Implementation.

On August 29, 2012, the Commission issued its Findings and Order regarding Case No. 11-5351-GA-UNC:

1) Columbia's capital allocation policy governs the allocation of capital, including the identification and prioritization of capital projects. The annual capital budget allocation approved by the NiSource Board of Directors is consistent with Columbia's obligation to furnish necessary and adequate services and facilities under Rev. Code 4905.22. the following components are included in Columbia's capital expenditures program:
    a. Replacement/Public Improvement/Betterment—Replacement of facilities for any of the following reasons: (1) physical deterioration; (2) meeting the requirements of governmental authorities related to street and highway construction; (3) accommodating existing customer requests for facility relocation; and (4) improving system operating conditions and ensuring adequate distribution system capacity and/or system reliability. This Replacement/Betterment category may include, but is not limited to, cost related for installation of and/or improvements to mains and service lines, measuring and regulation stations, district regulatory stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.

b. Growth—Facilities required to provide service to new customers or to provide increased load capacity to existing customers. The category may include, but is not limited to, costs associated with the installation of and/or improvement to mains and services (including service line installations to new customers served by existing mains), district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.
c. Support Services—Capital expenditures that are not directly related to gas facilities fall into this category which may include, but is not limited to, costs associated with the purchase of and/or improvements to buildings and structures (including associated land and land rights), environmental remediation at company owned facilities, office furniture and equipment, motorized equipment and trailers, power operated equipment, and other miscellaneous equipment.
d. Information Technology—Capital expenditures related to technology and communications infrastructure. This category may include, but is not limited to, costs associated with purchase and installation of communications equipment (including associated buildings, land or land rights), data processing equipment, data processing software, and software licenses.

AUDIT STANDARD

Blue Ridge's focus is on the accounting accuracy; used and useful nature; and the necessity, prudence, lawfulness, and reasonableness of the non-IRP capital expenditures. Blue Ridge used the following standard during the course of the audit when assessing the attributes required in the project scope:

Accounting Accuracy: The stated value is supported by accurate and complete plant accounting property records. Transactions are properly recorded as capital expenditures in the appropriate FERC account(s).

Used and Useful: The assets are used in providing services and are useful to the ratepayer.

Necessity, Reasonableness, and Prudence: The decision to make the investment was reasonable at the time the decision was made and based on information then available. The decision is one that a reasonable person could have made in good faith, given the information and decision tools available at the time of the decision.

Lawfulness: The Blue Ridge team does not include an attorney; therefore, our opinion as to lawfulness is not intended in the precise legal sense of determining the legality of an action, condition, or intent. Our focus regarding lawfulness is on whether the capital expenditures and related assets are in compliance with Commission orders.

MATERIALITY

Materiality relates to the importance or significance of an amount, transaction, or discrepancy. The assessment of materiality depends on certain factors, such as an organization's revenues and expenses. For a regulated utility, the impact on a company's ratepayer should also be considered.

Under traditional cost-of-service ratemaking, the revenue requirement (or cost of service) equates to the total of operating expenses, depreciation, taxes, and a rate-of-return allowance on the utility's investment in rate base. Blue Ridge used the traditional cost-of-service concept to identify materiality as it relates to changes in the plant-in-service component of rate base. Materiality was calculated by backtracking through the Company's CEP revenue requirements calculation to determine the amount of change in gross plant in service that would result in a 2.50 percent change in the CEP Rider on an average residential customer's monthly bill. In prior audits, Blue Ridge calculated that a $17,530,247 change in gross plant in service would result in 2.50 percent change in the CEP Rider on an average residential customer's monthly bill.[7] We determined that this amount is a conservative estimate of materiality and was used again in this year's review.

The resultant materiality threshold was used to determine the *tolerable error* in the calculation of the sample size for detailed transactional testing. Blue Ridge's findings were not limited by the tolerable error. We reported on all our findings regardless of amount.

Information Reviewed

Blue Ridge reviewed or is familiar with the following information as required by the RFP:

- Case documents, including applications, testimony, workpapers, stipulations (if any), and orders, in Case Nos. 11-5351-GA-UNC and 12-3221-GA-UNC et al., Case No. 17-2202-GA-ALT, Case No. 19-438-GA-RDR, Case No. 20-0049-GA-RDR, and Case No. 21-23-GA-RDR
- Generally accepted accounting principles (GAAP)
- Federal Energy Regulatory Commission (FERC) Uniform System of Accounts
- Various accounting and tax changes or decisions issued during calendar year 2020
- The operations and regulatory environment of natural gas distribution utilities
- The capital spending practices and requirements of natural gas distribution utilities
- The Pipeline and Hazardous Materials Safety Administration's (PHMSA) Pipeline Safety Regulations (49 CFR, Parts 190–199)

During the audit process, Blue Ridge requested and was provided additional information. A list of the data requested is included as Appendix B. Electronic copies of the information obtained were provided to Staff.

Interviews

Blue Ridge had conducted interviews of Company personnel during the CEP Plant-in-Service audit association with Case No. 17-2202-GA-ALT and followed them up as necessary during the audits performed in Case Nos. 19-0438-GA-RDR and 20-49-GA-RDR. Blue Ridge reviewed notes from those interviews and updated our understanding of information obtained through interviews.

Any specific data referenced from the CEP Plant-in-Service audit associated with Case Nos. 17-2202-GA-ALT, 19-0438-GA-RDR, and 20-49-GA-RDR interview notes and updated data from additional telephone interviews during this audit are included within the electronic appendices to this report.

Field Observations

Blue Ridge performed virtual inspections through the use of online communication tools. The objectives of the inspections focused on (1) Used and Usefulness: whether the Company assets were used and useful, providing service to the customer and, therefore, properly included in utility plant in service, and (2) Necessity, Prudence, Lawfulness, and Reasonableness (as understood according to their definitions in the Audit Standard section of this report). The reviews also considered whether

[7] WP 21-23-GA-RDR Sensitivity, Sample Size and Interval.

the assets appeared overbuilt (gold plated) and whether the Company selected a reasonable option to execute the work. The reviews included inspection of drawings, schematics, notes, and other documentation, as needed, that supported the reasonableness of the decision to execute the work.

Additional discussion on the team's observations is included in the section labeled Physical Inspections and Desktop Reviews. The field observation notes and photos are included within the electronic appendices to this report.

POLICIES AND PRACTICES

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Companies' processes and controls that affect each of the plant balances. Blue Ridge also reviewed internal audit reports conducted on various areas of the Companies' operations that could impact utility plant-in-service balances. Blue Ridge also reviewed applicable SOX and FERC audits.

VARIANCE ANALYSIS, TRANSACTIONAL TESTING, AND OTHER ANALYSIS

To identify, quantify, and explain any significant net plant increases within the individual accounts, Blue Ridge performed account variance analyses. The Company was asked to explain any significant changes. The results of these analyses are included in this report under the section labeled Variance Analysis.

In addition, Blue Ridge selected a sample number of work orders, from the population of work orders supporting the gross plant in service, for detailed transactional testing. The sample was selected using a statistically valid sampling technique that would allow conclusions to be drawn in regard to the total population. Additional work orders were selected based on professional judgment. The results of the transactional testing are included in the section labeled Detailed Transactional Testing.

Blue Ridge also performed other various analyses, including mathematical verifications and source data validation of the schedules that support the application filing.

Project Requirements and Related Summary Conclusions

The Request for Proposal (RFP) included general project requirements for the auditor investigation that were separated into two parts: (1) Plant In-Service and (2) Capital Expenditures Prudence. The two parts are interrelated and the findings in each part are used to support Blue Ridge's ultimate recommendations. To ensure that we have addressed the specific requirements in the RFP, we have maintained the integrity of the work scope by part. The following lists include the subject areas of the RFP's required audit components and how this section of the report is organized.

Part 1 Plant In-Service

The RFP stated that the purpose for the first part of the audit was to "review and attest to the accounting accuracy and used and useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2020, through December 31, 2020." Specific scope included the following items:

- Plant in Service Schedules
  - Determine total company plant in service for each account and subaccount, January 1, 2020, through December 31, 2020.
  - Audit Columbia's plant in service to determine the proper value for non-IRP investments by account and subaccount.
- Depreciation Reserve
  - Determine total company depreciation reserve for each account for January 1, 2020, through December 31, 2020.
  - Audit Columbia's depreciation reserve to determine the proper value for non-IRP investments by account and subaccount.
- Historical Records
  - Provide a determination as to the accuracy and completeness of Columbia's historical plant records and continuing property record.
- Classification—Capital vs. Expense
  - Ensure plant-in-service transactions were properly classified as capital expenditures.
- Subaccounts—Allocations and Depreciation
  - Identify subaccounts and/or functions for the determination of allocation factors and/or depreciation expense.
- Physical Inspections
  - Perform physical inspections to confirm the assets used and usefulness.

Part 2 Capital Expenditures Prudence Audit

For the second part of the audit, the RFP stated the purpose is "to simultaneously assess and form an opinion on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period." Specific scope included the following items:

- Necessity, Lawfulness, Prudence, and Reasonableness
  - Identify and assess the necessity, prudence, lawfulness, and reasonableness[8] of Columbia's non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
- Policies and Practices
  - Identify and assess the necessity, prudence, lawfulness, and reasonableness of Columbia's policies and practices for plant additions, new construction, plant replacement, and plant retirements for the period January 1, 2020, through December 31, 2020.
  - Utilize the auditor's and/or retained subcontractor's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of any other Columbia capital spending policies and practices or lack of such practices not specifically identified herein.
- Causes for Increased Non-IRP Spending
  - Identify and assess the necessity, prudence, lawfulness, and reasonableness of the principal causes for increases in Columbia's non-IRP capital expenditures for the period January 1, 2020, through December 31, 2020.
- Cost Containment
  - Identify and assess the reasonableness and prudence of Columbia's cost containment strategies and practices in the use of outside contractors for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
  - Identify and assess the reasonableness and prudence of Columbia's cost containment strategies and practices in the use of internal company labor for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.
- CEP Schedules
  - Review and verify all CEP-related schedules to ensure accuracy of the required CEP formula, including plant and reserve balances, annualized expenses for PISCC, property tax, depreciation, and incremental revenue.
  - Review and verify deferral beginning balances for PISCC, property tax, depreciation.
- Recommended Adjustments
  - Recommend and support specific adjustments pertaining to the to the non-IRP plant-in-service balance based on any findings of nonnecessity, imprudence, unlawfulness, or unreasonableness.
  - Recommend and support specific adjustments pertaining to the CEP schedules.

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[8] While the Scope section of the RFP mentioned only "necessity, reasonableness, and prudence of Columbia's non-IRP capital expenditures and assets," the Purpose section included "lawfulness" as well. Therefore, Blue Ridge includes "lawfulness" both here and in the "Causes for Increased Non-IRP Spending" and "Recommended Adjustments" bullet items of this scope section. (Lawfulness is understood according to the definition provided in the Audit Standard section of this report.)

The following subsections address the RFP requirements delineated above and Blue Ridge's summary conclusions based on our analysis. Additional information related to the analysis is provided in the next section of this report: Detailed Analysis, Findings, and Recommendations.

1. Plant-in-Service Schedules

Requirements: Determine total company plant in-service for each account and subaccount, January 1, 2020, through December 31, 2020.

Requirement: Audit Columbia's plant in service to determine the proper value for non-IRP investments by account and subaccount.

The CEP revenue requirements schedule (Schedule CEP-1) reflects plant-in-service balances as shown in the following table.

Table 2: Plant in Service as Filed

Description	As of 12/31/2019	As of 12/31/2020	Change
Additions	$ 966,671,977	$ 1,145,878,237	$ 179,206,260
Retirements	(150,818,780)	(169,442,555)	(18,623,775)
Total Plant in-Service	**$ 815,853,197**	**$ 976,435,682**	**$ 160,582,485**

The Company's filing provided plant in service (Schedule CEP-2), retirements (Schedule CEP-3), and the resulting net plant (Schedule CEP-4) for each account and subaccount. We confirmed that the beginning balance reflected the adjusted balances from the last year's audit.[9]

In response to discovery, the Company provided a revised Schedule CEP-2, which decreased 2020 plant additions by $1,198,409 to remove "costs that are properly included in the Infrastructure Development Rider ("IDR") Case No. 21-521-GA-IDR."[10] The Company explained that Columbia uses cancelled work orders that cannot be moved into CWIP to identify IDR assets. When a senior plant accountant left, the process was not followed. As a result, IDR plant was included in the CEP. After the issue was identified, the Company stated that it had reviewed all the IDR work orders to ensure no double counting of plant existed in both the CEP and the IDR. The Company voluntarily provided the recommended adjustment, and Blue Ridge confirmed the revision to the CEP. Blue Ridge recommends that the CEP be adjusted to reflect this revision. The revision reduces the CEP revenue requirements by $199,579 [**ADJUSTMENT #1**]. Blue Ridge also recommends that the Company formally document the process to avoid relying on institutional knowledge.

Blue Ridge's investigation included data requests, interview notes, field inspections, and analyses, including variance analyses and detailed transactional testing. Blue Ridge's investigation found adjustments that should be reflected in the plant-in-service balances.

One such finding from our variance analysis included the Company's account 38200, which had retirements greater than additions due to the addition data not being passed from the work management system (WMS) to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia has been working with its IT group to

[9] Columbia response to 2021 Blue Ridge Data Request 80 Attachment A.
[10] Columbia response to 2021 Blue Ridge Data Request 80.

resolve this problem. The Company believes that the additions were recorded to FERC account 38300 (House Regulators) instead of 38200 (Meter Installations). The adjustment reduces the CEP revenue requirements by $21,440. [**ADJUSTMENT #4**]

This issue remains unresolved. For purposes of the CEP, if the additions were in fact recorded to the wrong FERC account, the CEP gross plant would not be understated. However, because the depreciation rate for FERC 383 may be greater than the depreciation rate for FERC 382, it would then be likely that net plant is overstated. Also, booking depreciation to the wrong plant account could skew the data provided for future depreciation studies or past depreciation studies if the Company determines the problem has historical significance.

Blue Ridge recommends that once the problem is resolved that the Company document what happened, how it happened, what was done to fix the problem, and determine the impact on net plant and the CEP. This issue should be followed up in the next audit of the CEP.

2. Depreciation Reserve

Requirement: Determine total company depreciation reserve for each account for January 1, 2020, through December 31, 2020.

Requirement: Audit Columbia's depreciation reserve to determine the proper value for non-IRP investments by account and subaccount.

The CEP revenue requirement (Schedule CEP-1) reflects three components of Accumulated Provision for Depreciation: Depreciation Expense, 2008 Rate Case Depreciation Offset, and Retirements. The following table reflects the balances and the change of each component.

Table 3: Accumulated Provision for Depreciation as Filed

Description	As of 12/31/2019	As of 12/31/2020	Change
Depreciation Expense	$ 144,726,848	$ 188,636,779	$ 43,909,931
2008 Rate Case Depreciation Offset	378,270,725	421,595,850	43,325,125
Retirements	(150,818,780)	(169,442,555)	(18,623,775)
Total Accumulated Depreciation	**$ 372,178,793**	**$ 440,790,074**	**$ 68,611,281**

We confirmed that the beginning balance reflected the adjusted balances from the last year's audit.[11] We reviewed each component and also calculated the effect on the reserve of recommended adjustments to gross plant.

Accumulated Provision for Depreciation–Depreciation Expense

The Accumulated Provision for Deprecation associated with Depreciation Expense for each account and subaccount is provided on the Company's Schedule CEP-5. Blue Ridge reviewed the Company's depreciation reserve calculations in total and for each account and found them to be mathematically accurate and not unreasonable. The calculation is made as plant comes into service each month using a mid-month convention.

[11] Columbia response to 2021 Blue Ridge Data Request 80 Attachment A—CEP Rider Application dated February 25, 2021.

As discussed in further detail in Section 5, Subaccounts—Allocations and Depreciation, most of the depreciation accrual rates used in the calculation of the Accumulated Provision for Depreciation were approved by the Commission in Case No. 08-72-GA-AIR. Blue Ridge found the depreciation accrual rates to be not unreasonable.

Accumulated Provision for Depreciation–2008 Rate Case Depreciation Offset

The 2008 Rate Case Depreciation Offset was part of the negotiated stipulation in Case No. 17-2202-GA-ALT. The November 28, 2018, Opinion and Order that approved the stipulation included the following paragraphs:

> 5. As an alternative to a future reduction in rate base, there will be an immediate adjustment to CEP Investment in the form of a depreciation offset of $289.9 million, for the period October 2011 through December 31, 2017, which is to the benefit of consumers. Using Staff's depreciation calculation, with several adjustments, Columbia's revenue requirement for the CEP Investment from October 2011 through December 31, 2017, is lowered from $109,436,639.47 to $74,486,252.84. The CEP Rider rates set forth in Table 1 reflect the base rate depreciation offset and the revised depreciation calculation. (Joint Ex. 1 at 4.)
>
> 6. All future annual CEP Rider revenue requirement filings for establishing CEP-related charges to consumers shall reflect the base rate depreciation offset until the CEP Rider is reset by the Commission's order in Columbia's 2021 base rate case (Joint Ex. 1 at 4).[12]

Staff's report in Case No. 17-2202-GA-ALT clarified the offset.

> Rate Base Depreciation Expense Offset
>
> Staff further recommends that the Commission create an offset of $289.9 million (see attachment) to reflect that current tariffed rates being charged to customers reflect the recovery of an amount of depreciation expense that no longer reflects the rate base upon which that depreciation expense was established. The assets which comprised the rate base at the date certain of the Company's last rate case (Case No. 08-74-GA-AIR) are being retired and therefore the associated depreciation expense should decline. As the depreciation expense of the plant additions are either being recovered through the CEP rider rate (or being deferred on a going forward basis for future recovery) there should be recognition that the depreciation expense embedded in current base rates is recovering plant that is no longer in service. The offset will be calculated by taking the rate case plant in service less non-IRP Retirements. Accrual rates should then be applied to this net plant to derive an annual depreciation expense. This will accumulate each year and be used to offset the CEP rider's provision for accumulated depreciation.[13]

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[12] Case No. 17-2202-GA-ALT, Opinion and Order dated November 28, 2018, page 15.
[13] Case No. 17-2202-GA-ALT, A Report by the Staff of the Public Utilities Commission of Ohio, September 14, 2018, page 8.

The 2008 Rate Case Depreciation Offset is calculated on Schedule CEP-6. The schedule reflects a balance of $289,972,747 as of December 31, 2017, which was generally referred to in the Staff Report in Case No. 17-2202-GA-ALT and was derived from a discovery from that case.[14] As of December 31, 2020, the balance increased to $421,595,850, which reflects the reduction in the annual depreciation associated with the Plant-in-Service balance as of December 31, 2020, and reduced by the CEP retirements in 2020.

Accumulated Provision for Depreciation–Retirements

The Accumulated Provision for Depreciation appropriately removes the CEP retirements.

3. Historical Records

Requirement: Provide a determination as to the accuracy and completeness of Columbia's historical plant records and continuing property record.

Through our analysis, Blue Ridge found that the Company was able to provide detailed continuing property records to support its plant-in-service balances except as specifically indicated in the work order testing section of this report (T1-T13).

For the work order / projects detail that the Company provided, Blue Ridge performed detailed transactional testing. The results of that analysis are discussed in this report's Detailed Transactional Testing subsection.

4. Classification—Capital vs. Expense

Requirement: Ensure plant-in-service transactions were properly classified as capital expenditures.

Through our transactional detail testing (specifically, step T3), Blue Ridge found that the work included in the projects sampled are capital in nature, and the scope of work and cost detail coincided with the applicable FERC 300 accounts to which the work applies in accordance with the FERC Uniform System of Accounts (CFR 18). The projects were classified to the proper intangible, distribution, and general equipment FERC accounts.

5. Subaccounts—Allocations and Depreciation

Requirement: Identify subaccounts and/or functions for the determination of allocation factors and/or depreciation expense.

The CEP revenue requirement (Schedule CEP-1) reflects annualized depreciation expense as shown in the following table.

Table 4: Annualized Depreciation Expense

Description	As of 12/31/2019	As of 12/31/2020	Change
Annualized Depreciation	$ 28,575,629	$ 34,310,816	$ 5,735,187

The Annualized Deprecation for each account and subaccount is provided on the Company's Schedule CEP-7. Blue Ridge compared the FERC 300 accounts and subaccounts used in the CEP filing

[14] Columbia response to 2018 Blue Ridge Data Request 58.

to those approved by the Commission in Case No. 08-72-GA-AIR and also compared the depreciation accrual rates used in the CEP filing to the approved rates.

Our analysis also reviewed the composite depreciation rate used in the "2008 Rate Case Depreciation Offset" to rate base. We also reviewed the amortization rate used to amortization deferred depreciation, deferred PISCC, and deferred property taxes. We also reviewed the allocation factors used to allocate distribution plant.

Depreciation Accrual Rates

Blue Ridge confirmed that the depreciation accrual rates used to calculate the annualized depreciation expense (Schedule CEP-7) agreed with what the Commission approved for Columbia's current rates in Case No. 08-72-GA-AIR. The annual depreciation was calculated based on net plant (cumulative plant additions less cumulative plant retirements) as of year ending December 31, 2020, by FERC account. Blue Ridge found that the methodology is not unreasonable.

The depreciation rates in use were approved by the Commission in Case No. 08-72-GA-AIR over 12 years ago. Blue Ridge recommended in the previous audit that a depreciation study should be performed to reflect the numerous subaccounts that have been added since the last case and to update rates to reflect asset lives and to adjust the reserve imbalance. The Company stated then, and verifies in this case, that it anticipates it will perform a new depreciation study prior to filing its next rate case on June 30, 2021.[15]

Composite Depreciation Rates

The "2008 Rate Case Depreciation Offset" to rate base (Schedule CEP-6) is calculated using a composite deprecation rate of 2.72 percent rate calculated as follows:

2.72% = 49,905,000/1,834,480,000[16]

Where $49,905,000 is the jurisdictional depreciation expense and $1,834,480,000 is the jurisdictional plant in service reflected in Staff's Report in Case No. 08-0072-GA-AIR.[17]

Blue Ridge found the calculation of the composite depreciation rate to be consistent with the depreciation accrual rates approved in Case No. 08-72-GA-AIR and the Commission-approved negotiated stipulation in Case No. 17-2202-GA-ALT.

Amortization Rate

The annual amortization of deferred depreciation (Schedule CEP-8), deferred PISCC (Schedule CEP-9), and deferred property taxes (Schedule CEP-10) uses an amortization rate of 3.33 percent. The Company stated that the 3.33 percent rate was a negotiated rate agreed to by Staff and Columbia during the settlement negotiations in Case No. 17-2202-GA-ALT. No support is available.[18]

Blue Ridge confirmed that the Revenue Requirement Calculations reflected within the Stipulation used 3.33% to amortize the deferrals for depreciation, PISCC, and property tax.[19]

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[15] Columbia response to 2019 Blue Ridge Data Request 6 and 2020 Blue Ridge Data Request 52.
[16] Columbia response to 2018 Blue Ridge Data Request 3, Attachment A, Tab: Depr Offset.
[17] Columbia response to 2018 Blue Ridge Data Request 56.
[18] Columbia response to 2021 Blue Ridge Data Request 15.
[19] WP V&V Rev Req 21-0023-GA-RDR - CEP Financial Schedules.

ALLOCATION FACTORS

All Columbia's CEP investment is jurisdictional to its gas distribution service customers.

6. PHYSICAL INSPECTIONS

Requirement: Perform physical inspections to confirm the assets used and usefulness.

Blue Ridge selected 10 projects for detailed desktop review. We concluded that the assets were used and useful and provide benefit to the ratepayer. The assets did not appear over built. Company personnel appeared knowledgeable about the projects.

Blue Ridge completed detailed desktop reviews, including additional onsite video streaming of three of these projects conducted by Columbia personnel. Based on the reviews, Blue Ridge determined that the Company had adequate supporting documentation for the projects, including the appropriate engineering detail. The projects appeared to have been adequately planned with alternatives vetted.

Except for one project, we did not find anything in the detailed desktop reviews that was unreasonable or imprudent. Blue Ridge found work order 1095.34200171287 was a Phase 3 retest of the transmission pipe to meet Columbia's standard GS 1500.010 that was not completed correctly during the Phase 1 and 2 commissioning. The project was necessary because the Company had failed to follow its stated internal policy in its previous test.[20] The Company agreed that, had they followed the internal policy, the entire work order would not have been necessary. As discussed in section 12. Recommended Adjustments and later in the Field Observations subsection, Blue Ridge finds that since the additional work was a result of the Company's failure, it was, therefore, not prudent and should be removed from the CEP. Blue Ridge recommends an adjustment. The estimated effect on the CEP Revenue Requirements is a reduction of $71,564.

Additional details of the field reviews are included in this report's Field Inspections and Desktop Review subsection. The inspection forms and photos are included in Appendix C.

7. NECESSITY, LAWFULNESS, PRUDENCE, AND REASONABLENESS

Requirement: Identify and assess the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.

The necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures was considered throughout the entire audit, including the variance analysis, transactional testing, and physical inspections and desktop reviews. Our work in that regard is discussed in various sections of this report. In summary, Blue Ridge found one project during the field review where the additional work performed by the company would not have been necessary had the company followed its stated procedures. That project is discussed in the Field Inspections and Desktop Review subsection. The remaining non -IRP capital expenses and assets for the period January 1, 2020, through December 31, 2020, were not unnecessary, imprudent, unlawful, or unreasonable.

[20] Columbia response to 2021 Blue Ridge Data Request 95.

8. Policies and Practices

Requirement: Identify and assess the necessity, prudence, lawfulness, and reasonableness of Columbia's policies and practices for plant additions, new construction, plant replacement, and plant retirements for the period January 1, 2020, through December 31, 2020.

Requirement: Utilize the auditor's and/or retained subcontractor's familiarity and experience with natural gas distribution utility operations and capital spending practices to identify and assess the reasonableness and prudence of any other Columbia capital spending policies and practices or lack of such practices not specifically identified herein.

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Companies' processes and controls that affect each of the plant balances. Blue Ridge also reviewed internal audit reports conducted on various areas of the Companies' operations that could impact utility plant-in-service balances. Blue Ridge also reviewed applicable SOX and FERC audits. In addition to a review of the Company's formal policies and procedures, Blue Ridge reviewed interview notes from the CEP Plant-in-Service audits in 2018 (Case No. 17-2202-GA-ALT), 2019 (Case No. 19-0438-GA-RDR), and 2020 (Case No. 20-49-GA-RDR) to reacquaint ourselves with the processes. We also requested and reviewed any changes that have been made since our review in 2020.[21]

Blue Ridge is concerned with the lack of enumerated criteria and outline for consistent application that are specific to capital spares.[22] Capital spares would have particular associated criteria not necessarily the same as for other assets. Blue Ridge recommends that the Company develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares (e.g., long-lead time, system downtime, hardship to customers, unique or expensive asset, etc.). The policy should also have approval requirements.

Blue Ridge concluded that the Company's controls were adequate and not unreasonable. Furthermore, we were satisfied with actions taken with regard to internal and other audits reviewed.

Additional details of the policies and practices reviews are included in this report's Review of Company's Processes and Controls subsection.

9. Causes for Increased Non-IRP Spending

Requirement: Identify and assess the necessity, reasonableness, and prudence of the principal causes for increases in Columbia's non-IRP capital expenditures for the period January 1, 2020, through December 31, 2020.

Blue Ridge found that the steps the Company has pursued to control costs are not unreasonable and reveal no imprudence. Increased CEP spending relates to these items:

- <u>Replacement and Betterment Projects:</u> While replacing similar mileage in 2020, 2019, and 2018, the Company's cost per mile (with overheads) was consistent in 2020 with what it was in 2019, although both 2020 and 2019 costs were double the costs of 2018.

[21] Columbia responses to 2021 Blue Ridge Data Requests 5, 7, and 20.
[22] Columbia responses to 2021 Blue Ridge Data Requests 44 and 77.

Table 5: Replacement and Betterment Projects[23]

	2018	2019	2020
Miles	26.54	25.08	25.69
Cost per mile	$3,294,572	$3,245,467	$1,482,434

- CEP projects with the Description "Growth": 2020 mileage was 84.57 which was slightly less than the 87.46 total for 2019 and significantly less than the 2018 total of 117.96. Cost per mile with accounting overheads was $755,082 in 2020 which is comparable to 2019 and 10% less than the 2018 cost per mile of $839,200.[24]

Further discussion of the Company's capital spending is included in this report's Capital Spending and Cost Containment subsection of the Detailed Analysis, Findings, and Recommendations section.

10. Cost Containment

Requirement: Identify and assess the reasonableness and prudence of Columbia's cost containment strategies and practices in the use of outside contractors for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.

Requirement: Identify and assess the reasonableness and prudence of Columbia's cost containment strategies and practices in the use of internal company labor for non-IRP capital expenditures and assets for the period January 1, 2020, through December 31, 2020.

For 2020, the contractor situation has improved. The steps the Company has already taken to control cost primarily remain the same as the steps identified in the 2018 audit. The Company utilizes a standard competitive bidding process for all outside-services spend greater than $250,000. This process includes construction services.[25]

- The Company improved the planning process giving contractors advanced visibility of upcoming work to improve contractor resource allocation.
- The Company has increased its monitoring of spend, standardized contracts, and standardized contract unit items.
- The Company has developed long-term strategic partnerships to reduce contractor contingency needs for short-term contracts.
- The Company competitively bid five-year blanket construction contracts in 2015.[26] Those contracts allow for annual price escalations. The Company has capped price increases for 2020 on average at 2.2% in its current blanket construction contracts, with new blanket contracts rebid in 2020 to be effective in 2021.[27]
- Columbia conducts business reviews with each of its key gas contractors, during which the parties discuss Columbia's capital plan, the contractor's ability to support the capital plan and issues that are impacting the contractors, such as labor constraints. Through these

[23] Columbia response to 2021 Blue Ridge Data Requests 23 and 25 and 2018 Blue Ridge Data Request 24.
[24] Columbia response to 2021 Blue Ridge Data Request 24.
[25] Columbia response to 2021 Blue Ridge Data Request 9.
[26] Columbia response to 2021 Blue Ridge Data Request 35.
[27] Columbia response to 2021 Blue Ridge Data Request 35.

business reviews, the Company is able to share best practices among the contractor base on a number of topics, including attracting, hiring, training, and retaining qualified employees.[28]

Through Columbia's contract negotiations, Columbia continues working with its construction contractors to secure the most cost-efficient and qualified contractors to do the work. Columbia has also worked with the Ohio Laborer's District Council and its largest contractors to create an entry-level training program for new employees beginning careers in gas construction.[29]

11. CEP Schedules

Requirement: Review and verify all CEP-related schedules to ensure accuracy of the required CEP formula, including plant and reserve balances, annualized expenses for PISCC, property tax, depreciation, and incremental revenue.

