

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**TESTIMONY OF VICKI H. FRISCIC
IN SUPPORT OF THE STIPULATION ON BEHALF OF
THE EAST OHIO GAS COMPANY D/B/A DOMINION ENERGY OHIO**

October 12, 2021

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1 **I. INTRODUCTION**

2 **Q1. Please state your name and business address.**

3 A. My name is Vicki H. Friscic, and my business address is 1201 East 55th Street,
4 Cleveland, Ohio 44103.

5 **Q2. By whom are you employed?**

6 A. I am employed by The East Ohio Gas Company d/b/a Dominion Energy Ohio (DEO or
7 the Company) as Director Regulatory & Pricing.

8 **Q3. In your capacity as Director Regulatory & Pricing, are you generally familiar with**
9 **DEO's books and records?**

10 A. Yes. I am responsible for preparing a variety of regulatory filings that include financial
11 information derived from DEO's records, including the general ledger, annual reports,
12 income statements, and balance sheets.

13 **Q4. Are you familiar with the Company's Application in this proceeding?**

14 A. Yes. I am familiar with the Company's Application filed on December 8, 2020.

15 **Q5. Please summarize the Company's Application.**

16 A. The Application asks the Commission to approve the continuation of the Pipeline
17 Infrastructure Replacement program (PIR program) and PIR Cost Recovery Charge for
18 another five-year period covering the investment years 2022 through 2026, unless this
19 period is modified in DEO's next base rate case. The Application proposes to continue to
20 increase the annual amount of PIR investment by the same factor of three percent per
21 year previously approved for investment years 2019 through 2021, and to adjust the
22 annual rate increase caps accordingly. The Application states that the Company does not
23 propose any other changes to the existing PIR procedures, terms, and conditions
24 previously approved in Case No. 08-169-GA-ALT, Case No. 11-2401-GA-ALT, and

1 Case No. 15-362-GA-ALT. The Company previously submitted the direct testimony of
2 Lori S. Parker (DEO Ex. 1.0) in support of the Application.

3 **Q6. What is the status of the proceeding?**

4 A. The Office of The Ohio Consumers' Counsel (OCC) and Ohio Partners for Affordable
5 Energy (OPAЕ) filed comments on DEO's Application on February 17, 2021. DEO filed
6 reply comments on March 3, 2021. The Staff of the Public Utilities Commission of Ohio
7 (Staff) filed its Report on April 5, 2021. Industrial Energy Users-Ohio (IEU-Ohio),
8 OPAЕ, OCC, and DEO then filed objections to the Staff Report on May 5, 2021. On
9 October 12, 2021, a Stipulation and Recommendation (the Stipulation) was filed. In
10 accordance with the Commission's September 9, 2021 Entry, the Company is filing this
11 supplemental testimony.

12 **Q7. What is the purpose and scope of your supplemental testimony?**

13 A. My testimony supports the Stipulation and provides certain facts relevant to the
14 Commission's criteria for evaluating stipulations to explain why the Stipulation is
15 reasonable and should be approved without modification. My testimony also addresses
16 OCC's objections to the Staff Report, since OCC is the only non-Signatory to the
17 Stipulation.

18 **II. THE STIPULATION**

19 **Q8. What does the Stipulation resolve?**

20 A. The Stipulation resolves DEO's Application to renew the PIR program and cost recovery
21 for another five-year period.

22 **Q9. Who are the Signatory Parties?**

23 A. The Signatory Parties are the Company, Staff, OPAЕ, and IEU-Ohio.

1 **Q10. If approved, would the Stipulation resolve all issues raised in this proceeding?**

2 A. Yes. The Stipulation is a just, reasonable, and comprehensive settlement and if approved,
3 would resolve all issues raised in this proceeding. As discussed below, the Stipulation
4 meets the criteria that the Commission uses to determine whether to approve a
5 stipulation.

