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July 1, 2021

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment to the CEP Rider Rate, Case No. 21-23-GA-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to Columbia Gas of Ohio, Inc.'s application in Case No. 21-23-GA-RDR for approval of its capital expenditure program rider rate adjustment.

Sincerely,

Marianne Townsend
Chief, Regulatory Utility Services
Rates and Analysis, Dept.
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Columbia Gas of Ohio, Inc.
Capital Expenditure Program Rider
Case No. 21-23-GA-RDR

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (PUCO or Commission) Opinion and Order in Case No. 17-2202-GA-ALT (Order),¹ on February 28, 2020, Columbia Gas of Ohio, Inc. (Columbia or Company) filed an application to adjust its Capital Expenditure Program (CEP) Rider rate in Case No. 21-23-GA-RDR.

On February 24, 2021, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or Auditor) as the auditor to assist the staff of the PUCO (Staff) in performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Columbia's CEP Rider.

On June 15, 2021, Blue Ridge submitted its audit for the 2021 annual adjustment to the CEP Rider rate for Columbia. (Blue Ridge Report).

This report provides Staff's conclusion and recommendations to the Commission in regard to Columbia's application to adjust its CEP rider as filed in Case No. 21-23-GA-RDR.

BACKGROUND

Under R.C. 4929.111, a natural gas company may file an application to implement a CEP for infrastructure expansion, improvement, or replacement; to install, upgrade, or replace information technology systems; or to comply with rules, regulation, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the Company's obligation to furnish necessary and adequate services and facilities, and finds those services and facilities to be just and reasonable, the Commission shall approve the application and authorize deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on the portion of assets of the CEP placed in service but not reflected in rates as plant in service, and a regulatory asset for the incremental depreciation and the property tax expense directly attributable to the CEP but not reflected in rates.

In 2011, the Company filed an application to implement a capital expenditure program and modify its accounting procedures in Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM. The Commission limited the CEP deferral authority from October 1, 2011, through December 31, 2012. The Commission authorized the Company to accrue CEP deferral expense until the rates to recover the deferrals for the Small General Service (SGS) class reach \$1.50 per month.²

In 2012, in Case Nos. 12-3221-GA-UNC and 12-3222-GA-AAM, the Commission authorized the Company to continue its CEP deferral beyond December 31, 2012, up and to the time where the

¹ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 17-2202-GA-ALT, Opinion and Order (Nov. 28, 2018).

² *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 11-5351-GA-UNC, *et al.*, Finding and Order at 12-13 (Aug. 29, 2012).

accrued deferral would generate rates that result in an increased monthly charge of more than \$1.50 per month for the SGS class.³

In 2018, in Case No. 17-2202-GA-ALT, the Commission authorized the Company to implement a new alternative rate plan and create the CEP rider to recover historic and ongoing CEP costs and CEP deferrals (CEP Investment). The rates for incorporating historic CEP Investments through December 31, 2017 were set for SGS customers at \$3.51 per meter per month.⁴ The rates for recovery of ongoing CEP Investments were capped for SGS customers at \$1.05 per year for three years for a maximum rate of \$6.66 in September 2021.⁵

COLUMBIA'S APPLICATION FOR CEP RIDER

Columbia filed its Application to adjust the CEP Rider rate for SGS to \$5.93 beginning September 2021.⁶ The Application included a CEP Rider revenue requirement of \$126,977,311 through Dec. 31, 2020. The Company calculated a total revenue requirement for 2020 investments of \$18,331,801⁷ and an under recovery from the prior year of \$1,410,869 resulting in a revenue requirement of \$19,742,670. CEP investments included plant additions of \$179,206,560 and retirements of \$18,623,775 for total plant in service of \$160,582,485; accumulated depreciation of \$68,611,281; and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of (\$164,483). Annualized operating expenses include depreciation, deferred depreciation amortization, PISCC amortization, property tax expense, and deferred property tax expense amortization.

THE CEP RIDER INVESTIGATION

Staff divided its review into two parts: 1) investigating the application and supporting schedules to determine if Columbia's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company that is used as a basis for the adjustment; and 2) plant investigation performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Columbia's CEP Rider. The Commission selected Blue Ridge as the auditor to assist Staff in conducting the investigation.

Staff reviewed the Company's Application and supporting testimony, analyzed documentation associated with expenses and deferrals for depreciation, property tax, and PISCC. Staff also reviewed proposed tariffs, bill impacts, and revenue requirement calculations. As part of its review, Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, and performed independent analysis when necessary. Finally, Staff reviewed the Order and stipulation from Case No. 17-2202-GA-ALT and the Opinion and Order and statement of issues from Case No. 20-49-GA-RDR to ensure the Company was in compliance with all recommendations and requirements.

³ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 12-3221-GA-UNC, *et al.*, Finding and Order at 5 (Oct. 9, 2013).

⁴ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation to Establish a Capital Expenditure Program Rider Mechanism*, Case No. 17-2202-GA-ALT, Opinion and Order at 14 (Nov. 28, 2018).

⁵ *Id.* at 19.

⁶ *In the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment to the Capital Expenditure Program Rider Rate (CEP Audit Case)*, Application at Schedule CEP-13 (Feb. 25, 2021).

⁷ The Company calculated the revenue requirement by multiplying reported 2020 CEP Investments of \$91,806,721 by the rate of return (9.52% pre-tax) and adding annualized operating expenses of \$9,591,799.

Blue Ridge conducted an audit of Columbia's CEP capital expenditures. The Auditor 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 from January 1, 2020 through December 31, 2020. The Auditor also assessed necessity, prudence, lawfulness, and reasonableness of the CEP expenditures. The Auditor reviewed the information required by the Request For Proposal; reviewed responses to data requests; conducted interviews; performed virtual field inspections and desk top reviews; reviewed the Company's processes and procedures; and performed various analyses as detailed in the Blue Ridge Report.

STAFF'S RESPONSE AND RECOMMENDATIONS

Staff has completed its investigation of Columbia's proposed CEP Rider application. Staff fully adopts the Blue Ridge Report. Based on the Auditor's recommendations, the new rate is approximately \$5.91 for residential customers (subject to Company final calculation). While Staff agrees with and adopts the recommendations in the Blue Ridge Report, Staff specifically highlights that the Company should:

1. Remove IDR-related plant additions (Adjustment #1);⁸
2. Formally document a process for identifying IDR assets (Recommendation #1);⁹
3. Remove expenditures based on imprudence findings (Adjustment #2);¹⁰
4. Remove project costs overruns (Adjustment #3);¹¹
5. Reclass misallocated costs between Accounts 382 – meter installations and 383 - house regulators (Adjustment #4);¹² and
6. Document issue the issue with WMS and PowerPlan and the impact on the CEP (Recommendation #2).¹³

Based upon the investigation described above, Staff believes that in all other areas the Company has supported its filing with adequate data and information to ensure that the CEP rider's revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Columbia's application for the CEP rider as modified by these comments.

⁸ *CEP Audit Case*, Blue Ridge Report at 8 (June 15, 2021).

⁹ *Id.* at 9.

¹⁰ *Id.* at 8.

¹¹ *Id.*

¹² *Id.* at 9.

¹³ *Id.*

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Summary: Staff Review and Recommendation n the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment to the CEP Rider Rate, Case No. 21-23-GA-RDR electronically filed by Ms. Nicci Crocker on behalf of PUCO Staff