Requirement: Review and verify deferral beginning balances for PISCC, property tax, depreciation

The Company's application includes the following schedules supporting the adjusted revenue requirement to reflect the prior calendar year's CEP investments and related deferrals:

- Schedule CEP-1 Calculation of Revenue Requirement
- Schedule CEP-2 Plant Additions by Month
- Schedule CEP-3 Original Cost Retired by Month
- Schedule CEP-4 Net Plant by Month
- Schedule CEP-5 Provision for Depreciation (Gross Plant)
- Schedule CEP-6 Calculation of Base Rate Depreciation Offset
- Schedule CEP-7 Annualized Depreciation
- Schedule CEP-8 Deferred Depreciation
- Schedule CEP-9 Post-in-Service Carrying Cost
- Schedule CEP-10 Annualized Property Tax Expense Calculation
- Schedule CEP-11 Deferred Tax-Liberalized Depreciation
- Schedule CEP-12 Revenue Reconciliation
- Schedule CEP-13 Computation of Projected Impact Per Customer

Development of Schedules

Blue Ridge reviewed the CEP schedules used to develop the revenue requirement. The procedures and calculations did not appear inconsistent with the prior application approved in Docket No. 20-0049-GA-RDR. In response to discovery, the Company also stated it "did not make any changes to the underlying inputs or methodology in Schedules CEP-1 through CEP-13."[30]

Schedule CEP-1 presents the revenue requirement, which reflects a return on CEP rate base as of December 31, 2020, and recovery of annualized operating expenses. Components of rate base include net plant in service and deferred expenses (i.e., depreciation, PISCC, and property taxes) capitalized to regulatory assets. The offsetting impact of deferred income taxes on each rate base

[28] Case No. 17-2202-GA-ALT, Columbia response to Blue Ridge Data Requests 7-009, 010, 011, 012, and 015, and Columbia response to 2018 Blue Ridge Data Requests 37 and 62.
[29] Columbia response to2021 Blue Ridge Data Request 35.
[30] Columbia response to 2021 Blue Ridge Data Request 71.

component is also reflected. Annualized operating expenses subject to recovery include CEP plant depreciation, regulatory asset amortization, and property taxes.

The CEP revenue requirement, including the impact of projected over-collected revenues prior to the effective date of adjusted rates, is $126,977,311. The 2020 net annual adjustment is $19,742,670.

Schedules CEP-2, -3, and -4 present monthly CEP additions, retirements, and net activity by plant account as well as the cumulative plant balance in rate base through December 31, 2020. Gross CEP plant additions of $179,206,260 were offset by related retirements of $18,623,775 in 2020. Net plant additions, therefore, totaled $160,582,485.

Schedules CEP-5 and -6 calculate the cumulative monthly CEP depreciation reserve by plant account through December 31, 2020, and an incremental reserve amount to recognize the depreciating value of plant earning a return in base rates. The net change in the depreciation reserve, including the impact of retirements, in 2020 totaled $68,611,281.

Schedules CEP-7 and -10 respectively calculate annualized depreciation expense and property taxes assessed on gross CEP plant, net of retirements, as of December 31, 2020. The annual cost subject to recovery is $34,310,816 for depreciation expense and $21,987,318 for property taxes.

Schedules CEP-8, -9, and -10 calculate cumulative deferred depreciation, PISCC, and property tax expense, net of amortization, respectively. Growth in the net regulatory asset balances, including the offsetting impact of deferred income taxes, in 2020 totaled $8,721,370. Annualized amortizations totaling $8,149,768 were computed at 3.33 percent of the gross regulatory asset balances as of December 31, 2020.

Schedule CEP-11 calculates the impact of deferred income taxes on liberalized depreciation associated with CEP plant assets in rate base.

Schedule CEP-12 compares estimated Rider CEP revenues collected before the adjusted rate effective period on September 1, 2021, to the revenue requirement without under or over revenues reflected. The difference shows a projected under-collected position of $1,261,274 as of August 31, 2021.

Schedule CEP-13 calculates adjusted monthly rates by customer class.

Mathematical Verification

Blue Ridge requested and reviewed the native Microsoft Excel files used to develop the CEP schedules.[31] We performed mathematical checks on the calculations and crosschecked relationship schedules and balances to ensure they were internally consistent.[32] We did not identify any exceptions. Blue Ridge found the mathematical calculations to be not unreasonable.

Source Data Validation

Blue Ridge confirmed the opening balances in the current application tied to the ending balances approved in Case No. 20-49-GA-RDR.[33] We also verified that the pre-tax return, PISCC, depreciation

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[31] Columbia response to 2021 Blue Ridge Data Request 80 Attachment A.
[32] WP V&V Rev Req 21-0023-GA-RDR - CEP Financial Schedules.
[33] Blue Ridge found the mathematical calculations not unreasonable.

accrual, and regulatory asset amortization rates matched those prescribed in the Company's CEP Order. We found no exceptions.

Blue Ridge further requested support for the NOL deferred tax asset[34] in rate base and other annually updated inputs[35] used to prepare the revenue requirement. We found the responses and supporting documentation to be not unreasonable.

12. RECOMMENDED ADJUSTMENTS

Requirement: Recommend and support specific adjustments to the non-IRP plant-in-service balance based on any findings of nonnecessity, imprudence, unlawfulness, or unreasonableness.

Requirement: Recommend and support specific adjustments pertaining to the CEP schedules.

Blue Ridge recommends the following adjustments:

Adjustment #1: In response to discovery, the Company provided a revised Schedule CEP-2, which decreased 2020 plant additions by $1,198,409 to remove "costs that are properly included in the Infrastructure Development Rider ("IDR") Case No. 21-521-GA-IDR."[36] Blue Ridge recommends that the CEP be adjusted to reflect this revision. The revision reduces the CEP revenue requirements by $199,579.

Adjustment #2: In the Field Inspections and Desktop Review portion of this audit, work order 1095.34200171287 was reviewed. The work was a Phase 3 retest of the transmission pipe to meet Columbia's standard GS 1500.010 that was not completed correctly during the Phase 1 and 2 commissioning. To retest, new unit of capital valves were installed thus making this project a capital betterment installation. Blue Ridge found the work order to be used and useful as outlined in its project justification statement. However, the project was necessary because the Company had failed to follow its stated internal policy in its previous test. The Company agreed that, had they followed the internal policy, the entire work order would not have been necessary.[37] Blue Ridge finds that since the additional work was a result of the Company's failure, it was, therefore, not prudent and should be removed from the CEP. The project cost was $535,257. The estimated effect on the CEP Revenue Requirements is a reduction of $71,564.

Adjustment #3: In the transactional testing for this audit (noted in the Detailed Transactional Testing section of this report under testing step T6C), work order 8889.34190126482, regarding a roadway reconstruction project was overbudget by $55,835. Construction was scheduled to start in September 2018 in order to be completed by March 2019. In September 2018, resources were diverted to Massachusetts for incident remediation, and this project's start was delayed until January 2019. To meet the city's completion deadline, additional crews were allocated to this project, and night work was required. These factors resulted in the cost increases seen on the work order. Blue Ridge concludes that the Company's ratepayers should not pay for cost overruns that resulted from diversion of resources for work in other jurisdictions. The estimated effect on the CEP Revenue Requirements is a reduction of $7,670.

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[34] Columbia response to 2021 Blue Ridge Data Request 76.
[35] Columbia response to 2021 Blue Ridge Data Requests 72, 73, 74, and 75.
[36] Columbia response to 2021 Blue Ridge Data Request 80.
[37] Columbia response to 2021 Blue Ridge Data Request 95.

Adjustment #4: In our variance analysis, Blue Ridge found the Company's account 38200 had retirements greater than additions due to the addition data not being passed from the work management system (WMS) to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia has been working with its IT group to resolve this problem. The Company believes that the additions were recorded to Company account 38300 (House Regulators) instead of 38200 (Meter Installations). The adjustment reduces the CEP revenue requirements by $21,440.

The impact to the CEP revenue requirements is summarized in the following table:

Table 6: Effect of Adjustments on CEP Revenue Requirements

Adj #	Description	Rate Base	Operating Exp	Revenue Req
	Company - As Filed	**$ 643,572,854**	**$ 64,447,902**	**$ 126,977,311**
1	Remove IDR-related plant additions	(1,393,702)	(66,898)	(199,579)
2	Remove expenditures based on imprudence findings	(511,519)	(22,867)	(71,564)
3	Remove project cost overruns	(54,742)	(2,459)	(7,670)
4	Reclass misallocated costs between Accounts 382 and 383	(1,982)	(21,252)	(21,440)
	Impact of All Adjustments	**(1,961,946)**	**(113,476)**	**(300,253)**
	Blue Ridge - Recommended	**$ 641,610,908**	**$ 64,334,426**	**$ 126,677,058**

Besides the recommended adjustments, Blue Ridge presents the following recommendations:

1. Adjustment #1 above resulted from the Company using cancelled work orders that cannot be moved into CWIP to identify IDR assets When a senior plant accountant left, the process was not followed. As a result, IDR plant was included in the CEP. Therefore, to avoid such an adjustment in the future, Blue Ridge recommends that the Company formally document the process to avoid relying on institutional knowledge.
2. In investigating variance analysis regarding additions and retirements, Blue Ridge found that one account had retirements greater than additions due to the addition data not being passed from the work management system to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia is still working with its IT department to determine how the problem came about and what to do to resolve it. Blue Ridge recommends that once the problem is resolved that the Company document what happened, how it happened, what was done to fix the problem, and determine the impact on net plant and the CEP. This issue should be followed up in the next audit of the CEP.
3. Blue Ridge is concerned with the lack of enumerated criteria and outline for consistent application that are specific to capital spares. Capital spares would have particular associated criteria not necessarily the same as for other assets. Blue Ridge recommends that the Company develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares (e.g., long-lead time, system downtime, hardship to customers, unique or expensive asset, etc.). The policy should also have approval requirements.
4. Blue Ridge reviewed the SOX compliance audits for systems that feed CWIP. Several of the control steps remain incomplete. The Company stated that following the conclusion of Q4 testing there has not been nor will there be further updates to controls testing as it relates to fiscal year 2020 as NiSource completed its annual year-end close with the filing of the 10k form in February 2021. Blue Ridge recommends that for future audits, the Company make the uncompleted control steps a priority.

5. Blue Ridge found work order 0557.34190074489 and related work order 0558.34190074490 with no cost of removal or retirement charges, the Company did not know why retirements or cost of removal had not been recorded even though retirements were in the project estimate. Blue Ridge recommends that the Company determine the amount of the retirements and costs of removal for the two work orders and make the appropriate adjustments to the 2021 CEP.

6. Blue Ridge recommended in the last CEP audit report that incremental revenues be identified and tracked. The Company replied that in Staff's report in Case No. 19-438-GA-RDR, Staff commented, "The CEP deferral formula authorized in Case No. 12-3221-GA-UNC, et. al, was meant to be adjusted in Case No. 17-2202-GA-ALT to remove the incremental revenue offset as part of the Stipulation entered into in that case. However, Staff believes incremental revenues are an important component of the CEP deferral formula, and therefore, its removal from the formula should not be indefinite." Blue Ridge agrees with Staff regarding the importance of incremental revenues and reiterates its recommendation from prior audits that incremental revenue be clarified and tracked. Inclusion of incremental revenue in the CEP should be reevaluated in the Company's next base rate case. Although Growth projects had reduced costs in 2020 compared to an increasing trend since 2015 (with the number of miles installed and services reduced), the cost per mile and cost per service replaced actually increased. The increases were due to COVID-19 related safety requirements and their impact on crew efficiency permit application delays, and supply chain constraints. Thus, it is important to ensure incremental growth is properly controlled.

DETAILED ANALYSIS, FINDINGS, AND RECOMMENDATIONS

Blue Ridge's review was focused on whether Columbia has accurately accounted for its plant in service and depreciation reserve from January 1, 2020, through December 31, 2020, and whether those investments were used and useful, necessary, prudent, lawful, and reasonable.

The following sections discuss Blue Ridge's review, organized into the following areas of focus:

- Processes and Controls
- External and Internal Audit Reports
- Variance Analysis
- Capital Spending and Cost Containment
- Detailed Transactional Testing
- Work Order Backlog
- Field Inspections and Desktop Reviews
- Plant Schedules

PROCESSES AND CONTROLS

POLICIES AND PROCEDURES

Blue Ridge did not perform a management audit but did review the Company's processes and controls to ensure that they were sufficient so as not to adversely affect the balances in distribution utility net plant in service. Based on the documents reviewed, Blue Ridge was able to understand the Companies' processes and controls that affect each of the plant balances. Blue Ridge also reviewed internal audit reports conducted on various areas of the Companies' operations that could impact utility plant-in-service balances. Blue Ridge also reviewed applicable SOX and FERC audits. In addition to a review of the Company's formal policies and procedures, Blue Ridge reviewed interview notes from the CEP Plant-in-Service audits in 2018 (Case No. 17-2202-GA-ALT), 2019 (Case No. 19-0438-GA-RDR), and 2020 (Case No. 20-49-GA-RDR) to reacquaint ourselves with the processes. We also requested and reviewed any changes that have been made since our review in 2020.

Summary of Policies and Procedures

Blue Ridge reviewed the Company's processes and controls to ensure our understanding of their impact on the plant balances. In particular, Blue Ridge reviewed the following policies and procedures:

1. Plant Accounting:
   a. Capitalization vs Expense
   b. Recording of CWIP, including the systems that feed the CWIP trial balance
   c. Application of AFUDC
   d. Recording and closing of additions, retirements, cost of removal and salvage to plant
   e. Unitization process based on the retirement unit catalog
   f. Application of depreciation
   g. Contributions in Aid of Construction (CIAC)
2. Purchasing/Procurement
3. Accounts Payable/Disbursements
4. Payroll (direct charged and allocated)
5. Insurance recovery

6. Work Management System
7. Information Technology
8. Capital Project selection and prioritization
9. System planning and load growth

In response to a recommendation in last year's CEP audit, Columbia has developed procedures for the preparation and approval of work orders, damage claims, accounting/journal entries, and allocations.[38] Blue Ridge has examined these procedures and finds them not unreasonable. For other policies that had been in existence in last year's audit, no changes occurred in 2020, except for the IT Capitalization Policy. The Company provided a copy of the new policy. Blue Ridge reviewed the IT Capitalization Policy and finds it not unreasonable.[39]

Blue Ridge requested the Company policies related to purchasing and accounting for capital spares and their recovery. The Company responded, "The Company's policy provides for compliance with the FERC code of Federal Regulations (CFR), which explains how assets should be classified and accounted for in a utility's control."[40] When asked for the Company to provide the Company policies that address compliance with the CFR, Columbia provided in response the "Accounting for Regulatory Assets and Liabilities," which did not specifically mention capital spares. In its response, the Company also stated, "R. C. 4905.13 authorizes the Commission to establish systems of accounts to be kept by public utilities and to prescribe the manner in which these accounts shall be kept." The response went on to say that Columbia has adopted the Uniform System of Accounts.[41]

As follow-up, Blue Ridge asked how the Company ensures reviews for the capitalization of capital spares are comprehensive as to criteria, applied consistently, and provide for the transference of knowledge for purposes of succession planning. The Company referred again to its Accounting for Regulatory Assets and Liabilities policy and quoted a portion which states, "Asset Accounting has the final responsibility for the accuracy of accounting for assets and depreciation. The NiSource Chief Accounting Officer or his designees have the final authority in determining whether a spend meets capitalization criteria or is an expense."[42]

While we agree with everything the Company has provided regarding this issue, Blue Ridge is concerned with the lack of enumerated criteria and outline for consistent application specific to capital spares. Capital spares would have particular associated criteria not necessarily the same as for other assets. Blue Ridge recommends that the Company develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares (e.g., long-lead time, system downtime, hardship to customers, unique or expensive asset, etc.). The policy should also have approval requirements.

Changes to Capitalization Policy

The Company reviews its capitalization policies annually to determine whether changes are necessary. If a change is necessary, the modification will be vetted at the management level, including consideration and approval by the Chief Accounting Officer.[43]

[38] Columbia response to 2021 Blue Ridge Data Requests 5 and 20 and associated attachments.
[39] Columbia response to 2021 Blue Ridge Data Request 7.
[40] Columbia response to 2021 Blue Ridge Data Request 10.
[41] Columbia response to 2021 Blue Ridge Data Request 44.
[42] Columbia response to 2021 Blue Ridge Data Request 77.
[43] Case No. 17-2202-GA-ALT Interview with Plant Accounting on June 22, 2018.

The Company had no major changes to its Capitalization Policy in 2020.[44]

SIGNIFICANT EVENTS BETWEEN JANUARY 1, 2020, AND DECEMBER 31, 2020

In 2020, the Company had no major events that had an impact on plant-in-service balances.[45]

CONCLUSION—PROCESSES AND CONTROLS

Blue Ridge concluded that Columbia's processes and controls were adequate and not unreasonable.

EXTERNAL AND INTERNAL AUDIT REPORTS

EXTERNAL AUDITS

The Company is subject to various external audits. Blue Ridge requested a copy of all FERC and other external regulatory audit reports issued during 2020. and was informed that the Company did not have any issued during calendar year 2020.[46]

INTERNAL AUDITS

Blue Ridge requested and reviewed a list of the internal audit group's audits completed or on going during the period January 1, 2020, through December 31, 2020,[47] and selected some to examine further regarding potential findings that could have had an impact on the internal controls of the feeder systems that charge distribution work orders or feed CWIP, including those that could possibly affect elements such as payroll, materials and supplies, transportation, overheads, and contractors. Based upon our review, conclusions for the examined audits did not engender a level of concern that the Company's controls were less than adequate.[48]

SOX COMPLIANCE AUDITS

Blue Ridge reviewed the SOX compliance audits for systems that feed CWIP performed for the four quarters of 2020. Some control tests failed in Q2 and Q4. The Q2 deficiencies have been remediated. One of the Q4 deficiencies remains not remediated. The deficiencies did not have any financial-statement or CEP impact.[49]

Several of the control steps remain incomplete.[50] The Company stated that following the conclusion of Q4 testing there has not been nor will there be further updates to controls testing as it relates to fiscal year 2020 as NiSource completed its annual year-end close with the filing of the 10k form in February 2021.[51]

[44] Columbia response to 2021 Blue Ridge Data Request 8.
[45] Columbia response to 2021 Blue Ridge Data Request 6.
[46] Columbia response to 2021 Blue Ridge Data Request 12.
[47] Columbia response to 2021 Blue Ridge Data Request 13.
[48] Columbia response to 2021 Blue Ridge Data Request 46.
[49] Columbia response to 2021 Blue Ridge Data Request 14, Attachments A–D.
[50] Columbia response to 2021 Blue Ridge Data Request 14, Attachments A–D.
[51] Columbia response to 2021 Blue Ridge Data Request 47.

Blue Ridge recommends that for future audits, the Company make the uncompleted control steps a priority.

During the Q1 2020 testing period, the Company identified an error that affected retirements. The Company has since mitigated the control deficiency, and the error did not impact the CEP for Columbia of Ohio.[52]

Conclusion—External and Internal Audit Reports

Blue Ridge concluded that Columbia's controls were adequate and not unreasonable. Furthermore, we were satisfied with actions taken with regard to internal and other audits reviewed.

Variance Analysis

Blue Ridge's variance analysis focused on the following comparisons:

1. Compare beginning balances to the ending in Case No. 20-49-GA-RDR
2. Identify, quantify, and explain significant net plant changes, transfers, and adjustments within the individual distribution, general, and intangible plant accounts for the current year

Beginning Balances to Ending Balances in Case No. 20-49-GA-RDR

To ensure the CEP Rider filing of 2020 included the beginning balances based on totals provided to the Commission at the end of Case No. 20-49-GA-RDR, Blue Ridge compared the ending CEP totals in the audit of the Company's 2019 CEP to the 2020 CEP beginning balances provided in the current filing. All the individual account totals matched.

Significant Plant Account Changes, Transfers, and Adjustments for the Current Year

Blue Ridge examined the Company's filed schedules CEP-2, CEP-3, and CEP-4. Based on our analysis, a number of account additions, retirements, and balances warranted further investigation.[53] Blue Ridge had questions regarding significant additions over retirements, negative additions, and significant retirements with limited additions. A multi-part data request was developed to obtain explanations for the anomalies.

Blue Ridge examined the responses provided by the Company.[54] The Company's explanations for the most part were not unreasonable; however, a couple of the responses prompted additional questions to ensure complete understanding.

Company account 38200 had retirements greater than additions due to the addition data not being passed from the work management system (WMS) to PowerPlant, which is done in order to create additions on the general ledger to be subsequently included in the CEP filing. Columbia has been working with its IT group to resolve this problem. The Company believes that the additions were recorded to Company account 38300 (House Regulators) instead of 38200 (Meter Installations).

This issue remains unresolved. In discussions, the Company has said it is uncertain what caused the issue between WMS and PowerPlant, how long it has been going on, the amount that was

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[52] Columbia response to 2021 Blue Ridge Data Request 14, Attachment E.
[53] WP BRCS CEP Financial Sch Variance Analysis.xlsx.
[54] Columbia response to 2021 Blue Ridge Data Requests 51, 79, and 51 Supplemental.

recorded to the wrong account, and when it will be fixed. The Company believes the issue is isolated to Company accounts 38200 and 38300, and no other FERC accounts are impacted.

For purposes of the CEP, if the additions were in fact recorded to the wrong FERC account, the CEP gross plant would not be understated. However, because the depreciation rate for account 38300 may be greater than the depreciation rate for account 38200, it would then be likely that net plant is overstated. Also, booking depreciation to the wrong plant account could skew the data provided for future depreciation studies or past depreciation studies, if the Company determines the problem has historical significance.

Blue Ridge recommends that once the problem is resolved that the Company document what happened, how it happened, what was done to fix the problem, and determine the impact on net plant and the CEP. This issue should be followed up in the next audit of the CEP. The adjustment reduces the CEP revenue requirements by $21,440. [**ADJUSTMENT #4**]

Conclusion—Variance Analysis

Based on the variance analyses performed and apart from the identified and ongoing problem with Company accounts 38200 and 38300, Blue Ridge was satisfied that the activity was not unreasonable. Blue Ridge recommends that the auditors of the 2021 CEP review this issue and that the Company report the status of its findings regarding its internal investigation of accounts 38200 and 38300.

Capital Spending and Cost Containment

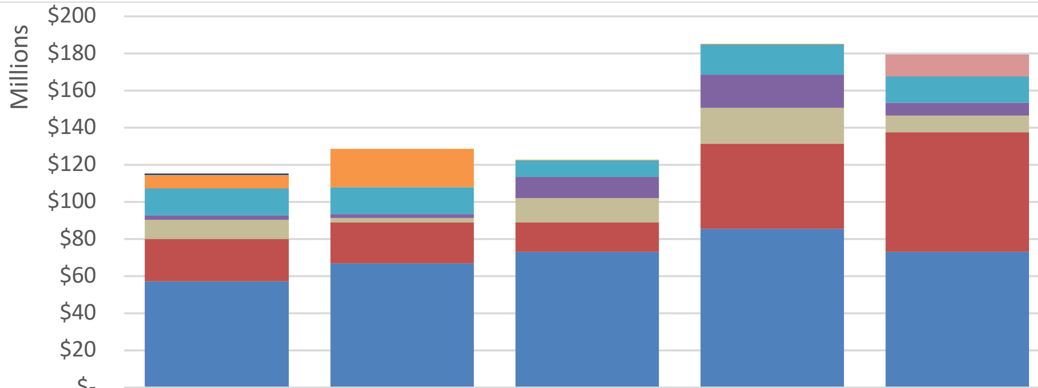
Capital Spending

The CEP is a mechanism to allow recovery of large, internal infrastructure and system upgrades and Growth projects. Also, a large segment of the CEP is to replace aging infrastructure based on Age and Condition. The non-CEP (IRP) program targets a known quantity and specific locations of leak-prone pipe (mains and services). Therefore, CEP budgets (and the resultant final annual spend rates) are fluid and to a large degree unknown and unbounded.

The following graph provides the CEP capital expenditures by project type from 2016 through current year filings, 2020.[55]

[55] WP CEP Expenditures by Category and Growth by FERC Account from 2011-2020 21-0023-GA-RDR BRCS Set 1 No 1 Attachment A.

Figure 1: Columbia CEP Spend by Budget Category 2016–2020
(-3% decrease from 2019-2020)



	2016	2017	2018	2019	2020
Information Technology	$-	$-	$-	$-	$11,641,479
Acquisitions	$460,068	$-	$-	$-	$-
Shared Services Allocation	$7,287,488	$20,756,468	$37,482	$103,321	$-
Public Improvement	$14,665,417	$14,597,801	$9,283,065	$16,393,582	$13,993,888
Support Services	$2,132,772	$2,039,299	$11,127,892	$18,063,011	$7,050,170
Betterment	$10,560,489	$2,219,914	$13,079,277	$19,126,501	$9,034,180
Age & Condition	$22,564,077	$22,121,153	$15,865,888	$45,876,223	$64,413,498
Growth	$57,410,409	$67,052,159	$73,258,722	$85,549,098	$73,073,045

As shown in the above graph, capital spending is predominantly related to Growth and Age and Condition due to the addition of new customers and associated existing area upgrades to support increased capacity flow and reliability. Growth project spending had increased steadily from 2015 through 2019 and was reflective of (1) the pockets of economic growth within the service territory and (2) inflationary increases in installation costs due to skilled contractor availability. In 2020, Growth decreased dramatically despite the additional safety requirements of operating within a COVID-19 work environment and their associated impact on crew efficiency, permit application delays, and supply chain constraints, as evident throughout the utility sector and confirmed during discussion during our virtual field audit. It is worthwhile to note, however, that while in 2020 total costs decreased (and the number of miles installed under Growth also decreased by 29%), costs per mile increased. As for the Age and Condition category, project spending has remained relatively consistent with a rise in costs in 2019 and 2020 while the number of miles replaced increased by 6% (26.54 miles in 2020, up from 25.08 miles in 2019).

Distribution Main Costs and Mileage[56]	2019	2020	Calculated % Change	Blue Ridge Observation
Main Replaced—mileage replaced	143.04	111.11	-29%	Mains replaced, overall is down, due to 39% drop in Growth classified main installs
Main Replaced—cost per mile	$1,294,126	$1,508,098	14%	Cost to replace a main though went up 14% in 2020 vs 2019

[56] Columbia response to 2020 Blue Ridge Data Request 40 and 2021 Blue Ridge Data Request 38.

Distribution Main Costs and Mileage[56]	2019	2020	Calculated % Change	Blue Ridge Observation
Services Replaced—number	10755	10208	-5%	Services replaced went down slightly
Average cost per service replaced	$5,906	$6,292	6%	Cost per service went up less than increase costs of main pipe
Growth Mains—mileage replaced	117.96	84.57	-39%	Growth miles of main installed is down from 2019 levels
Betterment Mains—mileage replaced	25.08	26.54	6%	Mains replaced due to Betterment is slightly up in 2020

Cost Containment

The steps the Company has already taken to control cost primarily remain the same as the steps identified in the 2018 audit. The Company utilizes a standard competitive bidding process for all outside-services spend greater than $250,000. This process includes construction services.[57]

- The Company improved the planning process giving contractors advanced visibility of upcoming work to improve contractor resource allocation.
- The Company has increased its monitoring of spend, standardized contracts, and standardized contract unit items.
- The Company has developed long-term strategic partnerships to reduce contractor contingency needs for short-term contracts.
- The Company competitively bid five-year blanket construction contracts in 2015.[58] Those contracts allow for annual price escalations. The Company has capped price increases for 2020 on average at 2.2% in its current blanket construction contracts, with new blanket contracts rebid in 2020 to be effective in 2021.[59]
- Columbia conducts business reviews with each of its key gas contractors, during which the parties discuss Columbia's capital plan, the contractor's ability to support the capital plan and issues that are impacting the contractors, such as labor constraints. Through these business reviews, the Company is able to share best practices among the contractor base on a number of topics, including attracting, hiring, training, and retaining qualified employees.[60]

Through Columbia's contract negotiations, Columbia continues working with its construction contractors to secure the most cost-efficient and qualified contractors to do the work. Columbia has also worked with the Ohio Laborer's District Council and its largest contractors to create an entry-level training program for new employees beginning careers in gas construction.[61]

Blue Ridge concludes that the steps the Company is taking to control contractor costs both near- and long-term are prudent and not unreasonable.

[57] Columbia response to 2021 Blue Ridge Data Request 9.
[58] Columbia response to 2021 Blue Ridge Data Request 35.
[59] Columbia response to 2021 Blue Ridge Data Request 35.
[60] Case No. 17-2202-GA-ALT, Columbia response to Blue Ridge Data Requests 7-009, 010, 011, 012, and 015, and Columbia response to 2018 Blue Ridge Data Requests 37 and 62.
[61] Columbia response to 2021 Blue Ridge Data Request 35.

Detailed Transactional Testing

The Company provided a list of 2,998 non-IRP work orders / projects placed in service during the period from January 1, 2020, through December 31, 2020, that support the additions to the CEP in 2020.

1. Reconciliation of Work Order / Annual Informational Reports and Plant-in-Service Schedules

   To ensure that Blue Ridge was provided a comprehensive list of work orders / projects for review and testing, we reconciled the total work orders / projects to the CEP filing and annual report filed with the Commission. The review included the following items:

   - Listing of activity costs of work orders / projects from January 1, 2020, through December 31, 2020 ("work order population")[62]
   - Company-provided 2020 CEP additions calculated through a reduction of total 2020 Accounts FERC 101 (Plant in Service and FERC 106 (Completed Construction Not Classified) additions included in the Company's 2020 IRP Filing[63]
   - Total plant additions and retirements by FERC Account included in Accounts 101 and 106 during 2020[64]
   - The Company's Trial Balance as of December 31, 2020[65]
   - The Company's 2020 annual report of utility plant in service filed with the Commission[66]

   Blue Ridge was able to reconcile the total additions in the work order population among the various documents to ensure it was comprehensive.[67]

2. Determining Work Order Sample

   From the provided work order population, Blue Ridge selected 49 work orders / projects reflecting thousands of cost line items using the probability-proportional-to-size (PPS) sampling technique and professional judgment. The work orders selected based on professional judgment focused on individual work orders that have a high-dollar value, can possibly be reviewed in the field, are large accounting adjustments, or appear unusual. In addition, the professional judgment sample could include FERC 300 accounts that may have not been selected in the PPS sample.

3. Conducting Work Order Testing

   Blue Ridge's work order testing focused on additions to intangible, distribution, and general non-IRP plant in service from January 1, 2020, through December 31, 2020.

   The following areas were the determined focus for transactional testing review:

   - Project descriptions, scope, and objective
   - Whether the scope of work is includable within the CEP Deferral
   - Whether the scope of work should generate revenue to be reflected in the Revenue Offset

[62] Columbia response to Blue Ridge 2021 Data Request 1, Attachment A.
[63] Columbia response to Blue Ridge 2021 Data Request 1, Attachment A.
[64] Columbia response to Blue Ridge 2021 Data Request 1, Attachment A.
[65] Columbia response to Blue Ridge 2021 Data Request 2, Attachment A.
[66] Columbia response to Blue Ridge 2021 Data Request 25.
[67] Columbia response to Blue Ridge 2021 Data Request 80 Attachment A.