6 **Q11. Does the Stipulation adopt the Staff Report recommendations?**

7 A. As stated in Paragraph 1, the Stipulation recommends approval of the Application,
8 subject to the findings and recommendations of the Staff Report, except as otherwise
9 specifically provided for in this Stipulation. Any proposed rate, charge, term, condition,
10 or other item set forth in DEO's Application, which is not addressed in the Staff Report
11 or the Stipulation, shall be treated in accordance with the Application.

12 **Q12. What is the Staff Report's overall recommendation?**

13 A. Based on Staff's investigation, the Report recommends that the Commission approve
14 DEO's Application, as modified by the Report's conclusions and recommendations.

15 **Q13. What investigation did Staff make in this proceeding?**

16 A. The Report indicates that Staff investigated DEO's proposal to renew the PIR program
17 for another five-year period "by reviewing the Application, supporting testimony, and
18 issuing data requests to obtain detailed information regarding the proposed Program
19 changes, cost pressures impacting the planned progression of the Program through 2020,
20 and as well as planned pipeline replacement mileage over the course of the 5-year
21 extension." (Staff Rep. at 3.)

22 **Q14. What specific recommendations does the Staff Report make?**

23 A. The Report makes four specific recommendations. First, the Report recommends
24 modifying the Company's application and associated procedural schedule to align with

1 the dates utilized by CenterPoint Energy Ohio (CEOH) for its Distribution Replacement
2 Rider (DRR). Second, the Report recommends the Commission approve the Company's
3 proposal to increase PIR investment by three percent annually, with corresponding
4 increases to PIR rate increase caps. Third, the Report recommends that the Commission
5 keep the 25-year time period it originally adopted for completing the PIR and direct DEO
6 to continue to use its best efforts to replace all target pipe under the Program by the end
7 of 2033. Fourth, the Report recommends that the Company embed the PIR assets into the
8 Company's rate base and that the PIR-associated excess deferred income taxes (EDIT) be
9 included in the Company's Tax Savings Credit Rider (TSCR), when the Company files
10 its next base distribution rate case no later than October 2024.

11 **Q15. How does the Stipulation resolve the Report's proposal to modify the procedural**
12 **schedule for the annual PIR updates?**

13 A. In its objections to the Report, DEO expressed concerns with the impact of a schedule
14 change on the Company and customers. OCC expressed a similar concern in its
15 objections. For PIR, the updated charges currently become effective as of the first billing
16 cycle in May. In contrast, the effective date for CEOH's updated DRR charges is
17 September 1. Moving the effective date for PIR to the first billing cycle in September
18 would compound higher deferral balances and carrying costs to be recovered from
19 customers and increase the regulatory lag in recovering actual PIR costs. Paragraph 2 of
20 the Stipulation formally withdraws the Report recommendation to modify the date of the
21 annual PIR application and procedural schedule. Instead, the schedule and effective date
22 of the PIR Cost Recovery Charge shall remain as currently in effect in accordance with
23 the Application, except that Staff may audit actual fourth quarter data for the most recent

1 calendar year in the subsequent annual PIR filing. In addition, DEO agrees to work with
2 Staff to identify ways to better facilitate Staff's review of PIR project data.

3 **Q16. How does the Stipulation resolve the Report's recommendations related to pace and**
4 **completion of the PIR program?**

5 A. In its objections, DEO acknowledged Staff's concern regarding the completion of the PIR
6 program. DEO specifically objected to the Report's recommendation on this issue,
7 however, because it did not account for the program's history and development, and in
8 particular the impact of rate increase caps on the program's pace. In both the 2011 and
9 2016 proceedings, which authorized the last two iterations of the PIR Program, DEO
10 indicated that the annual investment level permitted under the approved rate-increase
11 caps would be insufficient to complete the program by 2033. The approved caps simply
12 do not permit enough investment to make up for the additional 1,450 miles of
13 ineffectively coated pipelines added to the scope of the program in 2011. Thus, in its
14 objections, DEO wanted to make clear that the Report's recommendation should not
15 assume or suggest that no further adjustments to recoverable PIR investment would be
16 permissible or necessary to achieve the completion target.