- Project justifications and approvals
- Actual in-service dates for non-blanket and CEP projects within scope
- Project budgeted and actual costs
- Variance from budget explanations
- Supporting cost detail for additions to plant
- Reasonableness of cost categories
- Proper charge of the actual detailed cost to the proper FERC account
- For replacement projects, supporting detail for retirements, cost of removal, and salvage charged or credited to plant
- Timeliness of recording of asset retirements for replacement work orders
- Timeliness of closing work orders when complete
- Used and useful status of selected assets (determined by field review)

To satisfy the review of these areas of focus, Blue Ridge formulated the objective criteria into the following transactional testing steps, labeled T1 through T13. Blue Ridge's observations and findings against the criteria follow.

T1: Project Type
- T1A: Is the scope of work attributed to the gas distribution function? Specifically, is it not related to an affiliate?
- T1B: Is the work order / project CEP or "other capital investments"?
- T1C: Is the work order / project specific, blanket, or other?
- T1D: Is the work order / project an addition, replacement, non-project allocation, or other?

T2: Project Category
- T2A: Is the work order / project Replacement / Public Improvement / Betterment project?
- T2B: Is the work order / project Growth?
- T2C: Is the work order / project Support Services?
- T2D: Is the work order / project Information Technology?

T3: Capital Scope
- T3A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?

T4: Justification
- T4A: For specific or multi-year work orders / projects (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?

T5 Approval
- T5A: Did the work order / project have proper level of approval?

T6: Budget
- T6A: Does the work order / project have an approved budget?
- T6B: Are the work order / project costs +/- 20% of the approved budget?
- T6C: Are explanations and approvals provided for cost overruns 20% and greater over the approved budget?

T7: In-Service Dates
- T7A: Is the actual in-service date in line (at or before) with the estimated in-service date.
- T7B: Was the work order / project in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?

T8: Allocations
- T8A: If the work order / project represents allocated charges are the allocations reasonable?

T9: Continuing Property Records
T9A: Do the Continuing Property Records support the asset completely and accurately?
T10: Cost Categories
T10A: For work orders / projects, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total?
T10B: For "other" (referring to T1d above), are the description and costs not unreasonable?
T11: Revenue-Generating
T11A: For CEP additions, will the work order / project generate revenue? If so, how has the revenue been quantified?
T12: Replacement projects
T12A: Were assets retired?
T12B: Was the date of retirement in line with the asset replacement date?
T12C: Is the amount of the retired asset not unreasonable?
T12D: Was salvage recorded?
T12E: Was cost of removal charged? Is the amount not unreasonable?
T13: Field Verification
T13A: Is the project a candidate for field verification?

The results of the detailed transactional testing performed on the work-order sample are included in the workpapers.[68] Specific observations and findings about the testing are listed below.

T1: Project Type

T1A: Is the scope of work attributed to the gas distribution function? Specifically, is it not related to an affiliate?

Based on the single-line-item description of the scope provided for blanket projects and the detailed scope provided for non-blanket projects, the work appears to be attributed to the Ohio gas distribution function. The project benefits customers, as such, charges are allocated to each benefited affiliate on the basis of its number of retail customers to the total number of all retail customers of the benefited affiliates.[69]

T1B: Is the work order / project CEP or "other capital investments"?

Blue Ridge tested 49 work orders / projects, and each of the work orders fit into the CEP capital recovery mechanism.

T1C: Is the work order / project specific, blanket, or other?

Below is the breakdown of the 49 work orders sampled in the CEP selection:

Table 7: Types of Work Orders in CEP Selection

Type	# of Work Orders
Blanket	23
Specific	26
Total	**49**

[68] WP 21-0023-GA-RDR Columbia Gas CEP Matrix Final.
[69] Columbia response to 2021 Blue Ridge Data Request 81.

T1D: Is the work order / project an addition, replacement, non-project allocation, or other (provide description)?

The following is the breakdown of the work orders sampled within the CEP selection.

Type	# of Work orders
Addition	14
Replacement	23
Other (IT)	8
Other (Highway Relocation or Betterment)	4
Total	**49**

T2: Project Category

a. *T2A: Is the work order / project Replacement / Public Improvement / Betterment project*
b. *T2B: Is the work order / project Growth: Facilities required to provide service to new customers or to provide increased load capacity to existing customers*
c. *T2C: Is the work order / project Support Services: Capital expenditures that are not directly related to gas facilities*
d. *T2D: Is the work order / project Information Technology; Capital expenditures related to technology and communications infrastructure*

The Company provided descriptions of the scope of work included in specific work orders / projects in the sample. Blue Ridge evaluated the information provided to determine whether the scope of work fits into at least one of the four categories listed below which are allowed in the CEP. While the blanket work orders / projects did not have detailed descriptions, the information provided supported their inclusion in the CEP. Of the 49 work orders sampled in the CEP selection, the following is the breakdown of the work orders by category

Table 8: Work orders by CEP Category

CEP Category	# of work orders pertaining to Category
a. Replacement, Public Improvement, or Betterment	26
b. Growth	14
c. Support Services	1
d. Information Technology	8

T3: Capital Scope

T3A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?

The Company provided short descriptions of the type of work included in specific work orders / projects in the sample. Blue Ridge evaluated the information to determine whether the work orders / projects in the sample were appropriately classified as capital and charged to the proper Distribution FERC 300 accounts. The Company currently uses the following FERC accounts for CEP charges. Below is a breakdown of Activity Costs by FERC account for each work order in the sample. (Note: some work orders overlap to more than one FERC account.)

Table 9: Activity Costs within the CEP by FERC Account

FERC Account in CEP	Activity Cost
30330—Intangible Plt, Misc Software	$3,560,404
30399—Cloud Software	$1,002,403
37600—Mains	$2,961,601
37625—Mains Replacement	$908,544
37820—Mea & Reg Sta Eq, Regulating	$8,252,970
37910—Mea & Reg Sta Eq, City Gate	$846,615
38000—Services	$20,113,891
38013—Services Replaced aff Risers	$15,919,934
38100—Meters	$3,700,942
38300—House Regulators	$248,468
39110—OF&E, Unspecified	$528
39410—Tools, Garage & Service Eq	$26,029
39430—Tools, Tools and Other	$4,802,696
Grand Total	**$62,345,026**

T4: Justification

T4A: For specific or multi-year work orders / projects (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?

The Company provided detailed documentation that supported the specific work orders / projects in the sample. That documentation defined the scope of the project and, for the most part, the necessity of the project.

Of the 49 work orders sampled, 23 are blanket projects. For project types 563 Growth and 565 Age & Condition, the processes have not changed from the 2019 CEP Audit. Blanket projects do not have detailed justifications, as they are routine, on-going projects, such as growth, age and condition, service-line replacements, riser replacements, services, and house regulators and meters. The scopes of those projects are apparent and are justified through the Company's Capital Governance process discussed in testing step T6.

Blue Ridge asked for additional information on three projects to find out the number of current active customers:

1. 0555.34190081237—estimated 48 customer lines to be installed = 2,800' of 2" and 4"; actual installed footage = 2" (1,604') and 4" (1,304') for 38 active customers.[70]
2. 0555.34190126460—estimated 67 customer lines to be installed = 2,935' of 2" and 4"; actual installed footage = 2" (2,680') and 4" (633') for 43 active customers.[71] We also discussed this project during the virtual field audit and confirmed that North Ridgefield Ohio is a growth area and this new development has seen robust sales with the majority of homes built and sold.

[70] Columbia response to 2021 Blue Ridge Data Request 53.
[71] Columbia response to 2021 Blue Ridge Data Request 54.

3. 0555.34200133562—estimated 6 customer lines to be installed = 3,310’ of 2,” 4” and 6”; actual installed footage = 2” (1,541’), 4” (1,762) and 6” (90’) for no active customers in the 6-lot development.[72]

    Company response: Growth projects in residential developments are unique. It is extremely important for Columbia to completely install its mains at the beginning of a subdivision build out, especially when only roads and curbs are built in and house lots are staked. If a neighborhood is fully built out when Columbia installs its facilities, costs will increase for Columbia, the requesting residential builder, and Columbia’s customers. It is more cost efficient to install main in a single instance with a single crew and requires a lower cost of restoration.

    Columbia’s pipeline for this residential subdivision, Heritage Estates, was in service on October 16, 2020, with a few remaining costs incurred in November and December 2020. Heritage Estates is comprised of six lots. Out of these six lots, Lot 2 (Tax Parcel ID No. 120-001298-00), Lot 3 (Tax Parcel ID No. 120-001297-00), and Lot 5 (Tax Parcel ID No. 120-001295-00) sold in December 2020 to individual residential property owners, presumably to begin building residences. Per Columbia’s statement above, it is critical that Columbia complete its main installation at the beginning of a subdivision build out, which was just in time with Heritage Estates residents to hook up to the pipeline during housing construction.

    The Commission recently recognized the policy of avoiding piecemeal pipeline construction in *In the Matter of the Application of Suburban Natural Gas Company*, Case No. 18-1205-GA-AIR, *et al.*

    The Commission found Suburban’s DEL-MAR pipeline extension to be used and useful. Specifically, amongst various reasons for finding the 4.9 mile pipe used and useful, the Commission found that, “while a two-mile extension may have served [existing] customers through the 2018-2019 winter, Suburban would need to immediately initiate the OPSB regulatory process again to build additional pipeline to ensure adequate capacity to serve existing customers soon thereafter….” The Commission further noted that “[t]his approach would also increase overall cost of necessary improvements to Suburban’s distribution system, thereby increasing the rates customers pay….” Further the Commission noted “[i]mportantly, NARUC’s guidance on this matter notes that ‘utility investment is often lumpy in nature, such that it may be cost ineffective to add small increments of plant and equipment each year, rather than building to meet a longer growth horizon.’”

    In the Entry on Rehearing, the Commission “recognized that engaging in pipeline construction in a piecemeal fashion only serves to increase the overall cost of necessary improvements to Suburban’s distribution system, thereby resulting in a greater customer rate increase. In this regard, we found NARUC’s guidance instructive, in that the addition of small increments of plant and equipment may be cost ineffective.” Second Entry on Rehearing (April 22, 2020) at paragraph 23.

    Similar to the DEL-MAR pipeline extension, here Columbia is installing pipeline to the Heritage Estates in a single installation, rather than a piecemeal extension to individual customers as each would be required to connect to the pipeline. Further, this pipeline

[72] Columbia response to 2021 Blue Ridge Data Request 55.

> extension was necessary to serve the foreseeable service requirements of the subdivision at the time. The prompt sale of half of the lots demonstrates that the expected use and usefulness of the pipeline extension occurred as expected.[73]

Blue Ridge found the Company's explanation not unreasonable.

T5 Approval

T5A: Did the work order / project have proper level of approval?

The Company provided its Capital Governance Policy.[74] Within the policy, the Company describes each Budget Category spend guidelines:

- Growth: Spend in this category will typically be non-discretionary in nature and shall be used for any facilities that are required to serve new customers. It is recognized that on occasion there may also be discretionary spend opportunities for long-term strategic growth initiatives. *This type of spend can be tracked or not tracked but is always considered revenue producing. Projects to address long-term market growth shall also be included in this category.*

  This category shall also be used for "Growth Betterment," which are capital investments made in conjunction with a Growth project to serve specific new customers and/or existing customers who are adding load in order to provide increased system capacity to serve other unspecified existing or future customer loads.

- Maintenance—Betterment (Capacity or Compliance): Spend in this category may be either discretionary or non-discretionary. *This category shall be used for any facilities that are required to improve system reliability or provide additional capacity for existing customers. Projects to address long-term market growth shall also be included in this category. This category shall also be used for any projects needed to remain compliant with internal or external policies that are not "age and condition" related (i.e. pipeline integrity).* This is referred to as "Compliance Betterment."

- Maintenance—Replacement (Age & Condition): Spend in this category may be discretionary or non-discretionary and *shall be used for any facilities that must be replaced (planned or emergency) due to damage or physical deterioration in situations where repair is not cost effective. The majority of projects in this category address aging infrastructure.*

  However, there are several other project types that are to be included here such as regulator station rebuilds, corrosion mitigation, small/large volume meter settings, and other capital costs that are not directly related to the installation of transmission, distribution, or electric generation facilities such as capitalized tools/equipment and small facility improvements. Engineering should be consulted for further clarification(s).

- Maintenance—Public Improvement (Mandatory Relocation): Spend in this category is typically non-discretionary and *shall be used for any facilities that must*

[73] Columbia response to 2021 Blue Ridge Data Request 90.
[74] Columbia response to 2021 Blue Ridge Data Request 20 Attachment A.

be relocated or raised/lowered to meet the requirements of municipal roadway reconstruction projects. Relocation projects that are done to accommodate requests from existing customers or private entities shall also be included in this category.

- Capital Share Services: Spend in this category includes *Information Technology, Facilities, Real Estate, and Security*.[75]

Blue Ridge found the Company's Budget Categories not unreasonable.

Each project has a specific project code identifying the Job Type and Budget Class. Those types are defined below.

Table 10: Job Type Codes used to identify work orders within CEP[76]

Job Type	Budget Class	Definition	# of Work orders in Sample
0555	Growth	Mains—New Business	4
0557	Age & Condition	Mains—Leak Elimination	2
0559	Betterment	Mains—Service Improvement	1
0561	Public Improvement	Mains—Street Improvement	3
0563	Growth	Service Line—New (blankets)	7
0565	Age & Condition	Service Line—Replacement (blankets)	6
0567	Growth	Meters	1
0571	Growth	House Regulators—New	1
0583	Age & Condition	Plant Regulators—New	2
0998	Age & Condition	Meters	1
0915	Support Services	Miscellaneous—primarily used for tool purchases (blankets)	1
NCS	Support Services	Service Company Projects (e.g. Facilities, IT)	8
Project Specific Codes (These codes remain for the duration of the project)			
1239	Growth	Mucci Farms Phase 2	1
1289	Betterment	Maumee/PEP Exchange—Heater Install	1
1385	Age & Condition	Woodlawn Norwalk AMRP	1
1459	Public Improvement	SR-18 Relocation—Medina	1
7737	Age & Condition	COH Riser/HCSL Program	6
7907	Age & Condition	Marion-Greencamp POD	1
8889	Public Improvement	Center Ridge Road Relocation—Westlake	1

Blanket activities are not approved on an individual work order / project basis. The work is approved in conjunction with an overall budget process that identifies types of activities that need to take place. Those activities include service-line additions and replacement, service replacements, meters and AMR devices, riser replacements, and growth projects. Since Blue Ridge was unable to review specific project approval documentation for blanket work orders, we reviewed the process

[75] Columbia response to 2021 Blue Ridge Data Request 20 Attachment A.
[76] Columbia response to 2021 Blue Ridge Data Request 93.

used to develop the annual budget to NiSource and the process used to obtain approval of the budget.[77]

The Company's Capital Governance Policy guides have not changed since 2020.[78]

> The policy controls the processes for the approval of the total capital budget, the Level of Signature Authority for the approval of specific work orders and subsequent change orders, and the overall approval of blanket work orders. Each year, the NiSource Board of Directors approves the total capital budget for NiSource and the Company. The budget includes allocations for Growth, Age and Condition, Betterment, Public Improvement, Shared Services, and the IRP. The budget planning process is typical in that it starts from the bottom up and is approved from the top down. The Company is told how much they are allowed to spend for a particular budget year. Several departments are involved in the planning process, including Engineering, Finance, and Capital Planning. They forecast new customer additions. All the operating companies use the same type of template to forecast what they will need for the upcoming year and the projection for two to three years out. Once NiSource approves the capital budget, it is fixed unless the companies ask for availability of additional funding. Some types of work that cannot be budgeted include Emergent or Public Improvement. When costs for those areas occur and rise, a formal review is conducted by the Financial Planning & Analysis and Capital Planning departments, which weigh the risks of not doing the projects. The Company monitors the projects internally using the following methods:
>
> - Monthly review meetings
> - Quarterly meetings to look at how the budget is moving along
> - Priority Pipe reviews
> - Earned Value reports
> - Comparative variance analysis
>
> The NiSource Board of Directors approves the total capital budget. For Columbia, that budget would include allocations for each budget category.[79]

Blue Ridge found that the specific work orders / projects included in the sample were properly approved, and while Blanket activities have a different approval process, they too were properly approved. Blue Ridge found that the Company's processes are not unreasonable.

Within the Capital Governance Policy, the Company further defined the Guidelines for Review and Approval to add Project Overruns:

> 3.7. Project Overruns: Project costs and scopes should be monitored closely and variances should be identified and communicated as soon as possible to the appropriate level of management in accordance with the requirements described in this section. *For level 2 and level 3 variances that result in significant cost increases, the project manager shall include in the notification a description of risks and opportunities associated with cancelling or discontinuing the project.*

[77] Columbia response to 2021 Blue Ridge Data Request 39 and 40.
[78] Columbia response to 2021 Blue Ridge Data Request 8.
[79] Columbia response to 2019 Blue Ridge Data Request 57 and 2021 Blue Ridge Data Request 7.

> Level 1 Variance: Once it is known that the cost of a capital job order / work order or project will vary by greater than +/- 15% or $30,000 (whichever is greater), the project engineer (or project manager if applicable) shall document the explanation outlining the reason for the variance. At a minimum, variance explanations should include a summary of changes by cost category (i.e. material, labor, contractor, overheads) that significantly impacted the cost and an explanation of the cause of those variances (e.g. added scope, material unit costs, unexpected construction challenges, and inclement weather delays.) This explanation is to be filed with the project documentation.
>
> Level 2 Variance: As soon as it is known that the cost of a capital job order / work order or project will vary by greater than +/- 25% or $50,000 (whichever is greater), the project engineer (or project manager if applicable) shall document the explanation outlining the reason for the variance. At a minimum, variance explanations should include a summary of changes by cost category (i.e. material, labor, contractor, overheads) that significantly impacted the cost and an explanation of the cause of those variances (e.g. added scope, material unit costs, unexpected construction challenges, and inclement weather delays.) This variance explanation must then be circulated for re-approval in accordance with the approval levels described in Appendix A based on the new estimated cost. This explanation is to be filed with the project documentation.[80]

Blue Ridge reviewed the specific work orders to ensure they had an appropriate level of approval based on the applicable Level of Signature Authority (LOSA) document. Several work orders / projects required additional information and review.

1. Work Order #: 0555.34190081237
    a. Project Description: Subdivision section - section 6 - off of PPM 2015/20xx (off of phase 7) Load can be added without betterment ~2432 - 2" minimum, mix of 2" and 4" recommended *Note: Must be installed with/after phase 7 (JO 19-0081238-00) Domestic meters with standard residential settings (48) Services: 1" plastic mix of long and short (48 total) EFVs: 700 Delaware permit needed - 60+ days to acquire - process to begin after customer approval (48 new customers)
    b. Actual Cost: $73,563
    c. Budget: $53,564
    d. Amount Over Budget: $19,999
    e. % Over Budget: 37%
    f. Variance Level: 1
    g. Company explanation for budget overrun: The work order does meet the definition of a Level 1 Variance outlined on page 7 of the Capital Governance Policy, which was provided in Columbia's Response to Blue Ridge Data Request Set 1, No. 20.[81]
    h. Blue Ridge: Based on the company policy for review of cost overruns the variance was less than $30k and therefore, not investigated. The Company followed its policy
2. Work Order #: 0557.34200171492
    a. Project Description: Mains-Leak Elimination DB~580'-2" PMMP 1 kill via two PCF. 1 tie-in via double squeeze. 7 customer replaces. Complex project.

[80] Columbia response to 2021 Blue Ridge Data Request 20.
[81] Columbia response to 2021 Blue Ridge Data Request 56.

b. Actual Cost: $69,444
c. Budget: $48,514
d. Amount Over Budget: $20,930
e. % Over Budget: 43%
f. Variance Level: 1
g. Company explanation of budget overrun: The work order does meet the definition of a Level 1 Variance outlined on page 7 of the Capital Governance Policy, which was provided in Columbia's Response to Blue Ridge Data Request Set 1, No. 20.[82]
h. Blue Ridge: Based on the company policy for review of cost overruns the variance was less than $30k and therefore, not investigated. The Company followed its policy

Blue Ridge found that each work order with Levels 1 variance referenced above have the proper level of approval in accordance with the Company policies and procedures and the LOSA document.

T6: Budget

Within the Capital Governance Policy, the Company defined Guidelines for Review and Approval:

> 3.1. Measurement of Capital: Capital should be measured *based on fully-loaded costs*.
>
> 3.2. New projects: *All projects need to be approved prior to acquisition, construction of assets, or obligating NiSource to make a capital expenditure or prepayment*.
>
> 3.3. Leases: Both capital and operating leases need to be approved prior to a new lease signature. The renewal of existing leases do not require any corporate approvals.
>
> 3.4. New Initiatives or Changes to Existing Initiatives: A regulatory policy change, regulatory commitment, or other items that would create a new initiative or adjust an existing initiative and obligate NiSource to a capital commitment or prepayment must also be approved prior to making such commitment.
>
> 3.5. Approval of Changes to the Capital Plan and Intraplan changes: The Board of Directors approves the current year budget. Within this approval the Board of Directors approves the plan target plus a contingency not to equal or exceed $75 million. A deviation from this range that is not approved as a part of a separate business case requires a Board of Directors Finance Committee approval.
>
> 3.6. Capital Shifts: Movement of capital funding within an operating company budget and across categories (e.g. growth, maintenance, tracker and shared services functions) will be reviewed and approved according to Appendix B.[83]

Blue Ridge found that the Company budget process is comprehensive. Monitoring and shifting costs are under the control of the operating companies. Even though the Company and NiSource have a solid process in place for the approval of spending, Budget-to-actual variances are analyzed at the budget category level (e.g., Growth, Age, and Condition). Prior to 2015, variance explanations were documented at the gas distribution segment level for all Columbia companies and not at the

[82] Columbia response to 2021 Blue Ridge Data Request 56.
[83] Columbia response to 2021 Blue Ridge Data Request 20, Attachment A.

individual operating company (state) level.[84] The process of allocating the budget categories has changed over the period from 2008 to 2017. The current process of allocating budget categories is completed in Excel and includes checks to ensure the allocation agrees to the overall approved budget.[85] Blue Ridge found that the Company's process is not unreasonable.

T6A: Does the work order / project have an approved budget?

The following is a breakdown of work orders and approval status.

Table 11: Breakdown of Approvals

Status	# of Work Orders
Blankets – Part of the Capital Budget – approved by NiSource Board of Directors	23
Specific – Under $150k – NA	9
Specific – Properly Approved	18
Total	**49**

*NOTE: Projects less than $150K do not require approval signatures.[86]

T6B: Are the work order / project costs +/- 20% of the approved budget?

The following is a breakdown of work order project cost to approved budget

Table 12: Breakdown of over/under Budget by +/-20%

Charges to Final Approved Budget	# of Work Orders
Blanket – Capital Budget	23
Under Budget by -20% greater	5
Over Budget by 20% or greater	6
Within +/- 20% of Budget	15
Total	**49**

T6C: Are explanations and approvals provided for cost overruns 20% and greater over the approved budget?

The following four work orders had cost overruns over 20% with either a Level 2 or 3 variance.

1. Work Order #: 0555.34190133333
   a. Project Description: The Reach at Goodale project was mainline extension to serve a commercial property (apartment building and pool) in Columbus, OH (Franklin County). This project installed just under 400' of 2" plastic medium pressure mainline
   b. Actual Cost: $68,849
   c. Budget: $30,090
   d. Amount Over Budget: $38,759

[84] Case No. 17-2202-GA-ALT, Columbia response to Blue Ridge Data Request 9-004.
[85] Columbia response to 2021 Blue Ridge Data Request 8.
[86] Columbia response to 2021 Blue Ridge Data Request 20 Attachment A. *The budget for the overall spending plan is approved at the appropriate Management level. Individual specific projects within the approved plan under $150k do not require additional approvals.*

e. % Over Budget: 129%
f. Variance Level: 2
g. Company explanation: This project overran its original budget primarily due to the project being paid as T&E rather than in units, as estimated. This project paid for 80 hours of T&E for a 3-man crew, when it was anticipated to pay units for 384' of 2'PMMP. It also required flagging, additional hourly labor (operator, truck driver, laborer), and soft-surface restoration that was not anticipated upon estimate.
Most operating areas in Ohio have blanket contracts with units, where a few have T&E contracts. Whenever available, projects are estimated with unit-based contracts. Occasionally a construction crew encounters field situations that exceed blanket budget unit definitions. When those situations are discovered the construction crew and Columbia's coordinator discuss and agree that contracted units available for payment are insufficient to meet the construction needs, and Columbia's coordinator agrees to pay T&E for the portion(s) of the project not covered by pre-defined units.
Construction traffic flagging is a common construction activity and is difficult to estimate. On 0555.34190133333, flagging was estimated for $512, and required $4,099.[87]
h. Blue Ridge: Company explanation is not unreasonable.

2. Work Order #: 0557.34190074489
   a. Project Description: The Hwy 40 replacement was an infrastructure replacement project that replaced approximately 800 feet of 4-inch and 6-inch plastic and coated steel medium-pressure gas main on Hwy 40 and Tinmar Dr in St Clairsville. Approximately 740 feet of distribution main was retired, including 710 feet of drisopipe. This project replaced customer service lines for 6 customers. This project served to replace a non-repairable leaking service tee on driscopipe and was expanded to replace undersized gas main serving as the main out line feeding the East Richland MP System in St Clairsville. Start Date: 4/6/20 – Complete Date: 7/24/20
   b. Actual Cost: $221,481
   c. Budget: 4130,000
   d. Amount Over Budget: $91,481
   e. % Over Budget: 70%
   f. Variance Level: 2
   g. Company Explanation: This replacement project incurred a Level 2 Budget Variance due to several unforeseen costs that arose as a result of issues that occurred. The main issue that contributed to this overrun was that the job took about 30 days to complete as opposed to the 9 days which was originally planned by using the Job Duration Estimating Tool. due to the covid pandemic crews were unable to complete the entire project including services prior to the DPI commit date of 5/2/20 for the leaking service tee, so a separate JO (20-00746707-00) was created in order to replace the leaking section. Once the leaking section was replaced and crews were able to resume non-essential service replacements, they resumed work to complete the remainder of the original project, which had been expanded slightly to add a welded SST and the replacement of a major highway crossing. In addition, crews were charging to this job order during all downtime due to the covid pandemic. This added time to the job and incurred additional costs for materials, crews, flagging, M&R, and restoration. The

[87] Columbia response to 2021 Blue Ridge Data Request 57.

remainder of the overrun was due to overhead costs. In the future, projects will be released sooner and the ample construction time prior to any required commit dates, and more consideration will be given to job durations for projects during pandemics.

h. Blue Ridge: Company explanation is not unreasonable.

3. Work Order #: 0561.34170178956
   a. Project Description: ODOT requested relocation at the intersection of US 30 & SR 39. ~2482'-8" PMMP install. ~2593'-8" & 6" CSMP retirement
   b. Actual Cost: $649,144
   c. Budget: $512,255
   d. Amount Over Budget: $136,889
   e. % Over Budget: 27%
   f. Variance Level: 2
   g. Company explanation of budget overrun: Heavy rock bore was estimated and utilized where able, but for much of the install, boring was not feasible due to rock. This section of the project was open cut at extra depth with heavy rock present resulting in the increased contractor cost. In the future, the engineer should anticipate heavy rock when working in this area or work with relocation requestor to find an approved alternate route around the area.
   h. Blue Ridge: Company explanation is not unreasonable. Even though the Company could have anticipated a rock issue and rolled that into the original estimate. The ratepayer did not overpay for this activity.
4. Work Order #: 8889.34190126482
   a. Project Description:
      i. Center Ridge Road is a roadway reconstruction project proposed by the Westlake. Said roadway project includes the installation of a new storm sewer, water main, as well as the widening of the existing roadway pavement from four lanes to five lanes. This roadway construction is necessary due to the construction of an elementary school campus which will generate more traffic on Center Ridge Road and Dover Center Road. Currently, the existing high pressure steel main line is located between the existing curb line and existing sidewalk along the southerly edge of the existing roadway pavement. Said high pressure natural gas main line is the primary feed into the City of Westlake. Currently, said high pressure main line is eight inches in diameter and undersized to meet the current natural gas demand. Therefore, this project is designed to relocate the natural gas main line within the newly acquired Right-of-Way purchased by the City of Westlake as well as increase the diameter from eight inches to twelve inches. This increase in size will reduce the amount of pressure loss from 3.58 psi per 1 000 feet for the existing eight inch diameter pipe to 0.55 psi per 1,000 feet for the proposed twelve inch diameter pipe per Gas Systems Planning.
      ii. A second part of this project includes relocation of two sections of the existing medium pressure main line due to the widening of the intersections of Glenwood Drive and Dover Center Road. A third part of this project includes relocation of two sections of the existing intermediate pressure main line along Dover Center Road.
      iii. This project is expected to begin in March-2018 and take six months to complete.
      iv. Several unforeseen costs were encountered during the construction of all three phases of the Center Ridge Road within the City of Westlake. The cost overruns for the entire project are listed below by the job order number

b. Actual Cost: $707,587
c. Budget: $651,752
d. Amount Over Budget: $55,835
e. % Over Budget: 9%
f. Variance Level: NA
g. Company explanation: Project under budget by 72% to the original budget, but the work order was only 9% underbudget. The variance does not apply since this is a phased in project. Work Order 8889.34190126482 is part of a large effort to relocate three (3) gas mains to avoid significant engineering conflicts due to the expansion of a roadway for the construction of a new school.
   Construction started several months later than originally planned, but the completion deadline remained unchanged. To meet the city's completion deadline, additional crews were allocated to this Project, and night work was required. These factors resulted in the cost increases seen on the Work Order.[88] The listed job order was scheduled to start in September 2018 in order to be completed by March 2019. In September 2018, resources were diverted to Massachusetts for incident remediation, and this project's start was delayed until January 2019.[89]
h. Blue Ridge: Blue Ridge understands the rationale for diverting resources to Massachusetts for incident remediation resources and the need to use additional crews to complete the project in Ohio in the required deadline. However, the decision to shift those resources was within the control of the Company, and therefore, the jurisdictional customers should not pay for cost overruns that resulted from that decision. (**ADJUSTMENT #3:** The estimated effect on the CEP Revenue Requirements is $7,670).

Blue Ridge found that each of the above mentioned work orders with Levels 2 or 3 variance have the proper level of approval and explanations in accordance with the Company policies and procedures and the LOSA document.

T7: In-Service Dates

T7A: Is the actual in-service date in line (at or before) with the estimated in-service date.

Of the 49 specific work orders sampled for the CEP selection, 25 were finished on or before the estimated in-service date. One work order had delays greater than 90 days.

1. Work Order #: 0583.34180125840
   a. Estimated In-service Date: 4/31/19
   b. In-Service Date: 6/24/20
   c. Days over Estimate: 390
   d. AFUDC accrual: $285
   e. Company explanation: This work is part of a Low Pressure Over-Pressure Protection initiative across Columbia. The initiative's original scope of work for the 795 regulator stations was anticipated to be completed by May 31, 2019. The scope of work changed throughout the course of the initiative, causing regulator stations upgrades being placed in service later the original target in-service date.[90]

[88] Columbia response to 2021 Blue Ridge Data Request 59.
[89] Columbia response to 2021 Blue Ridge Data Request 89.
[90] Columbia response to 2021 Blue Ridge Data Request 58.

f. Blue Ridge: Company explanation is not unreasonable.

T7B: Was the work order / project in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?

As discussed and identified in T7A, Blue Ridge found that the work order was closed timely after the work was complete. Blue Ridge does not recommend any adjustments for this section.

T8: Allocations

T8A: If the work order / project represents allocated charges are the allocations reasonable?

The Company provided a list of all overhead and indirect charges applied to Columbia work orders.[91] Below are descriptions and factors used in the calculation of each type:

- Vacation and Non-productive overheads represent the cost incurred as the result of vacation, holiday and sick benefits for employees. The cost of these benefits are charged directly to the functional balance sheet accounts and rates are developed to include these cost as part of the employee's labor cost. The overhead rates are applied to base labor cost charged to all accounts charged as part of the employee's labor cost including capital (CWIP), retirement work in progress, preliminary survey and investigation, maintenance and jobbing work in progress and miscellaneous billings.
- Labor overheads represent the cost incurred as the result of paying labor benefits and specific types of payroll taxes for employees. The cost of these benefits and payroll taxes are charged directly to the functional expense accounts and rates are developed to include these costs as part of the employee's labor cost. The overhead rates are applied to base labor cost charged to select balance sheet accounts. Balance sheet accounts include capital, retirement work in progress, preliminary survey and investigation, maintenance and jobbing work in progress and miscellaneous billings. The basis for applying overheads to these balance sheet accounts is that if an employee charges his labor time to them, a portion of the benefits and payroll taxes cost should follow the labor charges.
- Construction Overheads (Supervision, Engineering, General, & Administrative costs) also referred to as SEGA, represent charges applicable to construction incurred by employees and activities where it is impractical to charge construction work orders directly. Entries to this SEGA clearing work order in Construction Work In Progress (CWIP), are charged directly and coded to applicable construction cost elements as well as use of code patterns through the shared service billing. These costs are allocated from this work order to the construction projects in CWIP eligible for overheads. The allocation is based on both the spend amount of each eligible project multiplied by the SEGA rate. The rate to apply is the estimated ratio of SEGA costs to construction costs. Rates are input into PowerPlant for this calculation. A mechanical clearing of the account happens at year-end close to ensure all SEGA costs are allocated. Any remaining items after this process represents the opening balance of the next year.
- Allowance for Funds Used During Construction, (AFUDC), are applied to designated work orders which have received charges and have been classified to Construction Work In Progress (CWIP). The AFUDC rate is determined on a NiSource Inc. basis reflecting the

[91] Columbia response to 2021 Blue Ridge Data Request 17.

weighted average cost of the Company's capital components. The Accounting Services Section will calculate the AFUDC rate and notify the operating companies via an All Treasurers/Controllers letter. The rate shall be estimated for the current year with appropriate adjustments, as actual data becomes available in accordance with FERC Order No. 561. The rate computation for AFUDC is calculated in accordance with the Code of Federal Regulations (CFR), Title 18, Gas Plant Instruction Number 3, Sub-section 17. Rates are input into PowerPlant for this allocation.

- Vehicle and General Tool overheads represent the cost incurred as the result of using a company vehicle or equipment. These costs are charged directly to the functional balance sheet accounts and rates are developed to include these cost as part of the employee's labor cost whom is assigned a vehicle or equipment. The overhead rates are applied to base labor cost charged to all accounts charged as part of the employee's labor cost including capital, retirement work in progress, preliminary survey and investigation, maintenance and jobbing work in progress and miscellaneous billings.[92]

Costs that are typically allocated include supervision, engineering, and general administration and AFUDC. Labor overheads are allocated based on labor charges. The allocation of these costs is limited to work orders where physical construction occurs.[93] AFUDC is applied to all eligible types of work orders. Examples of projects not eligible for AFUDC include purchases of meters, tools, office equipment, and furniture. The method of allocation is in accordance with policies. Those policies have not changed since the previous audit.[94] Blue Ridge found that the nature of the allocations is normal and what would typically be charged to capital projects.

T9: Continuing Property Records

T9A: Do the Continuing Property Records support the asset completely and accurately?

T10: Cost Categories

T10A: For work orders / projects, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total?

T10B: For "other" (referring to T1d above), are the description and costs not unreasonable?

Testing steps T9 and T10 are discussed together. The Company uses PowerPlant for its plant accounting records. That system has the ability to provide detailed information by account, by activity, and by amount for all work orders, including blankets.[95] The Company was able to provide complete and accurate support for work order charges for each work order.

Blue Ridge reviewed the cost categories and charges for each work order. While most of the categories/charges appeared reasonable, 7 work orders / projects required additional information and review.

1. Work Order #: 0561.34190132723
   a. Cap Proj not otherwise identified = $26,103 – The Costs are for a land survey and were incurred in late 2018 and early 2019.

[92] Columbia Gas 2021 response to Blue Ridge Data Request 17.
[93] Columbia Gas 2019 response to Blue Ridge Data Request 92.
[94] Columbia Gas 2021 response to Blue Ridge Data Requests 7.
[95] Interview of Major Events and IT conducted on July 2, 2018.

   b. COH Supervision and Engineering = $3,680 – The allocation of indirect capital costs to direct projects[96]
   c. Blue Ridge: Company explanation is not unreasonable.
2. Work Order #: 0915.34B34000915
   a. Other Materials and Supplies = $2,884,347
   b. Explanation from Company: "Other Materials and Supplies" is used for acquiring various materials, supplies, tools, and machinery needed for projects. These costs are primarily recorded to FERC account 39430 Tools, Tools and Other.[97]
   c. OPERATIONS MAPPING Srvcs-Dist = $1,073,439
   d. Explanation from Company: "Operations Mapping Srvcs-Dist" is used to acquire GPS equipment. These costs are primarily recorded to FERC account 39430 Tools, Tools and Other.[98]
   e. Blue Ridge: Company explanation is not unreasonable.
3. Work Order #: 0998.34D00342014
   a. Other Materials and Supplies = $38,001
   b. Explanation from Company: "Other Materials and Supplies" is used for acquiring various materials, supplies, tools, and machinery needed for projects. These costs are primarily recorded to FERC account 39430 Tools, Tools and Other.[99]
   c. Blue Ridge: Company explanation is not unreasonable.
4. Work Order #: 7907.34190171050
   a. Contributions in Aid of Constr = $269,786
   b. Purchase of Property = $262,72
   c. Explanation from Company: The $269,786 amount was misclassified and should have been coded to the outside services cost element as Construction Services. The purchase of property in the amount of $262,772 was coded to FERC account 37820 Mea & Reg Sta Eq, Regulating.[100]
   d. Blue Ridge: Company explanation is not unreasonable
5. Work Order #: 8889.34190126482
   a. CloseTo PPE and Reserve = -$636,164
   b. Explanation from Company: This job order is part of a multi-system replacement project where job order costs needed to be transferred to separate job orders. When the project coordinator had the pertinent information needed, the job orders were submitted to capital close out in December 2019, causing this job order to unitize in early 2020. The credit is an offset to an adjustment made transferring costs from job order 18-0125329 to 19-0126482.[101]
   c. Blue Ridge: Company explanation is not unreasonable.

T11: Revenue-Generating

T11A: For CEP additions, will the work order / project generate revenue? If so, how has the revenue been quantified?

The Company identifies CEP revenue-generating projects through the use of Activity Codes.

[96] Columbia Gas 2021 response to Blue Ridge Data Request 61.
[97] Columbia Gas 2021 response to Blue Ridge Data Request 60.
[98] Columbia Gas 2021 response to Blue Ridge Data Request 60.
[99] Columbia Gas 2021 response to Blue Ridge Data Request 60.
[100] Columbia Gas 2021 response to Blue Ridge Data Request 63.
[101] Columbia Gas 2021 response to Blue Ridge Data Request 62.

Table 13: Activity Codes for New Business Projects

Type	Activity Code
Mains - New	0555
Service Lines – New	0563
Meters - New	0567
Meter Installations - New	0569
House Regulators – New	0571
Mucci Farms Phase 2—New	1239

Projects associated with the Activity Codes 0555 Mains-New and 0563 Service Lines-New are for new service and should generate revenue. In addition, Blue Ridge identified 16 projects that warranted further review and an understanding of how the additional revenue generated by these projects are reflected.

Table 14: Projects that Could Generate Revenue

Work Order #	Project Description	Budget Class
1. 0555.34190081237	Oc/Db~2800'-2"/4" Pmmp : Gracelyn : Lew Pipe, Pl, 2" : 463016 Pipe, Pl, 4" : 463026	Growth
2. 0555.34190126460	Install 2,935'-2",4" Pmmp : Havencrest : N R Pipe, Pl, 2" : 463016 Pipe, Pl, 4" : 463026	Growth
3. 0555.34190133333	Db/Oc~390'-2" Pmmp : Chlois : Col Pipe, Pl, 2" : 463016	Growth
4. 0555.34200133562	Install 3319'-2" And 4" Pmmp : Heritage : Hil	Growth
5. 0563.34B08220012	Serv C/M Pl, Less 3" : 655596 Serv C/M St, Less 3" : 655496 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth
6. 0563.34B08230012	Serv C/M Pl, Less 3" : 655596 Serv C/M St, Less 3" : 655496 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth
7. 0563.34B09710011	Serv C/M Pl, Less 3" : 655596 Serv C/M St, Less 3" : 655496 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth
8. 0563.34B11210012	Serv C/M Pl, Less 3" : 655596 Serv C/M St, Less 3" : 655496 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth
9. 0563.34B12220012	Serv C/M Pl, Less 3" : 655596 Serv C/M St, Less 3" : 655496 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth
10. 0563.34B13250011	Serv C/M Pl, Less 3" : 655596 Serv M/C - Pl, Less 3" : 655296	Growth
11. 0563.34B17210012	Serv C/M Pl, Less 3" : 655596 Serv M/C - Pl, Less 3" : 655296 Serv M/C - St, Less 3" : 655196	Growth

Work Order #	Project Description	Budget Class
12. 0567.34B00340555	Various	Growth
13. 0571.34B08230081	Regulator, House, Less 2" : 570098	Growth
14. 1239.34190109201	Pm Install New Pod @ Mucci : Fox : Hur	Growth
15. 0559.34190126543	Install 2727'- 6" Pmmp. : Lake Shore : Liberty Avenue Pipe, Pl, 6" : 463036 Pipe, St Tr Wld, 6" : 464236 Ss Sph Tee St, 6" : 665636	Betterment
16. 1289.34190119284	Heater G/O Convec : 315100 Install Heater : Illinois : Mau	Betterment

The Company included detailed justification and support that the projects were necessary, reasonable, and prudent. Blue Ridge concluded that the projects are used and useful. However, the Company has not reflected the incremental revenue in its CEP.

As the Staff Report noted in Case No. 19-438-GA-RDR, "The CEP deferral formula authorized in Case No. 12-3221-GA-UNC, et. al, was meant to be adjusted in Case No. 17-2202-GA-ALT to remove the incremental revenue offset as part of the Stipulation entered into in that case. However, Staff believes incremental revenues are an important component of the CEP deferral formula, and therefore, its removal from the formula should not be indefinite." See Staff Report at 3.[102]

Blue Ridge agrees with Staff regarding the importance of incremental revenues and reiterates its recommendation from prior audits that incremental revenue be clarified and tracked. Inclusion of incremental revenue in the CEP should be reevaluated in the Company's next base rate case.

T12: Replacement projects

Of the 49 work orders selected for testing, approximately 10 were of the type of work for which retirements would not be expected (such as new main meters and service line additions). The remaining 39 work orders represented service line replacements, pubic improvements, replacements for age and condition, shared services, support services, and intangible software. Typically, when assets are retired, cost of removal will be charged. Even in instances where pipe is retired in place, the Company may perform some functions to relieve the pipe of gas and make it safe, resulting in cost of removal charges.

Blanket Work Orders Type: 0565:

> When a 0565 job type is created and put in-service, the system triggers a service line retirement. The system will utilize the vintage year, pipe type (plastic, steel, etc.) and location of the replaced service line to identify which service line to re-tire. The service line retirements are then closed each month to a 0566 (service line retirement) blanket work order. Both 0565 and 0566 blanket work orders are closed each month-end.[103]

Blanket Work Orders Type: 0567:

> Job type 0567 is for new Meter purchases from the manufacturer. Residential size customer meters are purchased in bulk, and used when required for a service replacement or upgrade. Allocations and purchases are made at the TCC level so

[102] Columbia response to 2021 Blue Ridge Data Request 5(f).
[103] Columbia response to 2021 Blue Ridge Data Request 39 (April 5).

meters are located where they are needed, and so costs are allocated where the meters are installed.[104]

Blanket Work Orders Type: 7737:

The 7737 blanket job types is for the replacement of hazardous customer service lines. Columbia has the responsibility of all maintenance, repair, and replacement of customer-owned service lines that have been determined to present an existing or probable hazard to persons or property or require a scheduled repair or replacement based on severity or location. [105]

Blue Ridge found the method of retiring replacement service line and main assets used by the Company is similar to using a weighted average unit cost inventory for M&S issues. Actual cost is not used, but a weighted average by vintage year and type of pipe is used. Service line replacements are numerous, and the use of this method saves time and is not unreasonable. If any potential risk exists, it would be either the under/over statement of the IRP, which would result in the inverse to the CEP. Given that the IRP is already being collected in rates, it is not likely that the CEP would be overstated.

T12A: Were assets retired?

Of the 49 work orders sampled, 23 work orders were labeled as replacements. Of the remaining 26 work orders in the CEP selection, 2 were listed as non-replacements but had retirement and cost of removal charges within the work order detail.

Work Order #: 0561.34190132723

   a. Project Description: Mains-Street Improvement 4 Services, 0 Meter M/D, Dir bore, Marysville Permit required, COP may be required for tie in
   b. Actual Costs: $29,784
   c. Retirement: $2,116
   d. Cost of Removal: $1,091
   e. Related Retirement Work Order #: 2072151353

2. Work Order #: 0561.34200119486
   a. Project Description: project required as relocation for Sylvania Township road reconstruction maintain safe and reliable service to all customers on Friendly and Rega Dr. this project eliminates 1800 Coated Steel which reduces liability and maintenance costs
   b. Actual Cost: $125,429
   c. Retirement: $1,058
   d. Cost of Removal: $1,497
   e. Related Retirement Work Order #: 2077894407

Blue Ridge found that the Company recorded the retirements on a separate work order. This is not an unusual practice. Blue Ridge reviewed the related retirement work order cost detail and found that the Company's explanation is not unreasonable.

The Sample included 13 replacement blanket projects with no retirements or cost of removal charges within the work order detail.

1. Work Order #: 0565.34B07310032

[104] Columbia response to 2021 Blue Ridge Data Request 39 (April 5).
[105] Columbia response to 2021 Blue Ridge Data Request 39 (April 5).

   a. Actual Cost: $302,097
2. Work Order #: 0565.34B08230032
   a. Actual Cost: $1,060,900
3. Work Order #: 0565.34B11210022
   a. Actual Cost: $276,251
4. Work Order #: 0565.34B12610031
   a. Actual Cost: $370,878
5. Work Order #: 0565.34B13250031
   a. Actual Cost: $937,055
6. Work Order #: 0565.34B14510031
   a. Actual Cost: $143,928
7. Work Order #: 0998.34D00342014
   a. Actual Cost: $38,001
8. Work Order #: 7737.34B12610052
   a. Actual Cost: $5,557,950
9. Work Order #: 7737.34B13240052
   a. Actual Cost: $2,797,689
10. Work Order #: 7737.34B13250052
    a. Actual Cost: $2,687,286
11. Work Order #: 7737.34B15330052
    a. Actual Cost: $748,052
12. Work Order #: 7737.34B17210052
    a. Actual Cost: $1,931,446
13. Work Order #: 7737.34B17320052
    a. Actual Cost: $2,197,512

Blue Ridge found that the Company's explanation of how they handle blanket work orders with retirements (described in Testing Step T12 above) is not unreasonable based on the methods used by the company to retire assets.

Blue Ridge found three replacement projects with no cost of removal charges.

1. Work Order #: 0557.34190074489
   a. Actual Cost: $221,481
   b. Retirement Cost: -$13,324
   c. Related Retirement Work Order #: 0558.34190074490
   d. Company explanation: Columbia does not know why there was no cost of removal recorded. There are two retirement work orders within the project of which this work order is located and both retirement work orders have zero retirement cost and zero cost of removal costs recorded to them.[106]
   e. Blue Ridge recommends that the Company determine the amount of the retirements and cost of removal for the 2 work orders and make the appropriate adjustments to the 2021 CEP.
2. Work Order #: 0583.34180074253
   a. Actual Cost: $846,615
   b. Retirement Cost: $1,567
   c. Related Retirement Work Order #: 2070582013

[106] Columbia response to 2021 Data Request 68.

   d. Company explanation: The Company has found no cost of removal recorded to the retirement work order for 0583.34180074253.[107]
   e. Blue Ridge found that the Company's explanation is not unreasonable.
3. Work Order #: 8889.34190126482
   a. Actual Cost: $707,587
   b. Retirement Cost: $50,633
   c. Related Retirement Work Order #: 2073766368
   d. Company explanation: Upon further review the Company found $132 in Cost of Removal charged in April 2019.[108]
   e. Blue Ridge found that the Company's explanation is not unreasonable.

T12B: Was the date of retirement in line with the asset replacement date?

Blanket projects are closed every month. Certain types of projects, such as service line replacements (job code 0565), are retired on an average cost basis as the units are added, so both the addition and retirements take place at the same time. Cost of removal is charged generally at the same time or can precede the actual retirements.[109] Blue Ridge reviewed the asset replacement and asset retirement dates. Five of the 49 work orders /projects required additional information and review.

1. Work Order #: 0583.34180074253
   a. Project Description: Replace - Plant Regulators
   b. In-service Date: 5/13/19
   c. Retirements: $1,567
   d. Retirement Date: 1/1/21
   e. Company explanation: This work order was sent to capital close-out on May 13, 2019, as the regulator was installed and gassed up. The capital close-out process was properly held until the installation of the ER350 device had been done, which was completed on August 10, 2020. After the ER350 device was installed, documentation correction took place causing additional delay in the final close out of this work order. From the final installation date, the impact on the accrual for depreciation is de minimus based on the delay described above.[110]
   f. Blue Ridge found that the process is normal for gas projects. We agree that the delay in recording $1,567 in retirement would have a de minimus effect on the CEP. We have estimated the effect on the CEP revenue requirements to be $90[111] and are not recommending an adjustment. In addition, the retirements will be reflected in the next CEP filing.
2. Work Order #: 0583.34180125840
   a. Project Description: Plant Regulators – Repl 2" monitor replacement
   b. In-service Date: 6/24/20
   c. Retirements: $883
   d. Retirement Date: 12/1/20
   e. Company explanation: This work order had the regulator installed and gassed up on

[107] Columbia response to 2021 Blue Ridge Data Request 98.
[108] Columbia response to 2021 Blue Ridge Data Request 70.
[109] Columbia response to 2019 Blue Ridge Data Request 57.
[110] Columbia response to 2021 Blue Ridge Data Request 99.
[111] WP Columbia Rev Req Effect of Delayed Retirements.xlsx.

June 24, 2020; however, the capital close-out process was properly held until all the work was complete. From the final installation date to the job order close out, the impact on the accrual for depreciation is de minimus based on the delay described above.[112]

   f. Blue Ridge found that the process is normal for gas projects. We agree that the delay in recording the $883 in retirement would have a de minimus effect on the CEP. We have estimated the effect on the CEP revenue requirements to be $13[113] and are not recommending an adjustment. In addition, the retirements will be reflected in the next CEP filing.

3. Work Order #: 1385.34190109150
   a. Project Description: This is a single phase AMRP project for the near east downtown area in Norwalk, Ohio. This project supports NiSource's strategic initiatives by replacing high scoring priority pipe under the AMRP. This project will install 8,000'-2"PMMP and 2,160-8"PMMP. Mainline Cost: 19-0109150-00: $1,113,251. Project proposed start date is Q1/Q2-2020 and to be completed in Q3-2019. Optimain Combo Project Risk Score per 1,000 feet of retired pipe: 24.3
   b. In-Service Date: 12/18/19
   c. Retirements: $49,459
   d. Retirement Date: 9/1/20
   e. Company explanation: The 12/18/19 in-service date was recorded in error as the actual in-service date is 6/10/20.[114]
   f. Blue Ridge found that the process is normal for gas projects. We agree that the delay in recording the $49,459 in retirement would have a de minimus effect on the CEP. We have estimated the effect on the CEP revenue requirements to be $659[115] and are not recommending an adjustment. In addition, the retirements will be reflected in the next CEP filing.
4. Work Order #: 1459.34200126783
   a. Project Description: Mandatory relocation project in the Medina, Ohio. All existing mains and services relocated with this project were located in the public ROW and were in direct conflict with ODOT's work.
   b. In-Service Date: 9/25/20
   c. Retirements: $26,978
   d. Retirement Date: 3/1/21
   e. Company explanation: This work order was part of a large relocation project, where the main was installed and gassed up in more than one section. The in-service date of September 25, 2020, was the first section of main that was installed and gassed up. The other sections of main were subsequently installed and gassed up. From the final installation date to the job order close out, the impact on the accrual for depreciation is de minimus based on the delay described above.[116]
   f. Blue Ridge found that the process is normal for gas projects. We agree that the delay in recording the $26,978 in retirement would have a de minimus effect on the CEP.

[112] Columbia response to 2021 Blue Ridge Data Request 100.
[113] WP Columbia Rev Req Effect of Delayed Retirements.xlsx.
[114] Columbia response to 2021 Blue Ridge Data Request 101.
[115] WP Columbia Rev Req Effect of Delayed Retirements.xlsx.
[116] Columbia response to 2021 Blue Ridge Data Request 102.

We have estimated the effect on the CEP revenue requirements to be $219[117] and are not recommending an adjustment. In addition, the retirements will be reflected in the next CEP filing.

5. Work Order #: 8889.34190126482
   a. Project Description:
      i. Center Ridge Road is a roadway reconstruction project proposed by the Westlake. Said roadway project includes the installation of a new storm sewer, water main, as well as the widening of the existing roadway pavement from four lanes to five lanes. This roadway construction is necessary due to the construction of an elementary school campus which will generate more traffic on Center Ridge Road and Dover Center Road. Currently, the existing high pressure steel main line is located between the existing curb line and existing sidewalk along the southerly edge of the existing roadway pavement. Said high pressure natural gas main line is the primary feed into the City of Westlake. Currently, said high pressure main line is eight inches in diameter and undersized to meet the current natural gas demand. Therefore, this project is designed to relocate the natural gas main line within the newly acquired Right-of-Way purchased by the City of Westlake as well as increase the diameter from eight inches to twelve inches. This increase in size will reduce the amount of pressure loss from 3.58 psi per 1 000 feet for the existing eight-inch diameter pipe to 0.55 psi per 1,000 feet for the proposed twelve-inch diameter pipe per Gas Systems Planning.
      ii. A second part of this project includes relocation of two sections of the existing medium pressure main line due to the widening of the intersections of Glenwood Drive and Dover Center Road.
      iii. A third part of this project includes relocation of two sections of the existing intermediate pressure main line along Dover Center Road.
      iv. This project is expected to begin in March-2018 and take six months to complete.
      v. Several unforeseen costs were encountered during the construction of all three phases of the Center Ridge Road within the City of Westlake. The cost overruns for the entire project are listed below by the job order number
   b. In-Service Date: 4/6/19
   c. Retirements: $50,633
   d. Retirement Date: 12/1/19
   e. Company explanation: This work order was completed in four phases, where the first phase completed and gassed up on April 6, 2019. Once all other phases were complete, the work order was able to close out. From the final installation date to the job order close-out, the impact on the accrual for depreciation is de minimus based on the delay described above.
   f. Blue Ridge found that the process is normal for gas projects. We agree that the delay in recording the $50,633 in retirement would have a de minimus effect on the CEP. We have estimated the effect on the CEP revenue requirements to be $625[118] and are not recommending an adjustment. In addition, the retirements will be reflected in the next CEP filing.

[117] WP Columbia Rev Req Effect of Delayed Retirements.xlsx.
[118] WP Columbia Rev Req Effect of Delayed Retirements.xlsx.

T12C: Is the amount of the retired asset not unreasonable?

The retirement charges and quantities were not unreasonable for each of the 11 work orders within the sample with retirements.

T12D: Was salvage recorded?

Salvage represents the proceeds from the sale of assets that are replaced by the Company. For purposes of the depreciation reserve, salvage is recorded as an increase in the depreciation reserve (FERC 108), which results in a corresponding decrease in net plant.

In the Gas business, assets are frequently retired in place whenever possible. Doing so decreases cost of removal by saving time and labor. Exceptions to that practice may include incidences such as a municipality requiring the removal of replaced assets or where not removing assets could represent a safety hazard. When assets are removed, they are typically sold as scrap. Under some circumstances, the scrap can be applied to a retirement work order and tied to a specific project. Columbia uses blanket work orders to replace assets. Columbia's practice is consistent with the Gas utility Industry.

Regardless of how it is done, as long as FERC 108 is charged, the process is in accordance with FERC (CFR 18) and properly accounts for scrap. Scrap is also considered in the calculation of the net salvage or negative net salvage that is used in depreciation studies. The work orders we tested did not contain any salvage specifically included in each work order. This situation is not unusual since salvage is not a budget item. We do not see any issues in this area, and it appears that Columbia books salvage in accordance with FERC (CFR 18), which conforms to the manner in which most Gas utilities record salvage.

T12E: Was cost of removal charged? Is the amount not unreasonable?

It is not unusual in the Gas Distribution industry to not remove pipe from the ground. In several instances, unless necessary for safety or mandated, Gas Distribution companies frequently leave pipe in the ground and purge the gas from the pipe and cap the ends to make it safe, thereby avoiding the cost to remove the pipe. In those instances, cost of removal is minimal and, depending on the category of work order, could be charged to a blanket work order or a retirement work order that would not have been picked up in the sample. Service line replacements are an example because they are blanket projects.

Generally, NiSource's subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When regulated property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant and such cost, net of salvage, is debited to the accumulated provision for depreciation in accordance with composite depreciation ("composite method").[119] Blue Ridge found 9 work orders with cost of removal charges within the sample selection.

T13: Field Verification

T13A: Is the project a candidate for field verification?

[119] Case No. 17-2202-GA-ALT – CEP Audit DR Set 1 No. 14, Attachment A.

Blue Ridge identified four work orders within the CEP sample and six additional work orders within the CEP population as candidates for field visits. Work orders / projects were excluded from selection for the following reasons:

A. The work order was an adjustment or transfer of dollars and, therefore, no physical assets had been installed.
B. The work order was for installed software, and it would be difficult to review an entire software program (such as, for example, PowerPlant) to see what was added.
C. The work order was not selected based on professional judgment.

Further discussion on field inspections and desktop audits below in Section: Field Inspections and Desktop Reviews.

WORK ORDER BACKLOG

The work order backlog represents completed, or substantially completed, projects that have been transferred from CWIP (FERC 107) to Completed Construction Not Classified (FERC 106). The projects are in-service and accruing depreciation. AFUDC stops when the work order is transferred. The work order will remain in FERC 106 until it is unitized to Gas Plant in Service (FERC 101). For reporting purposes, FERC 106 is generally combined with FERC 101 to represent total plant in service.

As new construction costs are charged to work orders, they need to be assigned to the appropriate company, project, FERC account, location code, and retirement unit asset. The accurate setup of a work order ensures that the appropriate amount of accumulated reserve for depreciation is calculated from the time the asset is placed in-service. The unitization process is used to confirm that all appropriate charges related to the work order are assigned correctly. An over or under accrual of accumulated reserve for depreciation may arise in instances where the unitization process results in changes to the assignment of work order charges.

In the gas utility industry, it is not uncommon for work orders to remain in FERC 106 for several months, waiting for the completion of the project. Frequently projects cannot be 100% completed because of weather conditions that may obstruct the Company's ability to complete paving and seeding and other functions. In accordance with FERC accounting, a project can be substantially complete, used and useful, and waiting for completion of work that does not hinder the functionality of the asset(s). The Company's practice of not unitizing some projects until the work can be completed is consistent with gas utility industry practice

Table 15: CEP 2019 - 2020 Work Order Backlog Comparison[120]

	2019		2020		Comparison
Timeframe	**Balance**	**# of Work Orders**	**Balance**	**# of Work Orders**	**% Change of Balances**
Under 3 Month	$50,313,901	703	$45,254,209	833	-10%
4 to12 Months	$641,491	12	$3,288,400	16	413%
Over 12 Months	$58,018	3	$762,330	17	1,214%
Grand Total	**$51,013,411**	**718**	$49,304,938	866	**-3%**

The CEP work order balance has decreased by approximately 3% from the prior year. Approximately 98% of the backlog is under three months (90 days). This is consistent with the

[120] Columbia response to 2021 Blue Ridge Data Request 22, Attachment A.

Company holding work orders open to collect additional charges. It appears the Company is doing a good job managing the backlog.

FIELD INSPECTIONS AND DESKTOP REVIEWS

For field inspections, Blue Ridge selected 10 locations, several with multiple assets, and all were selected for desktop review. The following criteria were used for desktop reviews:

- The assets were in service and used and useful, providing service to the customer.
- The assets were properly classified in capital accounts.
- The sample assets did not appear over built (gold plated).
- Planning and justification documentation support that the projects were necessary, reasonable, and prudent.

The field observations were performed by Blue Ridge and Commission Staff with assistance from Company representatives. The desktop verifications and remote video streaming were done on May 6, 2021. Information for each work order / project, including detailed maps, and site photographs was provided to the observation team and a review summary was completed for each virtual field inspection and desktop review, under confidential discovery response 78. The completed review summaries are included as workpapers with this report. The following table summarizes the projects reviewed.