17 For the proposed reauthorization period, the Stipulation adopts the Report's
18 recommendation that the Commission approve DEO's proposal to increase PIR
19 investment by three percent annually, with corresponding increases to PIR rate increase
20 caps. In response to Staff data requests, DEO confirmed that external cost factors and the
21 additional miles have impacted, and are expected to continue to impact, the completion
22 target and program pace. In addition, although concerns about the program's completion
23 date should not affect approval of the Application, Paragraph 2 of the Stipulation
24 nevertheless incorporates DEO's agreement that Staff shall undertake an interim review

1 of the PIR Program (the Interim Review), including, but not limited to, an evaluation of
2 the Program's completion date and any recommended changes thereto.

3 **Q17. Did the Staff Report propose such an interim review?**

4 A. No. However, as discussed in my response to OCC's objections to the Report, OCC
5 recommends that the Commission order what it calls a "comprehensive review." As
6 explained further below, the Company does not believe that OCC has demonstrated that
7 its contemplated "comprehensive review" is necessary in this proceeding, given the
8 Commission's prior reviews of the PIR program and DEO's management of its capital
9 spending and Staff's annual audits of PIR plant additions. However, in an effort to reach
10 a compromise and resolve the issues in this proceeding, DEO agreed to the Interim
11 Review, as outlined in the Stipulation.

12 **Q18. Does the Stipulation provide the framework for the Interim Review?**

13 A. Yes. Paragraph 3(a) requires the Interim Review to be conducted by an independent,
14 third-party consultant selected by Staff with experience in natural gas distribution
15 systems and operations, Pipeline and Hazardous Materials Safety Administration
16 (PHMSA) regulations, and accelerated gas pipeline replacement programs. The
17 Stipulation also requires Staff to develop an RFP to solicit bids from qualified
18 contractors, with input from Signatory Parties. In addition, the Stipulation sets forth the
19 scope of the Interim Review as addressing the management, effectiveness, and projected
20 completion of the PIR program.

21 **Q19. Would the scope of the Interim Review include a prudence review of PIR**
22 **investments?**

23 A. No. Paragraph 3(b) acknowledges that the prudence of PIR investments will continue to
24 be reviewed during the annual PIR updates.

1 **Q20. Does the Stipulation outline the process for presenting the Interim Review to Staff**
2 **and the Commission?**

3 A. Yes. Paragraphs 3(c) and 3(d) set forth the process for presenting the Interim Review to
4 Staff and filing with the Commission in either the Company's next base rate case or
5 subsequent PIR reauthorization proceeding.

6 **Q21. Does the Stipulation expressly acknowledge that DEO can request a completion date**
7 **for the PIR program beyond 2033?**

8 A. Yes. Paragraph 3(e) expressly acknowledges that the Stipulation does not limit DEO's
9 right to request a completion date for the PIR program beyond 2033 in the next rate case
10 or subsequent PIR reauthorization proceeding. The Stipulation also acknowledges that no
11 Signatory Party is prohibiting from opposing such a proposal.

12 **Q22. How does the Stipulation resolve the Report's recommendations related to the**
13 **treatment of PIR assets and PIR-associated EDIT in the Company's next base rate**
14 **case?**

15 A. Paragraph 4 adopts the Report recommendation that DEO reflect PIR plant balances in
16 the Company's proposed rate base in its next rate case. With respect to the PIR-
17 associated EDIT, however, the Stipulation does modify the Staff Report recommendation
18 to require DEO to include those balances in the TSCR. DEO is currently returning those
19 amounts to customers through the PIR Cost Recovery Charge. *See* Case Nos. 18-1908-
20 GA-UNC and 18-1909-GA-ATA, Finding & Order (Dec. 4, 2019) ¶ 25. DEO believes
21 that protected plant-related EDIT balances and amortization associated with the PIR
22 Program should be reflected in new base rates. This approach would allow protected
23 EDIT amortization to follow the assets the EDIT is associated with and avoid any
24 potential tax normalization concerns that might arise when different elements of PIR's
25 rates are recovered under different rate mechanisms. The Stipulation resolves this issue

1 by requiring DEO to address the proposed treatment of PIR-associated EDIT in its rate
2 case application.