Table 16: Summary of Projects Subject to Field Inspection and/or Desk Top Reviews

<table>
<tr><th>Work Order #</th><th>FERC</th><th>Budget Class</th><th>Activity Cost</th><th>In-Service Date</th><th>Used and Useful</th></tr>
<tr><td rowspan="4">1. 7907.3419017105</td><td>37820 Mea & Reg Sta Eq, Regulating</td><td>Age & Condition</td><td>$4,522,574</td><td>8/28/2020</td><td>Yes</td></tr>
<tr><td colspan="5">Project Description: Pm Marion Greencamp Pod Instal : Marion Gre : Mar</td></tr>
<tr><td colspan="5">Scope of Work: Replace the existing Marion-Green camp town border station (TBS) with the addition of Heaters.
Note this project is also associated with the virtual audited work order 7907.34190171053 PM SCADA install MGC: Marion Gre :Mar</td></tr>
<tr><td colspan="5">Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.</td></tr>
<tr><td rowspan="4">2. 1239.34190109201</td><td>37820 Mea & Reg Sta Eq, Regulating</td><td>Growth</td><td>$2,791,379</td><td>11/10/2020</td><td>Yes</td></tr>
<tr><td colspan="5">Project Description: Pm Install New Pod @ Mucci : Fox : Hur</td></tr>
<tr><td colspan="5">Scope of Work: Growth related construction of new POD to provide a new high pressure main relieving capacity constraints on current medium pressure system in the area for Mucci Farms (a Green House produce grower)
Note this project is also associated with the virtual audited work order 1239.34190109206 PM install 11.000’-12”Hdpe: Rye Beach : Hur</td></tr>
<tr><td colspan="5">Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.</td></tr>
<tr><td rowspan="3">3. 1239.34190109206</td><td>37600 Mains</td><td>Growth</td><td>$1,300,539</td><td>11/10/2020</td><td>Yes</td></tr>
<tr><td colspan="5">Project Description: Pm Install 11,000'-12" Hdpe : Rye Beach : Hur</td></tr>
<tr><td colspan="5">Scope of Work: Installation of new high-pressure main from new POD (work order 1239.34190109201 – also included as part of this virtual audit) to new customer Mucci Farms</td></tr>
</table>

Work Order #	FERC	Budget Class	Activity Cost	In-Service Date	Used and Useful
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
4. 1421.34190109219	37820 Mea & Reg Sta Eq, Regulating	Growth	$1,242,229	8/28/2020	Yes
	Project Description: Pm Install Regulation Pod Aep : Sr510 : Cly				
	Scope of Work: New industrial customer (AEP-Clyde co-generation), requiring a new POD to be installed in the former footprint of an undersized POD.				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
5. 1289.34190119284	37820 Mea & Reg Sta Eq, Regulating	Betterment	$914,149	12/18/2019	Yes
	Project Description: Heater G/O Convec : 315100				
	Scope of Work: Installation of Upgraded heater to address frost heaving issues with existing undersized heater. Note this is phase 1 of a two phase project to upgrade POD in 2023. This project addresses known frost damages occurring to neighboring customer driveways				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
6. 1385.3419010915	37625 Mains Replacement	Age & Condition	$908,544	6/10/2020	Yes
	Project Description: Oc/Db~10,160'-2"/8"Pmmp : Woodlawn : Nor				
	Scope of Work: Retirement of bare steel mains with new plastic mains				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
7. 1459.34200126785	37600 Mains	Public Improvement	$789,158	12/8/2020	Yes
	Project Description: Install 4358'Of 2",4"&8" Pmmp : Sr 18 : Med				
	Scope of Work: Relocation of existing gas mains per Ohio DOT roadway improvement program. This work is for phase 1 – 7,321 feet of 2"and 8" inch pipe and 21 services completed in 2020. Note Phase 2, relocating 6,470 feet of2" and 8" inch mains and 20 services will be completed in 2021 and is not part of this work order				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
8. 7907.34190171053	38745 Other Equip, Telemetering	Age & Condition	$739,204	8/28/2020	Yes
	Project Description: Pm Scada Install Mgc : Marion Gre : Mar				
	Scope of Work: Scope of this work order is to install SCADA on the Marion Green camp POD. Note this project is also associated with Replace the existing Marion-Green camp town border station (TBS) with the addition of Heaters that was also virtually audit (work order 7907.34190171050 - Pm Marion Greencamp Pod Instal : Marion Gre : Mar)				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
9. 0559.34170089002	37600 Mains	Betterment	$622,299	2/11/2020	Yes

Work Order #	FERC	Budget Class	Activity Cost	In-Service Date	Used and Useful
	Project Description: Install 5200'-2" Pmmp : Beech St : 80 Maple St				
	Scope of Work: Replacement of unknown main type and location in a Trailer Park (part of services that Columbia took ownership of as per previous regulatory requirements). Work scope involved installation of 5,200 feet if new 2" plastic mains and 86 services				
	Blue Ridge Comment: Project is considered prudent, used and useful. Blue Ridge did not identify any work not defined in the project description, any work that was overbuilt and the major installed assets were the same as the original scope of work.				
10. 1095.34200171287	37600 Mains	Betterment	$535,257	8/14/2020	Yes
	Project Description: Pm Retest Mansfield North Pod : Harrington : Man				
	Scope of Work: This work is Phase 3 of two previous completed work orders recovered in previous CEP filings. This work order is to re-test the transmission pipe to meet Columbia standard GS 1500.010 that was not completed correctly during the Phase 1 and 2 commissioning. To retest, new unit of capital valves were installed thus making this project a capital betterment installation.				
	Blue Ridge Comment: Work order is considered used and useful as outlined in the project justification statement. Blue Ridge did not identify any work not defined in the project description. Scope was specific to retest a previous installed transmission pipe that did not meet Columbia test standards. None of the work was overbuilt and the major installed assets were the same as defined in the Phase 3 scope of work. This project was necessary because the Company failed to follow its stated internal policy. The Company agreed that, had they followed the internal policy, the entire work order would not be necessary. Therefore, it is the opinion of Blue Ridge that the additional work necessary was a result of the Company's failure to follow internal policies and procedures, was, therefore, not prudent, and thus, should be removed from the CEP.				

Blue Ridge had these conclusions from the field inspections and desktop reviews:

- The assets were operational (used and useful) and providing service to the customer.
- Except for work order 1095.34200171287 (#10 above) The purpose(s) of the projects was not unreasonable.
  - Work order 1095.34200171287 was required because the Company failed to follow its stated internal policy. The Company agreed that, had they followed the internal policy, the entire work order would not be necessary.[121] It is the opinion of Blue Ridge that the additional work necessary was a result of the Company's failure to follow internal policies and procedures, was, therefore, not prudent, and thus, should be removed from the CEP. (**ADJUSTMENT #2:** The estimated effect on the CEP Revenue Requirements is $71,564).
- The assets that were installed were in accordance with the original scope of work, and no assets were installed that were not in the original scope of work.
- The equipment that was installed matched the equipment that was capitalized.
- Company personnel understood the scope of work and were able to provide detailed answers to questions about the work.
- Problems identified during the process of construction were identified and discussed.
- The projects were not over built or "gold plated."

[121] Columbia response to 2021 Blue Ridge Data Request 95.

APPENDICES

Appendix A: Information Reviewed

Appendix B: Data Requests and Information Provided

Appendix C: Work Papers

APPENDIX A: INFORMATION REVIEWED

Blue Ridge reviewed the applicable testimony, workpapers, and Commission orders in Case Nos. 08-0072-GA-AIR, 11-5351-GA-UNC, 12-3221-GA-UNC, et al, 17-2202-GA-ALT, 19-0438-GA-RDR, 20-49-GA-RDR, and 21-23-GA-RDR.

The following excerpts from the Commission Opinion and Order and the Combined Stipulation specifically related to the last Rate Case, PIS, and CEP relevant to this audit are provided below.

Case No. 08-72-GA-AIR – Rate Case

On December 3, 2008, the Commission issued its Opinion and Order regarding Case No. 08-0072-GA-AIR. The Order approved the following Stipulation Agreements with modifications:

- Stipulation Agreement filed on October 24, 2008 be approved

On page 6 of the Opinion and Order: As noted above, certain of the parties (stipulating parties) entered into a stipulation that was filed on October 24, 2008. The only issues not resolved in the stipulation are the rate design issues associated with the Small General Service Class, which will be discussed…

On page 25 of the Opinion and Order: The stipulation resolves all outstanding issues except the issues of rate design for the Small General Service Class. These issues were submitted to the Commission for its consideration. The stipulating parties agreed to submit pre-filed, written testimony on the issues and they waived the rights to cross-examine witnesses on the issues or to file briefs.

Regarding the IRP

On page 8 of the Opinion and Order: Authorized to establish an Infrastructure Replacement Program Rider (IRP) providing recovery for:

a) The future maintenance, repair and replacement of customer-owned service lines that have been determined by Columbia to present an existing or probable hazard to persons and property, and the systematic replacement, over a period of approximately three years, of certain risers prone to failure if not properly assembled and installed. The replacement of customer-owned service lines and prone-to-failure risers was previously approved by the Commission in its opinion and order dated April 9, 2008, in Case No. 07-478-GAUNC;
b) The replacement of cast iron, wrought iron, unprotected coated steel, and bare steel pipe in Columbia's distribution system, as well as Columbia's replacement of company-owned and customer-owned metallic service lines identified by Columbia during the replacement of all the above types of pipe (referred to as the Accelerated Mains Replacement Program or AMRP); and
c) The installation, over approximately a five-year period, of Automatic Meter Reading Devices ("AMRD") on all residential and commercial meters served by Columbia.

Rider IRP shall be calculated using a rate of 10.95 percent (which represents the stipulated rate of return of 8.12 percent plus a tax gross-up factor of 2.84 percent). The IRP shall be in effect for the lesser of five years from the effective date of rates approved in this proceeding or until new rates become effective as a result of Columbia's filing of an application for an increase in rates pursuant to Section 4909.18, Revised Code, or Columbia's filing of a proposal to establish base rates pursuant to an alternative method of regulation pursuant to Section 4929.05, Revised Code.

Rider IRP shall provide for the recovery of the return of and on the plant investment, inclusive of capitalized interest or post-in-service carrying costs charges, and depreciation expense and property taxes. Rider IRP shall also reflect the actual annual savings of operations and maintenance expense as an offset to the costs that are otherwise eligible for recovery through Rider IRP.

Within 30 days of the Commission order adopting the stipulation, Columbia shall docket its initial Rider IRP prefiling notice. In years 2009 through 2012, Columbia shall docket its Rider IRP prefiling notice by November 30 of each year, with updated information filed by the following February 28. (The Commission directs Columbia to make such filings for Rider IRP, and the filings for Rider DSM discussed below, in a single new case each year.) Each year's prefiling notice will contain estimated schedules for the Rider IRP to become effective the following May 1. Staff will conduct an investigation of each annual Columbia filing and parties may file objections to the filings. If the staff determines that Columbia's application to increase Rider IRP is unjust or unreasonable, or if any other party files an objection that is not resolved by Columbia, an expedited hearing process will be established to allow the parties to present evidence to the Commission for final resolution.

The Rider IRP rate that becomes effective May 1, 2009, for the Small General Service Class shall not exceed $1.10 per customer per month. The stipulating parties agreed to caps of $2.20, $3.20, $4.20, and $5.20 per customer per month for the subsequent four years. If during any year of the first four years of the five-year duration of Rider IRP Columbia's IRP costs would result in a Rider IRP rate that exceeds the Rider IRP caps described above, Columbia may defer on its books any costs that it is unable to recover through Rider IRP because the Rider IRP rate would otherwise exceed the specified cap. Such costs shall be deferred with carrying charges at an annual rate of 5.27 percent, representing Columbia's long-term debt rate. Columbia may include such deferred costs in any subsequent Rider IRP application during the five-year duration of Rider IRP as specified herein, and recover the deferred costs as long as the inclusion of the deferred costs does not cause Columbia to exceed the Rider IRP cap in the subsequent year in which the deferred costs are included in the Rider IRP adjustment filing. Any deferrals remaining at the end of the five-year period shall not be recoverable by Columbia.

Regarding Depreciation

On page 11 of the Opinion and Order: The depreciation accrual rates proposed by Columbia, as modified in the staff report, should be approved.

On page 17 of the Joint Stipulation Agreement: The depreciation accrual rates proposed by Columbia, as modified in the Staff Report, are reasonable and Columbia should be authorized to revise its depreciation accrual rates as proposed in its Application.

On page 4 of Staff's Report: The Applicant's current accrual rates were prescribed by this Commission in Case No. 05-114-GA-AAM. In Case No. 08-75-GA-AAM, the Applicant filed a depreciation study prepared by its consultant, Gannett Fleming Valuation and Rate Consultants, Inc. The Applicant's accrual rates for most gas plant accounts were developed using the straight-line average service life method of depreciation. For certain General Plant gas accounts, the annual depreciation amounts were based on amortization accounting.

The Staff conducted a review of the depreciation study provided by the Applicant. The Staff finds itself in general agreement with the service life projected retirement dispersion and net salvage parameters proposed in Applicant's study. However, the Staff noted small differences in some accounts between the accrual rates proposed by the Applicant and those that the Staff calculated based on the parameters proposed.

The Staff recommended accrual rates are shown on Schedule B-3.2a. The Staff recommends that the Applicant be ordered to use the accrual rates shown on Schedule B-3.2a for book depreciation purposes, effective concurrently with customer rates resulting from this proceeding.

The Staff has long maintained that accrual rates should be thoroughly reviewed at least every three to five years. The Staff therefore recommends that in five years Applicant submit a depreciation study for all gas plant accounts.

The Staff's calculation of depreciation expense based on the adjusted jurisdictional plant in service balances at date certain and the accrual rates discussed above, is shown on Schedule B-3.2.

On Schedule B.2a of Staff's Report:

FERC-Description	Company Proposed Accrual Rate %	Staff Proposed Accrual Rate %
<u>Distribution Plant</u>		
374 Land and Land Rights		
375.34 Structures & Improvements - Meas. & Reg.	2.73	2.73
375.56 Structures & Improvements - Indust. Meas. & Reg.	3.85	3.75
375.7 Structures & Improvements - Other Dist. Sys.	1.33	2.51
375.7 Structures & Improvements - Other Dist. Sys. Other Small	4.05	4.05
Composite Account 375.7		2.71
375.8 Structures & Improvements - Communications Structures	2.00	2.00
376 Mains	1.91	1.86
378 Meas. & Reg. Station Equipment - General	3.14	3.19
379 Meas. & Reg. Station Equipment - City Gate	3.55	3.44
380 Sen/ices	3.00	3.20
381 Meters	2.39	2.28
381.1 Automated Meter Reading Devices	6.67	6.67
382 Meter Installations	2.00	2.19
383 House Regulators	3.57	3.57
384 House Regulator Installations	3.67	3.57
385 Industrial Meas. & Reg. Sta. Equipment	3.67	3.67
387 Other Equipment - General	6.18	5.83
387.4 Other Equipment - Customer Information Services	5.00	4.55
<u>General Plant:</u>		
391.4 Office Furniture & Equipment	5.00	5.00
391.5 Office Furniture & Equipment - Info. Sys.	20.00	20.00
392 Transportation Equipment	6.67	6.67
393 Stores Equipment	3.33	3.33
394 Tools, Shop & Garage Equipment	4.00	4.00
394.11 CNG Equipment	10.00	10.00

FERC-Description	Company Proposed Accrual Rate %	Staff Proposed Accrual Rate %
395 Laboratory Equipment	5.00	5.00
396 Power Operated Equipment	5.83	5.83
398 Miscellaneous Equipment	5.00	5.00

Regarding Plant

On page 25 of the Opinion and Order: The value of all of the company's property used and useful in rendering service to its customers affected by this application as of December 31, 2007, determined in accordance with Section 4909.15, Revised Code, is not less than $1,028,445,000 [NOTE: Total Rate Base].

On page 6 of the Joint Stipulation Agreement: The value of all of Columbia's property used and useful for the rendition of service to its customers, determined in accordance with Sections 4909.05 and 4905.15, Revised Code, as of the approved date certain of December 31, 2007, is $1,028,445,000 as shown on Stipulation Exhibit 1 [NOTE: Total Rate Base].

On page 3 of Staff's Report: As a result of Blue Ridge's investigation and the Staff review of the application, the Staff recommends certain adjustments be made to the Applicant's date certain plant investment for ratemaking purposes. These adjustments are identified below, summarized on Schedule B-2.2, and are reflected in the calculation of jurisdictional plant in service figures on Schedule B-2.1. Elimination of Plant Sold: The Staff and the Applicant adjusted several plant-in-service accounts to remove the cost of plant sold after the date certain and therefore is no longer in service. The Staff's adjustment is shown on Schedule B-2.2a.

On pages 49-62 of Staff's Report are the Schedule B (Rate Base Schedules)

On page 49 of Staff's Report, Staff recommends the following plant in service balances on Schedule B-1. The balances include Elimination of Plant Sold after date certain identified in Blue Ridge's investigation:

Major Property Groups	Applicant	Staff
Plant in Service	1,834,480	1,834,480
Depreciation Reserve	(672,347)	(672,347)
Net Plant in Service	1,162,133	1,162,133
CWIP	0	0
Working Capital	200,550	200,669
Other Rate Base Items	(233,041)	(341,015)
Rate Base	1,129,642	1,041,787

On page 50 of Staff's Report, Staff recommends the following plant in service balances on Schedule B-2:

Major Property Groups	Applicant	Staff
Intangible Plant	21,899,926	21,899,927
Distribution Plant	1,769,856,700	1,769,856,699
General	42,723,859	42,723,859
Total Plant in Service	1,834,480,485	1,834,480,485

Regarding Property Taxes

On page 9 of Staff's Report: Taxes other than income taxes were adjusted to reflect the proper base and latest known tax rates. For example, property taxes were computed by applying the latest known average tax rate to the date certain property valuation. Ohio Excise taxes were calculated to reflect taxes based on adjusted test year revenues. FICA, FUTA and SUTA taxes were calculated based on test year adjusted payroll. Moreover, the Applicant currently recovers a portion of Ohio Excise tax through a tax rider. The Applicant proposed that the entire Ohio Excise tax be recovered through the tax rider. Schedule C-3.17 provides a summary of the calculated taxes and the resultant adjustment of those taxes. The supporting calculations are detailed on Schedules C-3.17a through C-3.17h.

On page 33 of Staff's Report: IRP: Staff recommends Columbia also be authorized to record as a regulatory asset, the related depreciation and incremental property taxes on all investments for which it is seeking recovery through Rider IRP between the date the property is placed into service and the date recovery of the investment commences. Columbia should also be permitted to accrue Post-in-Service Carrying Costs (PISCC) on all investment between the date the property is placed into service and the date recovery of the investment commences. The PISCC rate should be determined annually based on Columbia's weighted cost of debt and should not be compounded.

Regarding Rate of Return

On page 25 of the Opinion and Order: Findings of Fact: (14) The current net operating income for the 12-month period ending September 30, 2008, is $54,322,000. The net annual compensation of $54,322,000 realized by the applicant represents a rate of return of 5.28 percent. The stipulating parties have recommended a rate of return of 8.12 percent. (15) Applying a rate of return of 8.12 percent to the rate base of $1,028,445,000 will result in an annual dollar return of $83,510,000. Under the stipulation, the parties agreed that the adjusted test year operating income was $54,322,000. This results in an income deficiency of $29,188,000, which, when adjusted for uncollectibles and taxes, results in a revenue increase of $47,143,000.

On page 26 of the Opinion and Order: Conclusions of Law: A rate of return of 8.12 percent is fair and reasonable under the circumstances of this case and is sufficient to provide the applicant just compensation and return on its property used and useful in the provision of service to its customers.

On page 7 of the Joint Stipulation Agreement: Columbia is entitled to an overall rate of return of 8.12% and based on the information contained in the record of this proceeding the Parties agree that annual revenues specified above shall provide Columbia with an opportunity to earn an overall return of 8.12%. The Parties agree that the corresponding return on equity is 10.39%. In agreeing upon this return on equity, the parties took into consideration the fact that investors may perceive Columbia to be less risky because of the alternative regulation provisions agreed to by the Parties and because of the levelized rate design proposed by Columbia. Accordingly, the Parties reduced Columbia's return on equity by 25 basis points in order to reflect this reduced risk perception.

Case No. 11-5351-GA-UNC – Capital Expenditure Program

On August 29, 2012, the Commission issued its Findings and Order regarding Case No. 11-5351-GA-UNC. The Order approved the following:

On page 1 of the Findings and Order: On October 3, 2011, Columbia filed an application for authority to implement a capital expenditure program (CEP) for the period of October 1, 2011, through December 31, 2012, pursuant to Sections 4909.18 and 4929.111, Revised Code. Additionally, Columbia seeks approval to modify its accounting procedures to provide for capitalization of post-in-service carrying costs (PISCC) on those assets of the CEP that are placed into service but not reflected in rates as plant in service, as well as deferral of depreciation expense and property taxes directly attributable to those assets of the CEP that are placed into service but not reflected in rates as plant in service. According to the application, a cumulative investment of $76 million is projected for Columbia's CEP. Columbia states that it is not requesting cost recovery as part of this application and that recovery of any approved deferrals will be requested in a separate proceeding. Columbia submits that approval of the application will not result in an increase in any rate or charge, and, therefore, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.

On page 11 through 13 of the Findings and Order: Section 4929.111(A), Revised Code, provides that a natural gas company may file an application with the Commission under Section 4909.18, 4929.05, or 4929.11, Revised Code, to implement a CEP for any of the following: (a) Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program; (b) Any program to install, upgrade, or replace information technology systems; (c) Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

Section 4929.111(C), Revised Code, requires the Commission to approve the application, if the Commission finds that the CEP is consistent with the natural gas company's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable.

Upon review of Columbia's application and the comments filed by the parties, the Commission finds that the application should be approved, with the following modifications and clarifications:

(a) Columbia should calculate the total monthly deferral, PISCC, depreciation expense, property tax expense, and incremental revenue by using the specific formulas set forth in Staff's sur-reply comments.

(b) Columbia should offset the monthly regulatory asset amount charged to the CEP by those revenues generated from the assets included in the CEP for SFV customers, non-SFV customers, and any other revenue sources directly attributable to CEP investments.

(c) Columbia should maintain sufficient records to enable Staff to verify that all revenue generated from CEP investments is accurately excluded from the total monthly deferral.

(d) Columbia should calculate the PISCC on assets placed in service under the CEP as recommended by Staff, such that the PISCC are determined by taking the previous month's ending gross plant balance (utilizing the one-month lag method), less associated depreciation and retirements, and multiplying it by the Company's monthly long-term cost of debt rate.

(e) Columbia should calculate the depreciation and property tax deferrals for the CEP in a manner consistent with Staff's recommendations.

(f) Columbia should docket an annual informational filing by April 30 of each year that details the monthly CEP investments and the calculations used to determine the associated deferrals, as recommended by Staff. The annual informational filings should include all calculations used to determine the monthly deferred amounts, including a breakdown of investments (by budget class), PISCC, depreciation expense, property tax expense, and all incremental revenue, as well as a capital budget for the upcoming year. The annual informational filings should also include an estimation of the effect that the proposed deferrals would have on customer bills, if they were to be included in rates.

(g) Columbia may accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50/month. Accrual of all future CEP-related deferrals should cease once the $1.50/month threshold is surpassed, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism under Section 4909.18, 4929.05, or 4929.11, Revised Code.

The Commission finds no merit in the arguments of OCC and OPAE that Columbia's application fails to provide a sufficient description of the proposed CEP or its total cost. The Commission finds that Columbia's application includes the necessary information required by Section 4929.111, Revised Code, regarding the types and amounts of the expenditures included in the CEP such that the Company has demonstrated that the CEP is consistent with the Company's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable. The Commission emphasizes, however, that Columbia has not requested, nor is the Commission granting, cost recovery for any CEP-related items. The Commission will consider the prudence and reasonableness of the magnitude of Columbia's CEP-related regulatory assets and associated capital spending in any future proceedings seeking cost recovery and the Company will be expected to provide, at that time, detailed information regarding the expenditures for our review. Additionally, the Commission finds that our approval of Columbia's application, as modified herein, will not result in an increase in any rate or charge. Accordingly, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.

With the above modifications and clarifications, the Commission finds Columbia's proposed CEP, as modified herein, to be both reasonable and consistent with Section 4929.111, Revised Code. Accordingly, Columbia is authorized, pursuant to Sections 4909.18 and 4929.111, Revised Code, to implement the CEP and modify its accounting procedures as necessary to carry out the implementation of the CEP for the period of October 1, 2011, through December 31, 2012, consistent with this finding and order.

On page 1 through 9 of the Application for CEP: Pursuant to Rev. Code §§ 4909.18 and 4929.111, Columbia Gas of Ohio, Inc. ("Columbia") files this Application with the Public Utilities Commission of Ohio, ("Commission") for authority to implement a capital expenditure program and to modify its accounting procedures to provide for: (1) capitalization of post-in-service carrying costs on those assets of the capital expenditure program that are placed into service, but not reflected in rates as plant in service; and, (2) deferral of depreciation expense and property taxes directly attributable to those assets of the capital expenditure program that are placed into service, but not reflected in rates as plant in service. In support of its Application, Columbia states:

1. Columbia is a natural gas company within the meaning of Rev. Code § 4905.03(A)(6), and as such, is a public utility subject to the jurisdiction of the Commission.

2. Columbia is proposing to implement a capital expenditure program for the period October 1, 2011 through December 31, 2012. During this period Columbia estimates its capital expenditure program will include a cumulative investment level of seventy-six million dollars that qualifies for the accounting treatment under Rev. Code § 4929.111(A).
3. Pursuant to Rev Code § 4929.111(B) Columbia includes as Attachment A hereto its estimated total cost of the capital expenditure program covered by this application. The amounts shown on Attachment A will be eligible for the accounting treatment described more fully hereinafter. The actual expenditures will vary by category. The total amount expended will also vary from year to year due to Columbia's management of its capital expenditures budget in the aggregate, rather than by individual categories, and due to the development of Columbia's capital expenditure budget based upon cash payments (Account 107) rather than the date plant becomes used and useful and transferred to plant in service (Account 101, Gas Plant In Service). This timing difference between the date cash payments are made and the date plant is placed into service will result in the total capital budget estimates detailed on Attachment A being different in a given year with a corresponding increase or decrease in the actual expenditures eligible for accounting treatment under Rev Code § 4929.111(B).
4. Columbia's capital allocation policy governs the allocation of capital, including the identification and prioritization of capital projects. The annual capital budget allocation approved by the NiSource Board of Directors is consistent with Columbia's obligations to furnish necessary and adequate services and facilities under Rev. Code § 4905.22. The following components are included in Columbia's capital expenditure program:
    a. <u>Replacement/Public Improvement/Betterment</u> – Replacement of facilities for any of the following reasons: (1) physical deterioration; (2) meeting the requirements of governmental authorities related to street and highway construction; (3) accommodating existing customer requests for facility relocation; and, (4) improving system operating conditions and ensuring adequate distribution system capacity and/or system reliability. This Replacement/Betterment category may include, but is not limited to, costs related to installation of and/or improvements to mains and service lines, wells, well and field lines, gathering lines, base gas, compressor stations, purification equipment, measuring and regulation stations, district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices. house regulators, and any associated buildings, land or land rights.
    b. <u>Acquisitions</u> - Costs related to purchase of gas transmission, distribution, or storage facilities. This category may include, but is not limited to, costs associated with the purchase of mains and service lines, wells, well and field lines, gathering lines, base gas, compressor stations, purification equipment, measuring and regulation stations, district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.
    c. <u>Growth</u> - Facilities required to provide service to new customers or to provide increased load capacity to existing customers. This category may include, but is not limited to, costs associated with the installation of and/or improvement to mains and services (including service line installations to new customers served by existing mains), district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated land or land rights.

   d. Support Services - Capital expenditures that are not directly related to gas facilities fall into this category which may include, but is not limited to, costs associated with the purchase of and/or improvements to buildings and structures (including associated land and land rights), environmental remediation at company owned facilities, office furniture and equipment, motorized equipment and trailers, power operated equipment, and other miscellaneous equipment.
   e. Information Technology - Capital expenditures related to technology and communications infrastructure. This category may include, but is not limited to, costs associated with purchase and installation of communications equipment (including associated buildings, land or land rights), data processing equipment, data processing software, and software licenses.
   f. Distribution Integrity Management Plan Implementation - Capital expenditures identified as necessary to implement a Distribution Integrity Management Plan process that may fall into any or all of the categories described above.
5. In all of the categories described above the costs include (where applicable) Supervisory, Engineering, General, and Administrative overheads, and Allowance for Funds Used During Construction, and are net of any contributions, deposits, or other aid to construction. None of the capital expenditures in the categories described above include costs targeted for inclusion in Columbia's Infrastructure Replacement Program or CHOICE/SSO Reconciliation Rider.
6. Columbia adheres to the FERC Unified System of Accounts prescribed for Natural Gas Companies and Generally Accepted Accounting Principles when accounting for the actual cost of capital projects. Pursuant to the FERC Unified System of Accounts, all amounts included are just and reasonable. Projects that are deemed "used and useful" in serving the needs of Columbia's customers are reported as in-service. Detailed gas plant accounting records are maintained to permit identification, analysis and verification of capitalized costs.
7. This Application will not result in an increase in any rate, joint rate, toll, classification, charge or rental. Therefore, this Application is an application not for an increase in rates under Rev. Code § 4909.18.
8. Rev. Code § 4929.111(A) authorizes a natural gas company to request approval of a capital expenditure program under Revised Code sections 4909.18, 4929.05 or 4929.11 to implement a capital expenditure program for any of the following:
   a. Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
   b. Any program to install, upgrade, or replace information technology systems;
   c. Any program reasonably necessary to comply with any rules, regulations, or orders of the commission or other governmental entity having jurisdiction.
9. Rev. Code § 4929.111(C) provides for the Commission's approval of a capital expenditure program if the Commission finds the natural gas company's capital expenditure program is consistent with the company's obligations to furnish necessary and adequate services and facilities under section Rev. Code § 4905.22.
10. Pursuant to Rev. Code § 4929.111(D) the Commission shall authorize a natural gas company to defer or recover in an application filed under Rev Code § 4929.111 the following:
    a. A regulatory asset for post-in-service carrying costs on that portion of the capital expenditure program assets that are placed in service but not reflected in rates as plant in service;

   b. A regulatory asset for the incremental depreciation on that portion of the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service; and,
   c. A regulatory asset for the incremental property taxes directly attributable to the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service.

11. Rev. Code § 4929.111(F) authorizes a natural gas company to make any accounting accruals, necessary to establish the regulatory assets authorized under Rev. Code § 4929.111(D), in addition to any allowance for funds used during construction. Pursuant to Rev. Code § 4929.111(G) any accrual or deferral for recovery shall be calculated in accordance with the system of accounts established by the Commission under Rev. Code § 4905.13.
12. Revised Code § 4905.13 authorizes the Commission to establish systems of accounts to be kept by public utilities and to prescribe the manner in which these accounts shall be kept. In Chapter 4901:1-13-01, Ohio Administrative Code the Commission has adopted the Uniform System of Accounts ("USOA") for gas utilities established by the Federal Energy Regulatory Commission ("FERC") for use in Ohio. For Ohio regulatory purposes, the system of accounts is only applicable to the extent that it has been adopted by the Commission. Therefore the Commission may modify the USOA prescribed by FERC as it applies to utilities within the state of Ohio.
13. Pursuant to Rev. Code § 4929.111 (A-F) Columbia hereby requests approval of its capital expenditure program, and requests accounting authority to capitalize related carrying costs and defer related depreciation and property tax expense. Specifically, Columbia requests it be permitted to revise its accounting procedures to provide for the following with respect to its capital expenditure program:
    a. Authority to record as a regulatory asset all post-in-service carrying costs in Account 101, Gas Plant in Service, Post-In-Service Carrying Costs ("PISCC"). PISCC accounting treatment shall commence when the assets of the capital expenditure program are placed into service and shall cease when rates reflecting the costs of those assets become effective. All PISCC shall be calculated, for every investment in the capital expenditure program, based on Columbia's cost of longterm debt.
    b. Authority to record as a regulatory asset depreciation expense and property taxes on all investment in Columbia's capital expenditure program between the time assets are placed in service, but not reflected in rates as plant in service. This deferred accounting shall cease when rates reflecting the deferred depreciation expenses and property taxes become effective. Deferred depreciation expense and property taxes will be reflected in a sub-account of Account 182, Other Regulatory Assets, and be calculated as follows.
        i. Deferred property taxes shall be calculated, for every investment in the capital expenditure program, at Columbia's estimated composite property tax rate and deferred in a special subaccount of Account 182-Other Regulatory Assets-Deferred Taxes.
        ii. Deferred depreciation expense shall be calculated, for every investment in the capital expenditure program, at the applicable Commission-approved depreciation rates and recorded in a special subaccount of Account 182-Other Regulatory Assets-Deferred Depreciation
14. The PISCC accounting treatment requested in this Application is not a matter of first impression for the Commission. The requested accounting treatment is consistent with

that previously set forth in the Fourth Amendment to Joint Stipulation and Recommendation in Case No. 94 -987-GA-AIR et al. In that stipulation PISCC treatment was established for all investments placed into service between the dates November 1, 2004 through December 31, 2008. Said stipulation was approved by the Commission in an Entry dated March 11, 2004, and an in Entry on Rehearing dated May 5, 2004. In addition, Columbia had previously received approval to capitalize PISCC on all investments otherwise eligible for an "Allowance for Funds Used During Construction" with in service dates between December 31, 1990 and December 3, 1993 in Case No,. 91-195-GAAIR et al. pursuant to the Commission's Opinion and Order in that case issued November 27,1991.

15. In this Application Columbia is requesting only the accounting authority described above. Columbia is not requesting recovery of any of the deferred amounts as part of this Application. Recovery of any amounts deferred pursuant to approval of this Application will be addressed in a separate proceeding. The requested approval of the capital expenditure program and change in accounting procedure does not result in any increase in rate or charge, and the Commission can therefore approve this application without a hearing.

On April 26, 2013, the Company provided one annual report with the required information pertaining to CEP/PISCC for the previous year. 2013-2017 annual information is provided in a separate docket (see below).

Case No. 12-3221-GA-UNC – Capital Expenditure Program Modification

On October 9, 2013, the Commission issued its Findings and Order regarding Case No. 12-3221-GA-UNC. The Order approved the following:

On page 1 through 6 of the Findings and Order:

(2) On August 29, 2012, in Case No. 11-5351-GA-UNC, et al. (11-5351), the Commission modified and approved Columbia's application for authority to implement a capital expenditure program (CEP) for the period of October 1, 2011, through December 31, 2012, pursuant to Sections 4909.18 and 4929.111, Revised Code. The Commission approved Columbia's request to modify its accounting procedures to provide for capitalization of post-in-service carrying costs on those assets of the CEP that are placed into service, but not reflected in rates as plant in service, as well as deferral of depreciation expense and property taxes directly attributable to those assets of the CEP that are placed into service, but not reflected in rates as plant in service. The Commission authorized Columbia to accrue CEP-related deferrals only up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the Small General Service (SGS) class of customers to increase by more than $1.50 per month (deferral cap). At that point, accrual of all future CEP-related deferrals is required to cease, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism under Section 4909.18, 4929.05, or 4929.11, Revised Code. The Commission also required Columbia to docket an annual informational filing by April 30 of each year that details, inter alia, the monthly CEP investments and the calculations used to determine the associated deferrals. (CEP Order at 11-13.)

(3) On December 24, 2012, Columbia filed an application, pursuant to Sections 4909.18 and 4929.111, Revised Code, seeking authority to continue its CEP, including deferral of the related carrying costs, depreciation expense, and property tax expense, in 2013 and succeeding years, up until the point where the accrued deferrals, if included in rates, would cause the rates

charged to the SGS class of customers to increase by more than $1.50 per month. Columbia proposes to compute and defer the cost of its CEP-related investments in accordance with the CEP Order. According to the application, a cumulative investment of $72 million is projected for Columbia's CEP during the period from January 1, 2013, through December 31, 2013. Columbia states that it is not requesting cost recovery as part of this application and that recovery of any approved deferrals will be requested in a separate proceeding. Columbia submits that approval of the application will not result in an increase in any rate or charge, and, therefore, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.

(4) Additionally, Columbia states that it will include in its future annual informational filings all of the information required by the Commission in the CEP Order, including the Company's projected capital expenditures budget for the current and following calendar year. Columbia proposes that the projected CEP investments in the annual informational filing be the maximum allowable level of investment eligible for deferral in accordance with Section 4929.111(B), Revised Code. Columbia asserts that the accounting treatment requested in its application is consistent with Staff's recommendations, as approved by the Commission, in 11-5351.

(5) On April 26, 2013, Columbia docketed its annual informational filing in 11-5351 (2013 filing).

(6) By entry issued in the above-captioned cases on June 11, 2013, a comment period was established in order to assist the Commission in its review of Columbia's application. Pursuant to the entry, initial and reply comments were due to be filed by July 11, 2013, and July 25,2013, respectively.

(7) In accordance with the established procedural schedule, comments were filed by Staff on July 11, 2013. No other comments were filed in these proceedings.

(8) In its comments. Staff emphasizes that, because Columbia seeks approval to continue the CEP and the associated deferrals until the deferral cap is reached, no further applications will be forthcoming from the Company until that point is reached. As Columbia's annual informational filings would stand in place of future applications. Staff explains that it reviewed and considered both the application filed in the present cases and the 2013 filing in 11-5351, in the course of developing Staff's comments and recommendations. Staff finds that Columbia's application and the 2013 filing comply with the CEP Order and, accordingly, recommends that the Company's application be approved, subject to Staff's further recommendations.

(9) Specifically, Staff recommends that the Commission establish a process to permit intervening parties and Staff to object to continued authority for Columbia's CEP and related deferrals through a review of the Company's annual informational filings. Staff states that, under Columbia's proposal to continue the CEP and associated deferrals until the deferral cap is reached, there is no provision for intervening parties or Staff to object to any of the information provided by the Company in its annual informational filings. Staff proposes a 30-day automatic approval process that would require Staff and any intervening party to file objections to the information, or lack thereof, contained in Columbia's annual informational filings. Staff notes that, if there are no objections filed within 30 days of the date on which Columbia's annual informational filing is docketed, the Company's CEP and ongoing deferral authority would be deemed approved. Staff further notes that, if Staff or any intervening party files objections within 30 days, an attorney examiner appointed by the Commission should

issue an entry soliciting comments on the matters raised in the objections. Staff asserts that its proposal would provide for the efficient process that Columbia seeks, while allowing Staff and interested parties the opportunity to review the Company's annual informational filings, which was contemplated with the Commission's adoption of the annual informational filing requirement in 11-5351.

(10) Additionally, Staff recommends that the Commission clearly state that approval of Columbia's CEP and the associated deferrals does not guarantee recovery of CEP expenditures or deferrals. Staff advises the Commission to make clear that only deferral authority is approved in these cases and that Columbia's eligibility for recovery of the deferred amounts, including, but not limited to, issues such as prudence, proper computation, proper recording, and reasonableness, will be considered when the Company applies to recover the authorized deferrals.

(11) Section 4929.111(A), Revised Code, provides that a natural gas company may file an application with the Commission under Section 4909.18, 4929.05, or 4929.11, Revised Code, to implement a CEP for any of the following:

a. Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
b. Any program to install, upgrade, or replace information technology systems;
c. Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

Section 4929.111(C), Revised Code, requires the Commission to approve the application, if the Commission finds that the CEP is consistent with the natural gas company's obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable.

(12) Upon review of Columbia's application and Staff's unopposed comments, the Commission finds that the Company has demonstrated that the CEP is consistent with its obligation under Section 4905.22, Revised Code, to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable. Further, the Commission finds that Columbia's application will not result in an increase in any rate or charge. Accordingly, the application should be considered as an application not for an increase in rates under Section 4909.18, Revised Code.

(13) With the modifications and clarifications set forth below, the Commission finds Columbia's proposed CEP, as modified herein, to be both reasonable and consistent with Section 4929.111, Revised Code. Accordingly, Columbia is authorized, pursuant to Sections 4909.18 and 4929.111, Revised Code, to implement the CEP and modify its accounting procedures as necessary to carry out the implementation of the CEP, consistent with this finding and order and the CEP Order, in 2013 and succeeding years, up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50 per month.

(14) While the Commission approves Columbia's application for 2013 and succeeding years, we agree with Staff that a process should be adopted to allow interested persons and Staff to comment on the information provided by the Company in its annual informational filings due on April 30 of each year (CEP Order at 12). Therefore, the Commission directs that any comments and reply comments should be filed within 30 days and 40 days, respectively, of the date of Columbia's annual informational filing. After receipt of each annual informational filing

and review of any comments submitted, the Commission will determine whether there should be further review of Columbia's approved deferral authority at that time. If the Commission finds such further review to be necessary, within 60 days after the filing of each annual informational filing, an appropriate procedure for the review will be established. If such a review is initiated, Columbia may continue to accrue appropriate deferrals, unless and until the Commission orders otherwise. The Commission notes that Columbia's annual informational filings, as well as any comments and reply comments, should be filed in the above-captioned cases. With these modifications, we find that Columbia's application should be approved, subject to our review of the Company's annual informational filings and any comments or reply comments filed in response.

(15) Additionally, the Commission emphasizes that, consistent with Columbia's application, we approve the Company's request for deferral authority, but do not authorize recovery of the deferred amounts at this time. The question of recovery of the deferred amounts, including, but not limited to, issues such as prudence, proper computation, proper recording, and reasonableness, will be considered when Columbia files an application to recover the deferred amounts. As we stated in the CEP Order, the Commission has not granted cost recovery for any CEP-related items, and the prudence and reasonableness of the magnitude of Columbia's CEP-related regulatory assets and associated capital spending will be considered by the Commission in any future proceedings seeking cost recovery, at which time the Company will be expected to provide detailed information regarding the expenditures for our review (CEP Order at 13).

On page 1 through 7 of the Application: In Case Numbers 11-5351-GA-UNC and 11-5352-GA-AAM Columbia Gas of Ohio, Inc ("Columbia") sought approval of a capital expenditure program ("CEP") and related accounting authority for part of 2011 and calendar year 2012. The Commission approved Columbia's application, with modifications, by Finding and Order dated August 29, 2012. Pursuant to Rev. Code 4909.18 and 4929.111, Columbia files this Application with the Public Utilities Commission of Ohio, ("Commission") for authority to continue its capital expenditure program in 2013 and succeeding years, and for authority to defer related PISCC, depreciation expense and property taxes on those assets of the capital expenditure program that are placed into service, but not reflected in rates as plant in service. In support of its Application, Columbia states:

2) Columbia is a natural gas company within the meaning of Rev. Code 4905.03(A)(6), and as such, is a public utility subject to the jurisdiction of the Commission
3) In Case Nos. 11-5351-GA-UNC et al. the Commission authorized Columbia to implement its capital expenditure program and modify accounting procedures as necessary to carry out the implementation of the capital expenditure program for the period of October 1, 2011, through December 31, 2012. The Finding and Order requires Columbia to make annual informational filings on April 30 of each year. The annual filing must detail the monthly CEP investments and the calculations used to determine the associated deferrals. The annual informational filings must include all calculations used to determine the monthly deferred amounts, including a breakdown of investments (by budget class), post-in service carrying charges ("PISCC"), depreciation expense, property tax expense, and all incremental revenue, as well as a capital budget for the up-coming year. The annual informational filings should also include all estimation of the effect that the proposed deferrals would have on customer billing, if they were to be included in rates. The Finding and Order further provides that Columbia may accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50/month. Accrual of all future CEP-related deferrals will cease

once the $1.50/month threshold is reached, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism under Rev. Code§ 4909.18, 4929.05, or 4929.11. The final component that must be included in these informational filings is the projected annual CEP expenditure for current year which would be the maximum incremental investment available for deferral treatment under Rev. Code§ 4929.111(A) for the calendar year, unless the commission in its discretion authorizes additional deferral under Rev Code§ 4929. 111(3)(D).

4) In this Application, Columbia is proposing to continue its capital expenditure program approved in Case Nos. 11-5351-GA-UNC et al. in 2013 and succeeding years, up until the point where the accrued deferrals, if included in rates, would cause the rates charged to Columbia's SGS customers to increases by more than $1.50/month as authorized in Case Nos.. 11-5351-GA-UNC et al.
5) During the period January 1, 2013 through December 31, 2013 Columbia estimates its capital expenditure program will include an investment level of approximately seventy-two million dollars of net plant investment that qualifies for the accounting treatment under Rev. Code 4929.111(A)
6) Pursuant to Rev Code 4929.111 (B) Columbia includes as Attachment A hereto its estimated total cost of the capital expenditure program covered by this application with treatment described more fully hereinafter. The actual expenditures will vary by category. The total amount expended could also vary due to Columbia's management of its capital expenditures budget in the aggregate, rather than by individual categories, and due to the development of Columbia's capital expenditure budget based upon cash payments (Account 107) rather than the date plant becomes used and useful and transferred to plant in service (Account 101, gas Plant in Service). This timing difference between the date cash payments are made and the date plant is placed into service will result in the total capital budget estimates detailed on Attachment A being different in a given year with a corresponding increase or decrease in the actual expenditures eligible for accounting treatment under Rev. Code 4929.111(B)
7) Columbia will include in its annual informational filing, on or before April 30 each year, all of the above-referenced information required by the Commission in its Findings and Order, including its projected capital expenditures budget for the current and next calendar year in a similar format as shown in Attachment A hereto.
8) Columbia proposes the use of the projected CEP investment for the current and next calendar year included in its Annual CEP Report to be filed on or before April 30 each year be the maximum allowable level of investment eligible for deferral in accordance with Rev. Code 4929.111(B)
9) Columbia's capital allocation policy governs the allocation of capital, including the identification and prioritization of capital projects. The annual capital budget allocation approved by the NiSource Board of Directors is consistent with Columbia's obligation to furnish necessary and adequate services and facilities under Rev. Code 4905.22. the following components are included in Columbia's capital expenditures program:
    a. Replacement/Public Improvement/Betterment – Replacement of facilities for any of the following reasons: (1) physical deterioration; (2) meeting the requirements of governmental authorities related to street and highway construction; (3) accommodating existing customer requests for facility relocation; and (4) improving system operating conditions and ensuring adequate distribution system capacity and/or system reliability. This Replacement/Betterment category may include, but is not limited to, cost related for installation of and/or improvements

to mains and service lines, measuring and regulation stations, district regulatory stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.

b. Growth – Facilities required to provide service to new customers or to provide increased load capacity to existing customers. The category may include, but is not limited to, costs associated with the installation of and/or improvement to mains and services (including service line installations to new customers served by existing mains), district regulator stations, excess pressure measuring stations, meters, meter sets, AMR devices, house regulators, and any associated buildings, land or land rights.
c. Support Services – Capital expenditures that are not directly related to gas facilities fall into this category which may include, but is not limited to, costs associated with the purchase of and/or improvements to buildings and structures (including associated land and land rights), environmental remediation at company owned facilities, office furniture and equipment, motorized equipment and trailers, power operated equipment, and other miscellaneous equipment.
d. Information Technology – Capital expenditures related to technology and communications infrastructure. This category may include, but is not limited to, costs associated with purchase and installation of communications equipment (including associated buildings, land or land rights), data processing equipment, data processing software, and software licenses.

10) For all categories described above the costs include (where applicable) Supervisory, Engineering, General, and Administrative overheads, and an Allowance for Funds Used During Construction, and are net of any contributions, deposits, or other aid to construction. None of the capital expenditure in the categories described above include costs targeted for inclusion in Columbia's Infrastructure Replacement Program or CHOICE/SSO Reconciliation Rider.
11) Columbia adheres to the FERC unified System of Accounts prescribed for Natural Gas Companies and Generally Accepted Accounting Principles when accounting for the actual cost of capital projects. Pursuant to the FERC Unified System of Accounts, all amounts included are just and reasonable. Projects that are deemed "used and useful" in serving the needs of Columbia's customers are reported as in-service. Detailed gas plant accounting records are maintained to permit identification, analysis and verification of capitalized costs.
12) Rev. Code 4929.111(A) authorizes a natural gas company to request approval of a capital expenditure program under Rev. Code sections 4909.18, 4929.05 or 4929.11 to implement a capital expenditure program for any of the following:
    a. Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
    b. Any program to install, upgrade, or replace information technology systems;
    c. Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.
13) Rev Code 4929.111(C) provides for the Commission's approval of a capital expenditure program if the Commission finds the natural gas company's capital expenditure program is consistent with the company's obligations to furnish necessary and adequate services and facilities under Section Rev Code 4905.22.
14) Pursuant to Rev Code 4929.111(D) the Commission shall authorize a natural gas company to defer or recover in an application filed under Rev Code 4929.111 the following:

a. A regulatory asset for post-in-service carrying costs on that portion of the capital expenditure program assets that are placed in service but not reflected in rates as plant in service;
b. A regulatory asset for the incremental depreciation on that portion of the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service; and,
c. A regulatory asset for the incremental property taxes directly attributable to the assets of the capital expenditure program that are placed in service but not reflected in rates as plant in service.

15) Rev Code 4929.111(F) authorizes a natural gas company to make any accounting accruals necessary to establish the regulatory assets authorized under Rev Code 4929.111(D), in addition to any allowances for funds used during construction. Pursuant to Rev Code 4929.111(G) any accrual or deferral for recovery shall be calculated in accordance with the system of accounts established by the Commission under Rev Code 4905.13.
16) The Finding and Order in Case Nos. 11-5351-GA-UNC et al. authorized the following accounting for Columbia's calculation and total monthly deferral of regulatory assets for that portion of the capital expenditure program assets that are placed in service but not reflected in rate as plant in service.

Total Monthly Deferral = (PISCC) + (Depreciation Expense) + (Property Tax Expense) – (Incremental Revenues

Where:

PISCC = [(Previous Month's Cumulative Gross Plant Additions) – (Previous Month's Accumulated Depreciation) – (Previous Month's Cumulative Retirements) + (1/2 Current Month's Plant Additions) – (1/2 current Month's Retirements)] * [(Depreciation Rate) / (12 Months)]

Property Tax Expense = [(Previous Year End Cumulative Gross Plant Additions) – (Previous Year End Cumulative Retirement)] * (Percent Good Adjustment) * [(Effective Property Tax Rate) / (12 Months)]

Incremental Revenue = [(current Month's Customers – Baseline Customers) * (Cost Portion of Rate)] + [(Consumption by non-SFV customers directly attributable to program investment) * (Cost Portion of Rate)] + (Other revenues directly attributable to program investment)

17) Pursuant to Rev Code 4929.111 (A-F) Columbia hereby requests continuation of its capital expenditure program and authority to defer related carrying costs, depreciation expense and property tax expense up until the time these deferrals equate to a $1.50/month charge to SGS customers if included in rates. Specifically, Columbia requests to be permitted to compute and defer these costs in accordance the Commission's Findings and Order issued in Case Nos. 11-5351-GA-UNC et al.
18) The treatment requested in this Application is consistent with that recommended by Staff and approved by Commission in Case Nos. 11-5351-GA-UNC et al. for the period October 1, 2011 to December 31, 2012.
19) In this Application Columbia is requesting continued authority to defer the aforementioned expenses through the use of the accounting authority and formulas described above. Columbia is not requesting recovery of any of the deferred amounts as part of this

Application. Recovery of any amounts deferred pursuant to approval of this Application will be addressed in a separate proceeding.

20) This Application will not result in an increase in any rate, joint rate, toll, classification, charge or rental. Therefore, this Application is an application not for an increase in rates under Rev. Code 4909.18

Case No. 17-2202-GA-ALT – Capital Expenditure Program Rider

On November 28, 2018, the Commission issued its Findings and Order regarding Case No. 17-2202-GA-ALT. The Order approves the stipulation and recommendations resolving all issued related to the Company's capital expenditure program rate recovery mechanism.

II. Discussion

A. Applicable Law

On pages 3–4 (Paragraph 4) Pursuant to R.C. 4929.111, a natural gas company may file an application under R.C. 4909.18, 4929.05, or 4929.11 to implement a capital expenditure program (CEP) for any of the following: any infrastructure expansion, infrastructure improvement, or infrastructure replacement program; program to install, upgrade, or replace information technology systems; or any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction. In approving the application, the Commission shall authorize the natural gas company to defer or recover both of the following: a regulatory asset for post-in-service carrying costs (PISCC) on the portion of the assets of the CEP that are placed in service but not reflected in rates as plant in service; and a regulatory asset for the incremental depreciation directly attributable to the CEP and the property tax expense directly attributable to the CEP but not reflected in rates. A natural gas company shall not request recovery of the PISCC, depreciation, or property tax expense under R.C 4929.05 or R.C. 4929.11 more than once each calendar year.

B. Procedural History

On pages 4–6

(Paragraph 5) In Case No. 11-5351-GA-UNC, et al., the Commission modified and approved Columbia's application to implement a CEP for the period of October 1, 2011, through December 31, 2012, pursuant to R.C. 4909.18 and 4929.111. The Commission also approved Columbia's request to modify its accounting procedures to provide for the capitalization of PISCC on assets of the CEP placed into service but not reflected in rates as plant in service, as well as deferral of depreciation expense and property taxes directly attributable to those assets of the CEP that are placed into service but not reflected in rates as plant in service. Further, the Commission noted that the prudence and reasonableness of Columbia's CEP-related regulatory assets and associated capital spending would be considered in any future proceedings seeking cost recovery, at which time Columbia would be expected to provide detailed information regarding the expenditures for Commission review. In re Columbia Gas of Ohio, Inc., Case No. 11-5351- GA-UNC, et al. (CEP Deferral Case), Finding and Order (Aug. 29,2012), Entry on Rehearing (Oct. 24,2012).

(Paragraph 6) In Case No. 12-3221-GA-UNC, et al., the Commission modified and approved Columbia's application to continue its CEP, including deferral of the related PISCC, depreciation expense, and property tax expense, in 2013 and succeeding years until such point as the deferral cap established in the CEP Deferral Case was reached [122] The Commission once again noted that, while we approved the request for deferral authority, we did not authorize recovery of the deferred amounts at that time. Instead, as before, the question of recovery of the deferred amounts, including, without limitation, issues of prudency, proper computation, proper recording, and reasonableness, would be considered when Columbia filed an application to recover the deferred amounts. In re Columbia Gas of Ohio, Inc., Case No. 12-3221-GA-UNC, et al.. Finding and Order (Oct. 9, 2013).

(Paragraph 8) On December 1, 2017, Columbia filed an alternative rate plan application, along with supporting exhibits and testimony, pursuant to R.C. 4929.05, 4929.051(A), 4929.11, and 4929.111. The application seeks to establish a new rider mechanism to recover CEP costs (CEP Rider), including PISCC, incremental depreciation expense, and property tax expense deferred under the CEP, as well as the corresponding assets to which these expenses are directly attributable.

(Paragraph 11) On April 2, 2018, as supplemented on April 16, 2018, Columbia filed its amended alternative rate plan application to establish the CEP Rider, along with amended testimony, pursuant to R.C. 4929.111,4929.05, and 4909.18. Simultaneously, Columbia filed a motion for waivers of certain standard filing requirements. According to Columbia's application/ Columbia based its filing on a test year of the 12 months ending December 31, 2017, and a date certain of December 31, 2017. …

(Paragraph 12) By Entry issued May 9, 2018, Blue Ridge Consulting Services, Inc. (Blue Ridge) was selected as the auditor to evaluate Columbia's CEP.

(Paragraph 14) On September 4, 2018, Blue Ridge filed its audit report.

(Paragraph 15) On September 14,2018, Staff filed its report of investigation (Staff Report).

(Paragraph 20) On October 25, 2018, Columbia, Staff, OCC, OPAE, lEU, OEG, OMAEG, Kroger, and IGS filed a Stipulation and Recommendation (Stipulation) to resolve all the issues in this proceeding.

E. Summary of the Stipulation

On page 13

(Paragraph 37) The Stipulation filed October 25, 2018, was intended by Columbia, Staff, OCC, OPAE, lEU, OEG, OMAEG, Kroger, IGS, and RESA (Signatory Parties) to resolve all issues raised in this proceeding. The Signatory Parties state their agreement that the Stipulation is supported by adequate data and information, represents a just and reasonable resolution of the legal and policy issues raised in the proceeding, meets the Commission's criteria for assessing the reasonableness of a stipulation, and should be accepted and approved by the Commission 0oint Ex. 1 at 1-2). The following is a summary of the terms agreed to by the Signatory Parties and presented to the Commission for approval; this summary is not intended to replace or supersede the Stipulation:

[122] The deferral cap is the point at which the accrued deferrals, if included in rates, would cause the rates charged to the Small General Service (SGS) class of customers to increase by more than $1.50 per month.

On pages 13–16

CAPITAL EXPENDITURE PROGRAM REVIEW

1. Columbia's amended application to establish the CEP Rider should be approved by the Commission without modification except as provided within the Stipulation. The CEP Rider will recover the PISCC, incremental depreciation expense, and property tax expense; provide for a return on and of the corresponding assets to which these expenditures are directly attributable in Columbia's CEP (CEP Investment); and reflect a reduction for base rate depreciation expense as detailed below. (Joint Ex. 1 at 2.)
2. The initial CEP Rider rates, incorporating CEP Investment through December 31, 2017, will be effective not later than Columbia's first billing cycle in 2019 and should be established as set forth in Table 1:

TABLE 1

	Charge per meter per month
SGS Rate	$3.51
GS Rate	$29.29
LGS Rate	$566.69
CEP Assets Recovered	Oct. 2011–Dec. 2017
Rate Base Depreciation Offset	Oct. 2011–Dec. 2017

3. Blue Ridge audited Columbia's CEP Investment from October 2011 through December 31, 2017, the result of which is a disallowance of $205,710. The customer rates set forth in Table 1 incorporate this disallowance. (Joint Ex. 1 at 3.)
4. Blue Ridge conducted a thorough "necessity, prudence, and reasonableness" review of Columbia's plant in service balances from December 31, 2007, to December 31, 2017. The Staff Report recommends that the plant balances from the Blue Ridge audit serve as the basis for reconciliation in Columbia's next rate case. When Columbia files its next rate case, the baseline for the plant in service necessity, prudency, and reasonableness review will begin with the plant balances as of December 31, 2017. Further, any plant in service as of December 31, 2017, net of retirements to this plant in service as of the date certain in Columbia's base rate case application in 2021, will be deemed necessary, reasonable, and prudent for any future ratemaking proceedings.[123] (Joint Ex. 1 at 3.)
5. As an alternative to a future reduction in rate base, there will be an immediate adjustment to CEP Investment in the form of a depreciation offset of $289.9 million, for the period October 2011 through December 31, 2017, which is to the benefit of consumers. Using Staff's depreciation calculation, with several adjustments, Columbia's revenue requirement for the CEP Investment from October 2011 through December 31, 2017, is lowered from

[123] OCC does not agree to this paragraph of the Stipulation and preserved its rights to make any arguments in any other cases, including Columbia's next rate case, regarding the plant in service and rate base, including as to necessity, prudency, lawfulness, and reasonableness, dating back to Columbia's last rate case.

$109,436,639.47 to $74,486,252.84. The CEP Rider rates set forth in Table 1 reflect the base rate depreciation offset and the revised depreciation calculation. (Joint Ex. 1 at 4.)

6. All future annual CEP Rider revenue requirement filings for establishing CEP-related charges to consumers shell reflect the base rate depreciation offset until the CEP Rider is reset by the Commission's order in Columbia's 2021 base rate case (Joint Ex. 1 at 4).

7. The CEP Rider rates set forth in Table 1 incorporate beneficial offsets that account for Columbia's reduced federal income taxes resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA) (Joint Ex. 1 at 4).

On pages 16–20

ONGOING CEP RIDER STRUCTURE

8. For CEP Investment incurred after December 31, 2017, Columbia is authorized to defer expenses associated with CEP Investment until such costs are recovered via an adjustment to Columbia's CEP Rider rates. The deferrals shall be those authorized in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM. Columbia may adjust the CEP Rider rates each year to collect from customers the prior calendar year's CEP Investment and related deferrals. (Joint Ex. 1 at 4.)

9. Beginning in 2019, and by February 28 of each year, Columbia will file an annual application to adjust its CEP Rider rates to collect from customers the CEP Investment and related deferrals through December of the prior calendar year. Each annual application will contain schedules based on 12 months of actual data for the prior calendar year, and the rate of return used to develop the revenue requirement for each application will be based on the capital structure and cost of capital authorized by the Commission in Columbia's most recent base rate case. Case No. 08-72-GA-AIR, et al. (Joint Ex. 1 at 4-5.)

10. Staff or its designee shall review Columbia's annual filing to determine the necessity, prudence, lawfulness, and reasonableness of the CEP Investment for the prior calendar year. Unless Staff finds Columbia's annual application to be unjust and unreasonable, or a party granted intervention by the Commission files an objection to the annual filing or to Staffs review that is not resolved by July 31 of each year, the new CEP Rider rate will become effective by September 1 following the February filing. If either of those two contingencies occurs, Columbia will propose an expedited hearing process in order to effectuate, to the extent practicable, the implementation of the CEP Rider rates by September 1 or the first billing cycle of the revenue month following the Commission's decision. Each application to revise the CEP Rider rates will true up revenues collected with revenues estimated in future filings. Columbia will work with Staff and the Signatory Parties in the 2021 base rate case to discuss: (a) adjusting the timing of the filing of the annual IRP application so as to coordinate with the filing of the annual CEP Rider application; (b) whether the CEP Rider and IRP should be combined into one rider; (c) the future of the CEP Rider and IRP; and (d) how audits of rider charges could be improved for customers. (Joint Ex. 1 at 5.)

11. In an effort to mitigate the impact of the CEP Rider charges to customers, the Signatory Parties agree to the rate caps reflected in Table 2 corresponding to the CEP Investment, the related deferrals, and base rate depreciation offset through December 31, 2022 0oint Ex. 1 at 5).

TABLE 2

Rate Effective	Sept. 1, 2019	Sept 1, 2020	Sept 1, 2021	Sept 1, 2020 *until base rates go into effect with the 2021 rate case*
SGS Rate Cap	$4.56	$5.61	$6.66	$7.71
GS Rate Cap	$38.83	$48.05	$57.41	$66.91
LGS Rate Cap	$740.96	$918.00	$1,098.12	$1,281.45
CEP Assets Recovered	Oct 2011–Dec. 2018	Oct 2011–Dec. 2019	Oct 2011–Dec. 2020	Oct 2011–Dec. 2021

If Columbia seeks to continue the CEP Rider or its equivalent beyond its next base rate case, Columbia must file an application in conjunction with that base rate case for an alternative rate plan for collection from customers of CEP Investment in calendar years 2022 and beyond. Any such application for an alternative rate plan shall include specific annual rate caps and annual audits. The CEP Rider or its equivalent is intended to be an ongoing rider. As part of the next base rate case, the Signatory Parties agree to discuss updating the CEP Rider annually with CEP Investment in calendar year 2022 and beyond, and to discuss corresponding increases for the rate classes set in that base rate case. Additionally, the CEP Rider rate caps set forth in Table 2 will also cap Columbia's capital expense deferral authority in calendar years 2018 through 2021, Any future CEP Investment placed in service during calendar year 2022 and beyond is deferred within Columbians Commission-approved authority for the CEP Investment in Case No. 12-3221-GA-UNC and 12-3222-GA-AAM. (Joint Ex. 1 at 6-7.)

12. A. Columbia will meet with interested Signatory Parties to determine the feasibility and cost effectiveness of implementing information technology system enhancements related to commercial and industrial Choice customers, which shall include but not be limited to:

    1. An electronic portal that provides historic usage data of commercial and industrial Choice customers and can be accessed by competitive retail natural gas service (CRNGS) providers with proper authorization from customers (Joint Ex. 1 at 7).

    2. A mechanism that allows a CRNGS provider to provide uninterrupted and continuous service to commercial and industrial customers' premises (without being reverted back to the standard service offer for one billing cycle) in the event of a customer name or ownership change, provided that the CRNGS provider gives proper and timely notice to Columbia of the customer's consent. (Joint Ex. 1 at 7.)

    B. Columbia shall meet with interested Signatory Parties on a regularly scheduled basis to discuss the proposed enhancements identified in Paragraph 12(A), with the first meeting occurring within 60 days of an order approving the Stipulation (Joint Ex. 1 at 7).

    C. Columbia shall use good faith efforts to implement the information technology system enhancements related to commercial and industrial Choice customers pursuant to Paragraph 12(A), if the enhancements have been determined to be feasible and cost effective prior to its 2021 base rate case filing (Joint Ex. 1 at 7).

On pages 20–23

FEDERAL TAX REFORM

13. As recommended by the Staff Report, and in order to reflect the impact of the TCJA on Columbia's pre-tax rate of return, the pre-tax rate of return for Columbia's CEP Investment to be recovered in 2019 and future years will be 9.52 percent unless and until the Commission modifies the rate of return in Columbia's 2021 base rate case. This adjusted pre-tax rate of return is shown in Exhibit 2 to the Stipulation. 0oint Ex. 1 at 8.)

14. Columbia will offset its base rates for the benefit of customers (approximately $121 million) to reflect the reduced federal tax rates enacted as part of the TCJA. Subject to other proceedings that may affect the final amount of tax saving returned to customers, the total benefit of the TCJA to Columbia customers (in base rates and Columbia's IRP) will be approximately $284 million. The reduction in base rates resulting from the need to pass back to customers excess deferred income taxes will be based on deferred tax balances at December 31, 2007, which were used in the establishment of current base rates adjusted for recognition of the turnaround through December 31,2017. Normalized excess deferred taxes will be passed back to customers using the average rate assumption method, the amount of which included in rates is for rates in 2018 and will continue until the next base rate case. Non-normalized excess deferred taxes will be passed back to customers over a six-year period. Columbia is authorized to adjust its base rates to reflect the elimination of the reduction in base rates directly related to the pass back of non-normalized excess deferred taxes upon completion of the six-year period. This methodology for the pass back of excess deferred taxes shall also be the methodology used in Columbia's next IRP adjustment case to pass back excess deferred taxes. (Joint Ex. 1 at 8.)

The base rate revisions set forth in Table 3 should be effective January 1, 2019:

Table 3 Excluded (related to base rates and out of scope for this audit)

15. To return to customers Columbia's $22,593,862 in over-collection of taxes as a result of the enactment of the TCJA, Columbia will establish a TCJA credit. The over-collection is the result of the impact of the 14 percent federal rate reduction and excess accumulated deferred income taxes pass back not being reflected on customer bills from January 1, 2018, through December 31, 2018. This pass back will include interest computed at Columbia's long-term debt rate on the 14 percent federal tax rate reduction from January 1, 2018, until Columbia begins billing base rates that reflect the impact of the TCJA, Columbia agrees to and will display the short-term TCJA credits set forth in Table 4 as a separate line item on customers' bills, which line item will cease when the over-collection is returned to customers. (Joint Ex. 1 at 10.)

Table 4 Excluded (related to base rates and out of scope for this audit)

16. Columbia will revise its bill formats to include the TCJA credit and the CEP Rider. Sample bill formats are shown in Exhibit 3 to the Stipulation. (Joint Ex. 1 at 10.)

Pages 23–24

BASE RATE CASE COMMITMENT

17. Columbia will file an application to adjust its base rates with a test period of calendar year 2021 and a date certain that is prior to the filing date of that rate case unless otherwise ordered by the Commission. In the event it does not file the base rate case by July 1, 2021,

> Columbia will file revised tariff sheets by August 1,2021, that revise the CEP Rider rate to $0 effective September 1, 2021, and will not exercise its deferral authority for assets placed in service beginning January 1, 2022, and beyond until Columbia files a rate case. Columbia's deferral authority granted in Case No. 12-3221-GA-UNC and 12-3222-GA-AAM shall remain unchanged for assets placed in service beginning January 1, 2022, and beyond so long as Columbia meets its rate case filing commitment. In anticipation of an ongoing CEP Rider after the new base rates are in effect, Columbia agrees to provide to the Signatory Parties budgets for the CEP capital for calendar years 2021, 2022, and 2023 as part of its base rate case application. (Joint Ex. 1 at 11.)

Case No. 19-438-GA-RDR – Capital Expenditure Program Rider

On August 28, 2019, the Commission issued its Findings and Order regarding Case No. 19-438-GA-RDR. The Order approves the application of Columbia Gas to adjust its CEP, subject to Staff's recommendations.

[¶13–¶14] Staff stated it fully adopts the audit report filed by Blue Ridge on July 10, 2019. Specifically, Staff recommends that Columbia:

- adjust depreciation balances and the revenue requirement to account for the retirement that was recorded to an incorrect account (Adjustment #1);
- remove from Utility Plant in Service the total cost of unused Mobile Data Terminals (Adjustment #2);
- formally documents its policies and procedures on the preparation and approval of work orders, damage claims, account/journal entries, and allocations;
- work with Staff to better identify expenses versus capitalized costs associated with meter relocations, or more specifically, determine how the activity and costs should be tracked in order to clarify how meter movement should be recorded (capital or expense) in various situations and how to ensure the integrity of the process;
- track the depreciation offset;
- track incremental revenues;
- track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in service are both used and useful and not overbuilt in either length or diameter; and ensure retirements and cost of removal are recorded at the same time as he replacement assets.
- Columbia did not reflect incremental revenue in its CEP and recommended that the revenue offset be clarified

[¶16] Ultimately, Staff submits that the Company has supported its filing with adequate data and information to ensure that the CEP Rider revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Columbia's Application as modified by Staff's comments.

[¶18] OCC filed objections to the Staff Report . OCC supports numerous recommendations but believes that Staff should have recommended two additional changes. First, Columbia should amend its policies and procedures to protect consumers from being charged for assets that are not used and useful as a result of overbuilding for growth projects that do not result in the expected growth. Merely tracking and documenting does little to protect consumers from being charged for assets that do not become used and useful. Thus, OCC states that the Commission direct Columbia to work with Staff and OCC to develop consumer-protection policies that prevent overbuilding, which can increase CEP charges to consumers.

[¶19] Second, the Staff Report should have required Columbia to identify meter relocation costs that should not have been charged to consumers under the CEP and track the number and cost of meter relocations on an annual basis for relocated meters that are either expensed or capitalized. Staff failed to identify meter relocation costs that should not have been collected from customers. OCC is concerned that, because of the different ways in which a meter relocation from inside to outside a residence is charged—either as an operations and maintenance expense or capitalized under the CEP—depending on the situation, Columbia has an incentive to delay meter relocations until the work can be capitalized under the CEP. Thus, in addition to recommending that Columbia track the meter relocations more closely in order to demonstrate that the cost of those relocations are properly included in the CEP, OCC's second objection urges the Commission to direct the next CEP audit to identify those costs that should not have been capitalized under the CEP and charged to customers. OCC further urges the Commission to direct Columbia to work with Staff, OCC, and other interested parties to better identify proper accounting for meter relocation projects.

[¶20] Columbia noted both OCC's objections and Staff's recommendations and recommended that its February 28, 2019, Application, as modified by the July 10, 2019 Audit Report be approved. Columbia states that it agrees to work with OCC after the conclusion of this proceeding to address the issues raised in OCC's objections to the Staff Report. In response to the latter, Columbia states that it agrees with Staff's conclusions and recommendations filed herein.

[¶22] The Commission has reviewed Columbia's Application, the Audit Report, the Staff Report, OCC's objections to the Staff Report, Columbia's July 31, 2019 Statement, and the August 26, 2019 Update. Given that review, the Commission finds that Columbia's Application, as modified by Staff's comments in the Staff Report, is reasonable and should be approved. Furthermore, the Commission finds that it is not necessary to hold a hearing in this matter.

[¶24] ORDERED, That Columbia's Application to adjust the CEP Rider rate, as modified by Staff's comments in the Staff Report, be approved.

Case No. 20-49-GA-RDR – Capital Expenditure Program Rider

On August 12, 2020, the Commission issued its Findings and Order regarding Case No. 20-49-GA-RDR. The Order approves the application of Columbia Gas to adjust its CEP, subject to the audit adjustments and Staff's recommendations.

{¶ 11} On June 17, 2020, Blue Ridge filed its Audit of the Capital Expenditure Program for the 2019 Annual Adjustment to the CEP Rider Rate for Columbia Gas of Ohio, Inc. (Audit Report). In the Audit Report, Blue Ridge recommends two adjustments. The first adjustment is to reflect the revised deferred income taxes on liberalized depreciation, vintage 2017 plant in service, which reduces the CEP revenue requirements by $8,749. The second adjustment is also to reflect the revised deferred income taxes on liberalized depreciation, vintage 2019 plant in service, which reduces the CEP revenue requirements by $152,064.

{¶ 12} Blue Ridge also reviewed Columbia's compliance with the recommendations ordered in the Company's prior CEP Rider audit. *In re Columbia Gas of Ohio Inc.*, Case No. 19-438-GA-RDR, Finding and Order (Aug. 28, 2019). Of the 11 recommendations reviewed, Blue Ridge determined that no further work was necessary as to three recommendations. First, in regard to an error in the recording of certain retirements that reduced depreciation expense in the amount of $943,642, the auditor determined that Columbia reflected the adjustment in the schedules filed in this proceeding.

Second, Blue Ridge determined that Columbia removed from utility plant in service the total cost of unused mobile data terminals, as reflected in the effective rates for 2019. Third, Blue Ridge found that Columbia tracked and properly reflected the base rate depreciation offset in the schedules presented in its application. (Audit Report at 9-12, Recommendations a, b, and g.)

{¶ 13} Further, as to two recommendations, Blue Ridge noted that Columbia has not recognized incremental revenues in calendar year 2019. However, the auditor explains such was not the intent of the recommendation. The Audit Report reflects that, in the prior CEP audit, Case No. 19-438-GA-UNC, Staff specifically noted that incremental revenues are an important component of the CEP deferral formula and, therefore, the elimination of such revenues from the formula should not be indefinite. In addition, Blue Ridge reasoned that incremental revenues should be clearly defined and tracked, and the revenue offset clarified. (Audit Report at 11-12, Recommendations h and k.)

{¶ 14} As to Columbia's compliance with the six remaining recommendations, Blue Ridge recommended additional action by Columbia or continued monitoring in future audit proceedings. First, Blue Ridge examined Columbia's growth-related projects and concluded that Columbia has defensible policies and procedures in place to justify that growth-related projects are prudent and used and useful. While no further work is required at this time, the auditor recommends that future audits continue to monitor such projects. (Audit Report at 10, Recommendation c.) Second, it was previously recommended that Columbia identify meter relocation costs that should not have been charged to customers under the CEP and determine the number and cost of meter relocations, on an annual basis, and indicate whether the costs are expensed or capitalized. Blue Ridge found that the Company did not adequately address this recommendation and, therefore, the auditor recommends that Columbia be directed to track meter relocations, on an annual basis, and state whether such associated costs are expensed or capitalized (Audit Report at 10, 11, Recommendations d and f.) Next, Blue Ridge recommends that Columbia formalize its policies and procedures on the preparation and approval of work orders, damage claims, accounting/journal entries, and allocations (Audit Report at 11 Recommendation e). The auditor also recommends that Columbia track and document how each growth project met or failed to meet its goal in order to ensure that the assets placed in service are used and useful and not overbuilt either in length or diameter, focusing on ensuring that ratepayers are not paying for assets that are not used and useful (Audit Report at 12 Recommendation i). Finally, while Blue Ridge concluded no further work was required at this time, the auditor recommends that future audits evaluate the timeliness of recording retirements and the cost of removals at the same time as replacements are recorded (Audit Report at 12, Recommendation j).

{¶ 15} On June 30, 2020, Staff filed its review and recommendation regarding Columbia's application (Staff Report). In summary, Staff agrees with the adjustments and recommendations made by Blue Ridge. Staff notes that, based on the auditor's adjustments, the new rate for residential customers is $5.00 per month per meter. Further, the Staff Report highlights that Columbia should revise the deferred income taxes on liberalized depreciation for vintage 2017 and 2019 plant in service; continue to ensure retirements and cost of removal are recorded at the same time as the replacement assets; and continue to track incremental revenues. Further, consistent with the recommendations of Blue Ridge, Staff notes that Columbia did not adequately comply with directives to track meter relocations, document certain policies and procedures, and track growth projects and goals met. Accordingly, Staff recommends that Columbia better track meter relocations on an annual basis and indicate whether the costs are expensed or capitalized; formally document policies and procedures for the preparation and approval of work orders, damage claims, accounting/journal entries, or allocations; and track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in service are both used and useful and not overbuilt either in length or diameter. Staff recommends that Columbia address these items by March 1, 2021, in its next annual CEP application, by providing the following: a statement by an officer that Columbia has complied with the recommendations; details of the steps Columbia has taken to comply with the recommendations; and, upon request, written documentation to demonstrate compliance. Based on its investigation, Staff concludes, in all other respects, that Columbia supported its application with adequate data and information to ensure that the CEP Rider revenue requirement and rates are just and reasonable. Accordingly, Staff recommends that the Commission approve Columbia's application, consistent with Blue Ridge's recommendations, as modified by Staff.

{¶ 18} Consistent with the procedural schedule, on July 20, 2020, IGS filed objections to the application and Staff Report. IGS raises two objections to Columbia's application and one objection to the Staff Report. First, IGS states that the application seeks to recover information technology systems and other capital costs for specific competitive retail natural gas service (CRNGS) market enhancements, which, pursuant to the Stipulation, are to be implemented prior to the Company's 2021 base rate case filing, pursuant to certain conditions. IGS notes that the application reflects that Columbia has taken steps to implement at least one CRNGS market enhancement, an electronic historic usage information portal, of the enhancements listed in the Stipulation. IGS states that, to the best of its knowledge, Columbia has yet to introduce the uninterrupted and continuous service mechanism described in paragraph 12(A)(2) of the Stipulation and Columbia's application fails to provide any additional insight on the status of the service. *Alt. Reg. Case*, Opinion and Order (Nov. 28, 2018) at 19-20. Thus, IGS objects on the basis that the application is incomplete to the extent that it fails to implement the Stipulation according to its terms and fails to address the status of the continuous service mechanism.

{¶ 19} Next, IGS asserts that Columbia's application appears to violate R.C. 4929.05 and 4929.02. IGS states that R.C. 4929.05(A)(2) requires that Columbia be in substantial compliance with the natural gas policies set forth in R.C. 4902.02, after its alternative rate plan was implemented. IGS notes that the state policy at R.C. 4929.02(A) includes promoting diversity of natural gas supplies and suppliers, as well as encouraging innovation and market access for cost-effective supply-side natural gas goods and services. The failure to implement the continuous service mechanism, IGS avers, serves to hinder economic development. Accordingly, IGS objects and argues that, to the extent that the application fails to implement the service mechanism described in paragraph 12(A)(2) of the Stipulation, the application violates the aforementioned statutes.

{¶ 20} Finally, IGS objects that the Staff Report fails to recommend that Columbia implement the Stipulation in its entirety. IGS argues that Staff is a signatory party to the Stipulation and participant in the stakeholder workshops and, therefore, intimately familiar with the terms and conditions of the Stipulation. Yet, according to IGS, the Staff Report fails to evaluate Columbia's implementation of the Stipulation, in its entirety, and fails to recommend that Columbia address any outstanding items or provisions related to the CRNGS market enhancements. Accordingly, IGS objects to the Staff Report.

{¶ 21} On July 23, 2020, Columbia filed its statement informing the Commission whether issues raised in objections have been resolved. In its statement, Columbia notes the Staff's approval of Columbia's application, as modified by the Audit Report and pursuant to Staff's recommendations. Columbia agrees and accepts the Staff's conclusions and recommendations. In regard to the objections of IGS, Columbia commits to regularly schedule meetings, until the Company files its base rate case in 2021, with the interested signatory parties, including Retail Energy Supply Association, in the *Alt. Reg. Case*, to discuss paragraph 12 of the Stipulation filed on October 25, 2018, as approved by the Commission. *Alt. Reg. Case*, Opinion and Order (Nov. 28, 2018) at 19-20. Therefore, Columbia declares that the provisions of the Stipulation submitted in the *Alt. Reg. Case* remain in full effect and no party will be prejudiced by the resolution of this proceeding. To that end, Columbia states that Columbia, Staff, and IGS have resolved all issues in this case and, therefore, Columbia anticipates a hearing is not necessary.

{¶ 22} The Commission has reviewed Columbia's application, the Audit Report, the Staff Report, IGS' objections to the application and Staff Report, and Columbia's July 23, 2020 statement. Based on our review, the Commission finds that Columbia's application, as modified by the audit adjustments and recommendations in the Audit Report, as well as the recommendations in the Staff Report, is reasonable and should be approved. Furthermore, the Commission finds the application is not unjust or unreasonable and, therefore, it is not necessary to hold a hearing in this matter.

{¶ 23} It is, therefore,

{¶ 24} ORDERED, That Columbia's application to adjust the CEP Rider rate, as adjusted and modified by the Audit Report, and consistent with the recommendations in the Staff Report, be approved.

Case No. 21-23-GA-RDR – Capital Expenditure Program Rider

On February 24 2021, the Commission selected Blue Ridge Consulting Services, Inc. as the auditor that will assist Staff in performing the review of the necessity, prudency, and reasonableness of capital expenditures and deferrals related to Columbia Gas of Ohio, Inc.'s capital expenditure program rider.

The findings and recommendations from this audit is the subject of this report.

APPENDIX B: DATA REQUESTS AND INFORMATION PROVIDED

<u>SET 1 SUBMITTED 3/5/21</u>

1) **Work Orders**: Please provide in Microsoft Excel format a list of all non-IRP work orders put in service, from January 1, 2020, through December 31, 2020. For each work order, please include the following information:
   a) Plant accounts charged (FERC 300 accounts)
   b) Project identification numbers (project type, work order and project roll up, if applicable)
   c) Project description. Single line description will be acceptable along with location numbers
   d) Project Description (e.g., Replacement & Betterment, Growth, Support Services, Information Technology, etc.)
   e) Work Order Construction Complete <u>Date</u> (when project became used and useful and ready for service)
   f) Work Order Accounting In-Service Date (date charges were moved from FERC 107 to 106 or 101)
   g) Unitization Date (date charges were moved from FERC 106 to FERC 101)
   h) Dollar amount by FERC 300 account number
   i) Whether the work was an addition or replacement
   j) Whether the work order was a blanket project work order or specific project and associated project identification numbers

2) **Work Orders**: Please provide a reconciliation of the 2020 work order totals provided in the request #1 to the total in the Schedule CEP-1 "Activity Through December 31, 2020."

3) **Organization**: Please provide a current organization chart of the Operating Company and Service Company.

4) **Organization**: Please identify any changes in personnel and/or positions in the following since March 23, 2020 (the date of the Company's response in last year's audit):
   a) Plant Accounting
      i) Matt Ruth, Corporate Accounting (Asset Accounting)–Mgr Accounting
      ii) Nick Drew, Director Investor Relations & Finance.
      iii) Ms. Debbie Schmelzer, Director of External Reporting and Accounting Research.
   b) Engineering & Work Order Development
      i) Eric Slowbe, Capital Execution (Engineering Srvcs COH) – Principal Engineer
   c) Major Events and IT
      i) Kim Honaker, Corporate Accounting (Business Applications)–Mgr. Business Applications
      ii) Dyana Porterfield, Corporate Accounting (Business Applications)–Lead Business Application Analyst
      iii) Greg Skinner, Office of the CTO (IT Infrastructure)–VP IT Infrastructure
      iv) Greg Kovacs, Office of the CTO (IT Services)–Dir PMO
   d) Blankets
      i) Matt Ruth
      ii) Melissa Thompson
      iii) Bill Rousell
   e) Capital Budget
      i) Andrew Metz
      ii) Melissa Thompson.

iii) Mr. Belle, Managing Director of Asset and Risk Management.
iv) Eric Slowbe (Principle Engineer CGO):
v) Mike Sucharski, Senior Engineer.
vi) Connor McGrath, Engineering Manager for Columbia.
vii) JR Barnhart, Director Planning.
viii) Liz Eisenhardt (Director of Capital Planning)

5) **Status of Case No. 20-49-GA-RDR Blue Ridge Recommendations**: Please provide the status of Blue Ridge Recommendations adopted by Staff in the Staff Report dated June 30, 2020.
   a) Staff Recommendation: Revise deferred income taxes on liberalized depreciation for vintage 2017 and 2019 plant in service.
   b) Staff Recommendation: Track meter relocations on an annual basis and indicate whether the costs are expensed or capitalized.
   c) Staff Recommendation: Formally document policies and procedures for the preparation and approval of work orders, damage claims, accounting/journal entries, or allocations.
   d) Staff Recommendation: Track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in service are both used and useful and not overbuilt either in length or diameter.
   e) Staff Recommendation: Continue to ensure retirements and cost of removal are recorded at the same time as the replacement assets.
   f) Staff Recommendation: Continue to track incremental revenues.

6) **Timeline**:
   a) Did any major events occur in 2020, that had an impact on the plant-in-service balances? Examples of major events include, among other such events, major sales of assets, acquisitions, mergers, system conversions, and upgrades.
   b) Please provide an explanation of each event and how the event affected plant balances.
   c) Please provide an explanation of what steps were taken to ensure that plant balances were accurate following the impact of the event.

7) **Policies and Procedures**: Please provide any changes for 2020 to the policies and procedures for the following activities.
   a) Plant Accounting:
      i) Capitalization vs. Expense
      ii) Preparation and approval of work orders
      iii) Recording of CWIP, including the systems that feed the CWIP trial balance;
      iv) Application of AFUDC
      v) Recording and closing of additions, retirements, cost of removal, and salvage to plant
      vi) Unitization process based on the retirement unit catalog
      vii) Application of depreciation
      viii) Contributions in Aid of Construction (CIAC)
      ix) Damage Claims
   b) Purchasing/Procurement
   c) Accounts Payable/Disbursements
   d) Accounting/Journal Entries
   e) Payroll (direct charged and allocated)
   f) Insurance recovery
   g) Allocations

h) Work Management System
i) Information Technology
j) Capital Project selection and prioritization
k) System planning and load growth

8) **Policies and Procedures**: Have any major changes been made to the Company's capitalization policy in 2020? If so, please describe.

9) **Policies and Procedures**: Please explain the Companies' cost containment strategies and practices in relation to use of outside and inside contractors.

10) **Policies and Procedures**: Please explain the Companies' policies related to purchasing and accounting for capital spares and their recovery.

11) **CEP Rider Schedules**: Please provide a narrative of the process used to develop the 2020 CEP Rider Filings and schedules.

12) **FERC and Other Regulatory Audits**: Please provide a copy of all FERC and/or other regulatory audit reports, if any, that were issued during 2020. Also provide the Company's response to any findings and the ultimate resolution of those findings.

13) **Internal Audits**: Please provide a list of internal audits performed or in progress in 2020. List the name of the audit, scope, objective, and when the work was performed. For in-progress audits, list the expected completion dates.

14) **SOX Compliance Audits**: For any feeder system that feeds CWIP, please provide any SOX Compliance audits performed in 2020. List the name of the audit, scope, objective, and when the work was performed. Include whether the controls passed or failed and, if failed, the severity and impact of the failure. [NOTE: Utility Plant in Service is fed from CWIP. Therefore, any system that feeds CWIP, including, but not limited to, WMS, Payroll, M&S, Overheads, AFUDC, Transportation, and direct contractor charges through purchasing, could have an impact on plant balances.]

15) **Depreciation:** Have the depreciation accrual rates changed since 2008 when the Commission's order in Case No. 08-72-GA-AIR approved Columbia's current depreciation rates?

16) **Property Taxes**: Please provide the supporting workpapers and documentation for the property tax rate used in the 2020 CEP.

17) **Overhead and other allocations**: Please provide a list of all overheads and other allocations, that are applied either direct or indirect to Construction Work in progress (CWIP). Include the following:
    a) Type of allocation (examples: Supervision and Engineering, Stores clearing, Transportation),
    b) Method of allocation (Clearing account, direct allocation to CWIP or other)
    c) List of what is included in each allocation (component parts)?
    d) The basis that the allocation is applied to CWIP (examples: applied to direct payroll, applied to all CWIP charges, applied to M&S)
    e) Calculation of each overhead or other allocation.
    f) The Frequency that the allocations are reviewed (examples: monthly, quarterly, annually)

18) **AFUDC**: Please provide the AFUDC interest rate for 2020, including the calculation and supporting documentation.

19) **Major Additions or Replacements**: Please provide a list with a description and total dollar amount of any <u>major</u> non-IRP additions and/or replacements placed in service in 2020.

20) **Approval Signatures**: Please provide the Level of Signature Authority (LOSA) document(s) that supports the approval of capital projects in 2020.

21) **Unitization Backlog**: Please provide information regarding any backlog in the unitization of distribution work orders as of December 31, 2020. Please provide the information by work order <u>number</u> and <u>dollar value</u> of each backlogged work order and the length of time for each in months (e.g., under three months, four to 12 months, and over 12 months). If possible, provide the list for both CEP work orders and non-CEP work orders.

22) **Insurance Recoveries**:
    a) Were there any significant events in 2020 that resulted in an insurance claim recovery greater than $50,000 related to Distribution Plant? If so, please provide a list of such events, how each recovery was recorded to the Company's books, and how it was reflected in plant balances.
    b) Are there any pending Distribution plant insurance claim recoveries as of December 31, 2020, that are not recorded or accrued that would be charged to capital? If so, please provide the type of recovery, estimated amount, and when receipt is expected.

23) **Cost per Mile:** For the CEP Projects with the Description "Replacement & Betterment" for 2020, please provide the total main miles replaced/installed and the average cost per mile with and without accounting overheads.

24) **Cost per Mile:** For the CEP Projects with the Description "Growth" for 2020, please provide the total main miles replaced/installed and the average cost per mile with and without accounting overheads.

25) **Commission Annual Reports:** Please provide the Annual Report for the year ending December 31, 2020, filed with the Commission.

26) **Subaccounts**: Has the Company added any additional FERC 300 accounts and/or subaccounts that were not included in the most recent Commission-approved depreciation accrual rates?

27) **Budget**: Please provide the 2020 budget supporting the non-IRP capital expenditures and related assets. Also, include the assumptions supporting the budget/projected data.

28) **Budget:** Please provide a NiSource document that approves the Columbia Gas capital budget.

29) **Budget:** Please provide a Columbia Gas document that splits out the budget by Growth, Age & Condition, Public Improvement, Betterments, and Support Services that ties back to the overall NiSource approved capital budget

30) **Budget:** For 2020, please provide a Columbia Gas document that splits out the budget categories—Growth, Age & Condition, Public Improvement, Betterments, and Support Services—by blanket projects and specific-type projects and further splits by project type (e.g., 563, 565).

31) **Budget:** Please provide a list of all budget types included in the CEP with a description of each.

32) **Budget vs. Actual:** Please provide a variance analysis, cumulative by year, that shows budget by category, actual, variance, and explanations for variances over and under budget, broken down, if possible, between blanket and specific projects.

33) **Cost Control**: What steps has the Company taken in 2020 to contain costs?

34) **Labor Costs**:
   a) Please provide the approximate percentage of contractor vs. in-house labor used for capital activities for year 2020.
   b) What analysis has been done to determine that the use of contractors is the least cost alternative and/or provides the greatest benefit to the ratepayer?

35) **Labor Costs**: In reference to the demand for natural-gas-qualified construction crews and resources, please respond to the following items:
   a) Please provide a list of contractors, description of work performed, and amount paid each contractor that provided services for CEP in 2020.
   b) Please describe the impact of contractor costs on the annual cost per total main mile rate for 2020.
   c) Please describe what process and initiatives are in place now and anticipated to manage contractor costs going forward.
   d) How has the demand for gas contractors in Ohio and surrounding states impacted the overall cost to complete capital work?
   e) If there is a demand constraint on gas contractors, how has the Company addressed the issue?

36) **Other Riders**: Has the Company requested and received Commission approval for any rider other than CEP that allow for recovery of capital additions? If so, how does the Company ensure that the capital additions reflected in those non-CEP riders are not included in the plant balances reflected in the CEP.

37) **Retirements**: Please provide the population of CEP work orders that were retired for the period January 1, 2020, through December 31, 2020, by FERC account/sub account and month retired.

38) **Cost per Main Mile Replaced**: Please break out the 2020 total cost per main mile replaced, service line replaced, engineering designed service line replacement, growth, and betterment.

<u>SET 2 SUBMITTED 3/15/21</u>

39) **Work Orders**: Reference Company response to Case No. 21-23-GA-RDR BRCS Set 1 No 1 Attachment A. Please refer to the attached "Columbia Gas 2020 CEP Audit Data BRCS #39 - Sample Selection" work orders selected from the population of work orders provided in response to the referenced data request. Please note that the selection is work

orders/projects/programs (hereafter referred to as "work orders"). For each work order on the list, please provide the following information in sortable Microsoft Excel spreadsheets.

a) Detailed description, scope, and objective of the work, including service area location and any other identifiers (budget mapping)
b) Work order justification and approval at the highest approval level available based on the nature of the work order
c) Estimated in-service date and actual in-service date
d) For non-blanket work orders and blanket work orders, where the specific blanket work orders can be specifically identified as part of the larger project or program, budget and total cost with any explanation of variances in excess of 20%.
e) Supporting cost detail for each addition to plant—run of charges by FERC account and units (The detail should be by charge code [or charge code description] with amounts by year and month. Examples of charge code descriptions include such information as payroll, contractor charges, overheads, other allocations, M&S, Transportation, and employee expenses.)
f) Supporting detail for retirements, cost of removal, and salvage, if applicable, charged or credited to plant (Provide the description, units, amount, and date recorded.)

Notes:
- Please send a sample of the detail that will be provided to make sure it is what we need.
- If you have any questions, please contact Joe Freedman directly at 607-280-3737 or Jfreedman@blueridgecs.com.
- In the interest of time and associated deadlines, please provide the data in batches as they are completed.

<u>SET 3 SUBMITTED 3/18/21</u>

40) **Work Orders**: Reference Company response to Case No. 21-23-GA-RDR BRCS Set 1 No 1 Attachment A. Please refer to the attached "Columbia Gas 2020 CEP Audit Data BRCS #40 - Sample Selection" work orders selected from the population of work orders provided in response to the referenced data request. Please note that the selection is work orders/projects/programs (hereafter referred to as "work orders"). For each work order on the list, please provide the following information in sortable Microsoft Excel spreadsheets.

a) Detailed description, scope, and objective of the work, including service area location and any other identifiers (budget mapping)
b) Work order justification and approval at the highest approval level available based on the nature of the work order
c) Estimated in-service date and actual in-service date
d) For non-blanket work orders and blanket work orders, where the specific blanket work orders can be specifically identified as part of the larger project or program, budget and total cost with any explanation of variances in excess of 20%.
e) Supporting cost detail for each addition to plant—run of charges by FERC account and units (The detail should be by charge code [or charge code description] with amounts by year and month. Examples of charge code descriptions include such information as payroll, contractor charges, overheads, other allocations, M&S, Transportation, and employee expenses.)

f) Supporting detail for retirements, cost of removal, and salvage, if applicable, charged or credited to plant (Provide the description, units, amount, and date recorded.)

Notes:

- Please send a sample of the detail that will be provided to make sure it is what we need.
- If you have any questions, please contact Joe Freedman directly at 607-280-3737 or Jfreedman@blueridgecs.com.
- In the interest of time and associated deadlines, please provide the data in batches as they are completed.

SET 4 SUBMITTED 3/22/21

41) **Policies and Procedures**: Follow-up to Company response to BRDR#9. Based on the response, please verify that Columbia has no policies or procedures in place regarding cost containment strategies in relation to the use of outside and inside contractors. Additionally, please respond to the following questions:
   a) Are the activities for cost containment described in last year's audit (Case No. 20-0049-GA-RDR, response to BRDR#37) still in effect:
      i) Standard competitive bidding process for outside services greater than $250k
      ii) Capping price increases at 2.2% of its then current blanket construction contracts
      iii) Improvements in resource allocation
      iv) Business reviews with key gas contractors
   b) Has Columbia competitively bid five-year blanket construction contracts to be effective in 2021 as they had in 2015? (See Case No. 20-0049-GA-RDR, DR response to BRDR#37.)
   c) How does Columbia know it secures the most cost-efficient and qualified contractors?
   d) What is meant by strategic RFPs?
   e) What modeling and market intelligence does Columbia incorporate in its strategies and practices regarding whether to use outside or inside contractors?
   f) Are these modeling strategies consistently used or are they redeveloped for each project?
   g) If consistently used, how can future considerations for modeling strategies rely on past practices without policies and procedures in place to ensure consistency?

42) **Policies and Procedures:** Follow-up to Company response to BRDR#33.
   a) Based on the response, please verify that Columbia has no policies or procedures in place regarding cost control.
   b) Can you describe any unofficial or undocumented cost practices in effect to ensure the containment of costs?
   c) Have any management directives been issued to support the containment of costs?
   d) Can you describe any tracking by the Company of year-to-year costs for the purpose of ensuring attention to areas of increasing cost trends?

43) **Overheads**: Follow up to Data Request response No. 17, Vehicle and General Tool Overheads, attachment A, Vehicle rates. Please provide the detail that supports how the Vehicle rates are developed. Include all the component parts that make up the amount used to determine the percentage (examples: Maintenance, cost, Transportation building cost, fuel, etc).

44) **Policies and Procedures:** Follow-up to Data Request No. 10. Please respond to these items:
    a. Please provide the Company policies that address compliance with the CFR.
    b. What Company approvals are necessary before a purchase can be considered a Capital Spare?

45) **Subaccounts**: Follow-up to Data Request No. 26. Please respond to these items:
    a. Did the Company request and receive approval from the PUCO for the addition of sub account 30399—Intangible Plant Cloud Computing? If not, why not?
    b. What depreciation rate was assigned to account 30399?

46) **Internal Audits:** Follow-up to Data Request No. 13. For the following internal audits, please provide the summary findings, recommendations, and any remediation that resulted from the audit.
    a. Written tie-in plan (capital close out), Mar 1, 2019, to Feb 18, 2020
    b. Supplier/Vendor Contract compliance, Jan 2019 to present.
    c. Employee Expense & Analytics—NiSource, Jan 2 to Dec 31, 2018
    d. Employee Expense & Analytics—NiSource, Jan 2 to Dec 31, 2019
    e. NiSource Corporate Services Cost Allocation NCS, Jan to Dec 2018
    f. NiSource Corporate Service Cost Allocation NCS, Jan to Dec 2019
    g. Pension audit—NiSource, Jan to Dec 2018.
    h. Pension Audit—NiSource, Jan to Dec 2019
    i. Locates Process—COH, Jan to Dec 2019
    j. Cross Bore Remediation—Ni Source Gas Companies
    k. Emergency Preparedness and Response Plan—NiSource Gas Companies, Jan to Dec 2019
    l. Safety Management System (SMS) 30 Day Implementation Alignment—NiSource, in progress, estimated completion Q4 2020
    m. Locates Process (Follow-Up)—COH, Mar to Nov 2020

SUBMITTED SET 5 - 3/23/21

47) **SOX Compliance Audits:** Follow-up to Data Request response 1-14, attachments A–D. The Company identified several control steps with a review status of "test conclusion pending." Please provide updates for those control steps as the status changes to "complete."

SUBMITTED SET 6 - 3/24/21

48) Follow-up to response from DR Set 1 No. 12. The response stated that Columbia Gas had no FERC audit reports issued during 2020. Please confirm that the Company also had no "other regulatory audit reports" issued during 2020 as well.

SUBMITTED SET 7 3/25/21

49) **Supplement to Data Request 1-5. Status of Case No. 20-49-GA-RDR Blue Ridge Recommendations:** On June 20, 2020 staff filed its review and recommendations. In that review

staff noted that the Company did not adequately comply with directives to track meter relocations, document certain policies and procedures, and track growth projects and goals met. Please provide a status of the following:

> Staff recommends that Columbia address these issues by March 1,2021, in It its next annual CEP application, by providing the following “a statement by an office that Columbia has complied with the recommendations, details of the steps Columbia has taken to comply with the recommendations, and upon request written documentation to demonstrate compliance”.
>
> **ISSUES:**

- Columbia better track meter relocations on an annual basis and indicate whether the costs are expensed or capitalized.
- Formally document policies and procedures for the preparation and approval of work orders, damage claims, accounting/journal entries or allocations
- Track and document how each growth project met or did not meet its goal in order to ensure that the assets placed in-service are both used and useful and not overbuilt either in length or diameter.

<u>SUBMITTED SET 8 3/29/21</u>

50) Follow-up to Data Requests 1-5 and 1-49. The Company's response concerning status of compliance with Staff's recommendations in Case No. 20-49-GA-RDR directed Blue Ridge to the affidavit of Douglas Nusbaum, asserting Columbia's compliance. While a statement by an officer of compliance with recommendations was one of the requirements, Staff also requested the CEP application include "details of the steps Columbia has taken to comply with the recommendations." Please provide these details and examples of any supporting documentation regarding the compliance.

<u>SUBMITTED SET 9 4/7/21</u>

51) **Variance Analysis**: Based on Plant Additions and Retirements in Columbia’s CEP Rider filing, please provide detailed explanations (including supporting detail) for the following changes in account.
    a) Account 30399—New Account; does this account correspond to retirements in other areas? Please explain in general terms what the nature of the charges are.
    b) Account 37520—Retirements greater than Additions ($0 additions)
    c) Account 37600—Additions significantly greater than Retirements
    d) Account 37625—Additions significantly greater than Retirements
    e) Account 37820—Additions significantly greater than Retirements
    f) Account 37910—Additions significantly greater than Retirements
    g) Account 38000—Additions significantly greater than Retirements
    h) Account 38013—Additions significantly greater than Retirements ($0 retirements)
    i) Account 38100—Significant Retirements in relation to Additions
    j) Account 38200—Retirements greater than Additions ($0 additions)
    k) Account 38300—Additions significantly greater than Retirements

l) Account 38745—Additions significantly greater than Retirements
m) Account 39112—Retirements greater than Additions
n) Account 39430—Additions significantly greater than Retirements
o) Account 39800—Negative Additions

52) In last year's CEP audit (Case No. 19-0438-GA-RDR) the Company responded to DR 6, part b, stating, "Columbia anticipates it will perform a new depreciation study prior to filing its next rate [case] on June 30, 2021."
   a) Has Columbia filed a new depreciation study?
   b) If the response to (a) is affirmative, please provide a copy of the study.
   c) If the response to (a) is negative, does Columbia still expect to file a new depreciation study by June 30, 2021?
   d) If the response to (c) is negative, when does Columbia anticipate filing a new depreciation study?

<u>SUBMITTED SET 10 APRIL 15, 2021</u>

53) Work Order 0555.34190081237: This work order estimated 48 homes in phase 6 plus 2800' of 2" and 4" pipe. Please provide the actual number of homes and feet of 2" and 4" pipe installed.

54) Work Order 0555.34190126460: The work order estimated 67 customers plus 2935' of 2" and 4" pipe. Please provide the actual number of customers connected and the feet of 2" and 4" pipe installed.

55) Work Order 0555.34200133562: The project estimated to hook up 6 lots and install 3319' of 2" main. Please provide the actual number of customers hooked up and the actual feet of main installed by size.

56) Please confirm that the Company does not need to supplement the work order was in accordance with the capital governance policy.
   a) Work Order 0555.34190081237: This project was over budget by 37% (budget was $54,564, and actual was $73,563)
   b) Work Order 0557.34200171492: This project was over budget by 43% (budget was $48,514, and actual was $69,444).

57) Work Order 0555.34190133333: This project was over budget by 128%. A level 2 budget explanation was provided.
   a) Why did the Company pay T&E if the project was budgeted as units? How much extra was the change in how labor was paid?
   b) Is not flagging a normal budget activity? How much extra was the flagging?

58) Work Order 0583.34180125840: This work order had a targeted in-service date of May 31, 2019, and was placed in service June 24, 2020. Please explain the reason(s) for the delay and any over accrual of AFUDC as a result of the delay

59) Work Order 8889.34190126482: Please explain in detail the impact on the project cost as a result of several project delays.

60) For the following work orders, please explain in detail what the cost categories represent.

<table>
<tr><td>0563.34B08230012</td><td>COH Year End Clearing S&E O/H</td><td>$28,688</td><td></td></tr>
<tr><td>0563.34B08220012</td><td>Corporate Services - Bill</td><td>$7,398</td><td></td></tr>
<tr><td>0563.34B11210012</td><td>COH Supervision & Engineering</td><td>$313,390</td><td>(1) Is it allocated or direct charged?
(2) If allocated, please provide the details how the allocation is done.</td></tr>
<tr><td>0563.34B13250011</td><td>Vacation</td><td>$1,348</td><td rowspan="2">(1) Please explain vacation vs non productive.</td></tr>
<tr><td>0563.34B13250011</td><td>Non Productive</td><td>$2,043</td></tr>
<tr><td>0565.34B08230032</td><td>Constructions Services</td><td>$2,105</td><td></td></tr>
<tr><td>0565.34B11210022</td><td>Workers Compensation</td><td>$208</td><td rowspan="2">(1) Please explain workers compensation vs non productive.</td></tr>
<tr><td>0565.34B11210022</td><td>Non Productive</td><td>$1,972</td></tr>
<tr><td>7737.34B12610052</td><td>Pension (Qualified)</td><td>$34,047</td><td></td></tr>
<tr><td>1385.34190109150</td><td>Cap Proj not Othrwise Identifd</td><td>$15,038</td><td></td></tr>
<tr><td>0915.34B34000915</td><td>Other Materials and Supplies</td><td>$2,884,347</td><td rowspan="2">(1) Other Materials & Supplies and Operations Mapping Services.
(2) Why are these included in the FERC accounts charged.</td></tr>
<tr><td>0915.34B34000915</td><td>OPERATIONS MAPPING Srvcs-Dist</td><td>$1,073,439</td></tr>
<tr><td>0998.34D00342014</td><td>Other Materials and Supplies</td><td>$38,001</td><td></td></tr>
</table>

61) Work Order 0561.34190132723: Please provide more detailed cost data by charge by month. The cost summary and detail only indicated two-line items without detail.
   a) Cap Proj not otherwise identified
   b) COH Supervision and Engineering

62) Work Order 8889.34190126482:
   a) This work order was in-service April 2019. The additions were booked to plant January 2020 and retirements were booked December 2019. Please explain why the work order charges of $707,587 are included in the 2020 CEP while the work order was in-service in 2019.
   b) Why does the credit of $(636,163) captioned "Close to PPE and Reverse" represent that it was booked in January 2020 when the work order was in service April 2019?

63) Work Order 7907.34190171050: Please explain why a CIAC is a debit of $269,786 and not a credit. Also, please explain in more detail the purchase of land of $262,772, including to what FERC account the purchase was recorded.

64) The following work orders are potentially revenue generating either because they are growth or because through increase in pipe size or length they could potentially generate more throughput. Please explain how these work orders impact the CEP revenue requirement.
   a) Pipe size
      i) Work Order 0559.3490126543: This work order increases 4" pipe and also adds some 6" pipe (2646 of 6" and 2645' of 4").

ii) Work Order 8889.34190126482: This work order increases pipe size 8” to 12” which will increase capacity.

b) Growth Work Orders
   i) Work Order 0555.34190081237
   ii) Work Order 0555.34190126460
   iii) Work Order 0555.34190133333
   iv) Work Order 0555.34200133562
   v) Work Order 0563.34B08220012
   vi) Work Order 0563.34B08230012
   vii) Work Order 0563.34B09710011
   viii) Work Order 0563.34B11210012
   ix) Work Order 0567.34B00340555
   x) Work Order 0563.34B12220012
   xi) Work Order 0563.34B13250011
   xii) Work Order 0563.34B17210012
   xiii) Work Order 0571.34B08230081

65) Work order 0561.3420019486: The scope indicated 1800’ of pipe to remove but only 1321’ was actually retired. Please explain why.

66) Work Order 0561.34190132723: The scope indicated 310’ of pipe was installed but only 244’ of pipe was retired. Please explain why.

67) Work Order 1459.34200126783: Assets were in service September 2020, but the retirements were not recorded until March 2021, and Cost of Removal was recorded February 2021. Please explain the dollar impact to plant and depreciation expense

68) Work Order 0557.34190074489: This work order was a replacement. Please explain why no cost of removal was recorded.

69) Please explain how salvage is recorded for the following replacement work orders:

	RETIREMENT DATE	RETIREMENT $	COR $
a) 0557.34190074489	8/1/20	-$13,324	$0
b) 0561.34170178956	5/1/20	$2,144	$296
c) 1385.34190109150	9/1/20	$49,459	$1,457
d) 1459.34200126783	3/1/21	$26,978	$36,377
e) 7907.34190171050	9/1/20	$32,799	$24,323
f) 8889.34190126482	12/1/19	$50,633	$0

70) Work order 8889.34190126482: This work order was a replacement. Please explain why no cost of removal was recorded.

71) **CEP Rider Application dated February 25, 2021.** Please discuss any changes the Company may have made to the underlying inputs or methodology in Schedules CEP-1 through -13 since Case No. 20-0049-GA-RDR.

72) **Input—2020 PISCC Rate.** Please provide supporting documentation for the Weighted Avg Cost of Debt applied for January through March, which was 5.03 percent, and for July through December, which was 4.71 percent.

73) **Input—Projected Bills.** Please provide supporting documentation for the Number of Projected Bills TME August 2022 by customer class.

74) **Input—ADIT on Liberalized Depreciation Calculation.** Please provide supporting documentation for the Repairs and Mixed Services rates of 22.34 percent and 3.28 percent, respectively. Explain what the Mixed Services rate represents.

75) **Input—Property Tax Calculation.** Please provide supporting documentation for the vintage 2019 and 2020 plant retirement rates of 53.07 percent and 57.92 percent, respectively.

76) **Input—NOL.** Please provide supporting documentation for the cumulative NOL balance of $18,467,852. If the balance in the model represents an estimate, provide the underlying workpapers and the actual value recorded in the financial records as of December 31, 2020.

SUBMITTED SET 11 APRIL 20, 2021

77) Follow-up to Company response to DR Set 1 No. 44. Please respond to these items:
   a) Please confirm that the Company has no written policy (other than the "Accounting for Regulatory Assets and Liabilities" provided in response to DR 44) that directly addresses capital spares.
   b) Part b of the response to DR 44 states any requests as to whether a purchase is capitalized go to Kirk Isley and Kevin Stanley. Without written policy to identify procedure and criteria, please indicate how the Company ensures that the reviews include comprehensive criteria, consistent application, and transferable knowledge for succession planning.

78) DESKTOP Virtual/On-Site Field Audit: As a continuation of the audit process, Blue Ridge has selected the attached 10 projects on which to perform a detailed Desktop Virtual/On-Site Field review.

    The purpose of the desktop review will be to understand the project scope, the installed and replaced/retired assets, risk ranking data used, and other pertinent documentation that the Company deems relevant for us to understand the project.

    Due to travel restrictions associated with the coronavirus, this review will be completed via video conference. To coordinate the desktop review, a pre-audit call will be scheduled among Blue Ridge, the Ohio PUC staff, and Columbia Gas on or around April 26, 2021.

The purpose of the pre-audit call will be to discuss the process and to select the dates to conduct the virtual field audit. In support of this effort, please provide this information:

a) Prior to the day the audit commences – for each of the projects selected;
   i) Schematics/drawings/and photos or any other visual aids that indicate what was built or installed. Before and after pictures would also be helpful if available.
   ii) A list of material and/or equipment installed, along with the major asset serial numbers, if applicable
   iii) Project justification statement, including alternatives considered
   iv) Direct cost detail (labor, material, transportation, equipment, etc.)
   v) Risk Ranking score and model inputs that support the decision to go forward with the project if applicable
   vi) A list of major equipment removed and retired, including the vintage year of the assets removed, cost of removal, and salvage
b) For the days the virtual audit will be conducted
   i) An individual who can coordinate the review and sponsor/host the virtual meeting
   ii) Representatives from Columbia Gas who can describe each project in detail
   iii) If necessary, the Project Manager responsible for the project who can answer questions

Work Order	Description	Amount
7907.34190171050	Pm Marion Greencamp Pod Instal : Marion Gre : Mar	$4,522,574.49
1239.34190109201	Pm Install New Pod @ Mucci : Fox : Hur	$2,791,378.78
1239.34190109206	Pm Install 11,000'-12" Hdpe : Rye Beach : Hur	$1,300,538.85
1421.34190109219	Pm Install Regulation Pod Aep : Sr510 : Cly	$1,242,228.75
1289.34190119284	Heater G/O Convec : 315100	$914,148.96
1385.34190109150	Oc/Db~10,160'-2"/8"Pmmp : Woodlawn : Nor	$908,544.13
1459.34200126785	Install 4358'Of 2",4"&8" Pmmp : Sr 18 : Med	$789,158.49
7907.34190171053	Pm Scada Install Mgc : Marion Gre : Mar	$739,204.11
0559.34170089002	Install 5200'-2" Pmmp : Beech St : 80 Maple St	$622,298.82
1095.34200171287	Pm Retest Mansfield North Pod : Harrington : Man	$535,257.20

<u>SUBMITTED SET 12 APRIL 22, 2021</u>

79) Follow-up to Company response to DR Set 1 No. 51. Please respond to these items:
   a) Regarding the response to part (i) FERC Account 38100, most of the retirements appear to be of meters circa 2002 and 2003. Please explain the relatively large grouping of meters of this vintage retired (e.g., part of meter replacement program targeting age).
   b) Regarding the response to part (j) FERC Account 38200, please respond to the following items:
      i) If additions are not being passed from WMS to PowerPlant, is it the case that PowerPlant does not have the assets and, thus, it is a reconciling problem (assuming the assets are in service but the General Ledger does not include them)?
      ii) Please describe in detail the effect on the CEP for this problem.
      iii) Do any other accounts have the same reconciling problem? If so, please describe their effect on the CEP.

iv) Given the fact that it is almost four months since 12/31/20, is IT still examining the issue to determine what was broken or is the resolution identified and being implemented. If being implemented, explain what is being implemented and when will the implementation be complete.

c) Regarding the response to part (o) FERC Account 39800, please describe the booked "tax credit" (e.g., sales tax? Other?) and provide the amount.

SUBMITTED SET 13 APRIL 23, 2021

80) CEP Rider Application dated February 25, 2021: Please provide, in Microsoft Excel format, the CEP Rider Schedules CEP-1–CEP-13 included in the Company's application. Also, provide any supporting documents used to create/update the schedules.

SUBMITTED SET 14 MAY 3, 2021

81) **Follow-up to Data Request response BRCS Set 1 No. 39 and 40.** For the following IT work orders, please explain, with supporting documentation and/or calculations, how the allocation percentages were determined.
   a) NCS19P2PCNCSX
   b) NCSCTRAKXDIGMX
   c) NCSCTRAKXPYWBC
   d) NCSE18PIPEDIVRC
   e) NCSP19SMSSLMPC
   f) NCSP19SNOW2X
   g) NCST19GIS106C
   h) NCST19MICROSFTC

82) **General IT**: Please explain why IT projects that generate Corporate Service Bills should accrue AFUDC on Columbia's books.

83) **Work Order NCSCTRAKXDIGMX**: Please provide the supporting detail for the $213,886.93 Corporate Service Bill recorded in March 2020.

84) **Work Order NCSCTRAKXPYWBC**: Please provide the supporting detail for the $131,042.83orporate Service Bill recorded in July 2020.

85) **Work Order NCSE18PIPEDIVRC**: Please explain why this project—Pipeline Diversification (parent)—should be included in the CEP.

86) **Work Order NCSP19SNOW2X**: Please provide the supporting detail for the $394,172.65 Corporate Service Bill recorded in March 2020.

87) **Work Order NCS19P2PCNCSX**: Please explain how the Company determined which cost should be deferred and which costs to capitalize.

88) **Work Orders NCSCTRAKXDIGMX and NCSP19SNOW2X**: These projects are booked to FERC 303.99 (cloud computing). Please explain why the projects did not generate any deferred accounting.

89) **Follow-up to Data Request response BRCS Set 1 No. 59:** The response indicated, "Construction started several months later than originally planned, but the completion deadline remained unchanged." The compressed schedule caused additional crews to be added to the project. What or who caused the delay in the start of construction, and how many months was the start date delayed?

90) **Follow-up to Data Request response BRCS Set 1 No. 55:** The Company response indicated that some main was installed but customers have not been hooked up. Based on that response, why does the Company consider the assets used and useful and, therefore, properly includable in the CEP?

91) **Follow-up to Data Request response BRCS Set 1 No. 39: Work Order 0583.34180074253, $846,615.** The Company explained the reason for the variance:

> "Note: Per discussion with Engineering, this work order was used to order material and rent equipment for multiple work orders performing the LP OPP initiative. It was intended to have the charges redistributed from this work order to the other Ohio LP OPP work orders; however, the redistribution did not happen due to the original Project Manager no longer being with the company. The costs are necessary to accomplish Columbia's LP OPP work."

a) Please explain why this work order should be considered in service and, therefore, eligible to be included in the CEP.
b) Please explain why this work order should not remain in CWIP and the charges redistributed to other work orders as those projects move forward.

92) **Follow-up to Data Request response BRCS Set 1 No. 39: Work Order NCST19MICROSFTC, $281,531.** The Company explained the reason (justification) for the work order:

> "This project is only for tracking Non-Project Capital Software for the Infrastructure Department. It is not an actual project that will have phase gates. Microsoft Enterprise Agreement allows us to deploy the most current version of Microsoft products released and take advantage of new software features and capabilities in our desktop and server environments."

a) Please explain how this work order qualifies to be closed to plant in service in accordance with FERC.
b) How can the work order be unitized without units of property?
c) Explain why, if this project is for tracking purposes only, the project cost should not remain in CWIP and be eventually cleared to viable projects.

<u>SUBMITTED SET 15 MAY 12, 2021</u>

93) **Activity Codes**: Follow-up to BRDR#39 and BRDR#40: For the following list of Activity Codes / Job Type, please fill in the blanks with a longer description of what each activity code entails.

Job Type	Budget Class	Definition
0555	Growth	Mains—New Business
0557	Age & Condition	Mains—Leak Elimination
0559	Betterment	Mains—Service Improvement

Job Type	Budget Class	Definition
0561	Public Improvement	Mains—Street Improvement
0563	Growth	Service Line—New (blankets)
0565	Age & Condition	Service Line—Replacement (blankets)
0567	Growth	
0571	Growth	
0583	Age & Condition	
0889	Shared Services Allocation	Service Company Projects (e.g. Facilities, IT)
0915	Support Services	Miscellaneous—primarily used for tool purchases (blankets)
NCS	Support Services	Service Company Projects (e.g. Facilities, IT)
1239	Growth	
1289	Betterment	
1385	Age & Condition	
1459	Public Improvement	
7737	Age & Condition	
7907	Age & Condition	
8889	Public Improvement	

94) **Work Order Testing NCS19P2PCNCSX**: Follow-up to BRDR#39 NCS19P2PCNCSX. Please provide the budgeted amount for work order NCS19P2PCNCSX, no budget was provided in supporting detail.

95) **Work Order Testing 1095.34200171287:** In reference to work order 1095.34200171287 Retest Mansfield North POD, in the PBR Justification & Alternatives worksheet within the response to DR #78, it stated, "Original pressure test was of insufficient duration according to GS 1500.010."

a) Please confirm that GS 1500.010 is an internal operating policy/procedure and was required as part of the procedure in place during the commissioning of "Phase 1 Replacement of existing POD" and/or "Phase II Replacing of existing pipeline."
b) If required, but not followed, what commissioning procedures were completed to ensure the pipeline was of sound condition to pressurize?
c) Was this failure to comply with GS 1500.010 at the completion of Phase 1 or Phase 2 a reportable event to any state or federal agencies?
d) What changes to policy, procedures, and training have taken place to ensure going-forward commissioning procedures that require compliance to GS 1500.010 are followed?
e) Please provide a copy of the approved GS 1500.010 during the commissioning of Phase 1, Phase 2, and Phase 3, highlighting any updates that occurred.
f) If compliance to GS 1500.010 had occurred in Phase 1 or Phase 2 as described in the Company response to Data Request #78, would this work order have been necessary

<u>SUBMITTED SET 16 MAY 17, 2021</u>

96) **Work Order Testing:** Follow up to Data Request response No 86, Attachment A, Tab - summary, Work Order NCSP19SNOW2X. Please provide the FERC guidance that allows Cloud Computing to be recorded in CWIP (FERC 107)

97) **Work Order Testing:** Follow up to Data Request response No 86, Attachment A, Tab Data, Work Order NCSP19SNOW2X, line 148. Please explain why $102,874.96 of charges labeled IT Software Maintenance is charged to capital.
98) **Work Order Testing:** Work Order 0583.34180074253: This work order was a replacement. Please explain why no cost of removal was recorded.
99) **Work Order Testing:** Order 0583.34180074253 - Replace - Plant Regulators. Project was in-service 5/13/19 and $1,567 of retirements were recorded on 1/1/21. Please explain the delay in retiring the assets and the impact on the accumulated reserve for depreciation.
100) **Work Order Testing:** Order 0583.34180125840 - Plant Regulators – Repl 2" monitor replacement. Project was in-service 6/24/20 and $883 of retirements were recorded on 12/1/20. Please explain the delay in retiring the assets and the impact on the accumulated reserve for depreciation.
101) **Work Order Testing:** Order 1385.34190109150- single phase AMRP project for Norwalk, Ohio. Project was in-service 12/18/19 and $49,459 of retirements were recorded on 9/1/20. Please explain the delay in retiring the assets and the accumulated reserve for depreciation.
102) **Work Order Testing:** Order 1459.34200126783- Mandatory relocation project in the Medina, Ohio. Project was in-service 9/25/20 and $26,978 of retirements were recorded on 3/1/21. Please explain the delay in retiring the assets and the impact on the accumulated reserve for depreciation.
103) **Work Order Testing:** Order 8889.34190126482- Center Ridge Road is a roadway reconstruction project. Project was in-service 4/6/19 and $50,633 of retirements were recorded on 12/1/19. Please explain the delay in retiring the assets and the accumulated reserve for depreciation.
104) **Work Order Testing:** Follow up to Data Request response BRDR #55, Work Order 0555334200133562. The Company response indicated that 1,541 feet of 2 inch, 1,762 feet of 4 inch and 90 feet of 6 inch pipe has been installed and there are currently no active customers. If the Company does not have any customers hooked up please explain why those assets should be considered used and useful and includable in the CEP.

SUBMITTED SET 17 MAY 21, 2021

105) Follow up to Data Request response No 69. The company's response indicated in part that the company recorded zero salvage dollars.
   a) Would these replacement work orders generate salvage? If so please estimate the salvage for each work order individually. If not why not?
   b) Please reiterate the policy for recording salvage. Did the company follow that policy for the work orders listed?

APPENDIX C: WORK PAPERS

Blue Ridge's workpapers are available on a USB Flash Drive) and were delivered to the PUCO Staff per the RFP requirements.

- WP - Sample Selection - 21-0023-GA-RDR BRCS Set 1 No 1 Attachment A FINAL.xlsx
- WP 21-0023-GA-RDR BRCS Set 1 No 21 Attachment A - Backlog.xlsx
- WP 21-0023-GA-RDR Columbia Gas CEP Matrix Final.xlsx
- WP 21-23-GA-RDR Sensitivity, Sample Size and Interval.xlsx
- WP 2021 Updated CEP Application.xlsx
- WP BRCS CEP Financial Sch Variance Analysis.xlsx
- WP CEP Expenditures by Category and Growth by FERC Account from 2011-2020 21-0023-GA-RDR BRCS Set 1 No 1 Attachment A.xlsx
- WP Columbia Rev Req Effect of Delayed Retirements.xlsx
- WP V&V Rev Req 21-0023-GA-RDR - CEP Financial Schedules + Adjustments FINAL.xlsx