3 **Q23. In addition to resolving the Staff Report recommendations, does the Stipulation**
4 **address any other issues?**

5 A. Yes. Paragraph 5 of the Stipulation reflects a new commitment by DEO to prospectively
6 exclude from the PIR Cost Recovery Charge revenue requirement capitalized amounts
7 associated with the Long-Term Incentive Program (LTIP), the Leadership Incentive Plan
8 (LIP), and the financial-performance component of the Annual Incentive Plan (AIP)
9 (collectively, Capitalized Financial Incentives), for PIR investments beginning January 1,
10 2021, through December 31, 2026.

11 **Q24. Did the Application propose this prospective commitment?**

12 A. No. DEO's Application did not propose this prospective commitment. In addition, the
13 Staff Report did not make this recommendation. DEO voluntarily made this commitment
14 in an effort to resolve the issues in this proceeding.

15 **Q25. Has DEO reserved the right to seek recovery of costs for these programs in other**
16 **proceedings before the Commission?**

17 A. Yes. Since DEO believes that these costs are recoverable in rates, the Stipulation
18 provides that DEO reserves the right to seek, and no Signatory Party is prohibited from
19 opposing, recovery of costs associated with the LTIP, LIP, and/or AIP, including
20 Capitalized Financial Incentives, in other Commission proceedings, including the
21 Company's next rate case. The Stipulation also provides that if the Commission rules, in
22 DEO's next rate case or a proceeding filed thereafter, that financial-performance-based
23 incentive compensation costs, including Capitalized Financial Incentives, are properly
24 recoverable in rates, DEO may cease prospectively excluding Capitalized Financial
25 Incentives under this Paragraph, and no Signatory Party is prohibited from supporting or

1 opposing the later inclusion and recovery of Capitalized Financial Incentives in PIR Cost
2 Recovery Charge revenue requirements.

3 **Q26. If approved by the Commission, does the Stipulation require any changes to DEO's**
4 **tariff?**

5 A. No. The Stipulation, if approved, does not require any changes to DEO's tariff, including
6 the PIR Cost Recovery Charge tariff page, Fourteenth Revised Sheet No. PIR 1. The
7 charges on the PIR tariff sheet will be updated after the Commission issues an order in
8 the 2022 annual PIR update concerning 2021 PIR investments.

9 **III. THE CRITERIA FOR EVALUATING THE STIPULATION**

10 **Q27. What criteria does the Commission use to decide whether to approve a Stipulation?**

11 A. My understanding is that the Commission has applied the following three criteria in
12 evaluating stipulations: First, is the Stipulation a product of serious bargaining among
13 capable, knowledgeable parties? Second, taken as a package, does the Stipulation benefit
14 customers and the public interest? Third, does the Stipulation violate any important
15 regulatory principle or practice?

16 **A. THE STIPULATION IS THE PRODUCT OF SERIOUS BARGAINING.**

17 **Q28. In your opinion, is the Stipulation supported by parties representing a range of**
18 **interests?**

19 A. Yes. The Stipulation is signed by the Company, Staff, and two groups representing
20 DEO's customers: OPAE and IEU-Ohio.

21 **Q29. Do you believe that the Stipulation was the product of serious bargaining?**

22 A. Yes. The parties engaged in serious bargaining. All of the intervening parties participated
23 in, or had the opportunity to participate in, the negotiation of the Stipulation's terms. The
24 settlement negotiations involved a diverse group of experienced parties. An initial
25 settlement meeting with all parties was held virtually on June 9, 2021. Subsequent

1 settlement meetings were held virtually on June 24, July 14, August 10, and September 9.
2 All parties to the case were invited to attend and did attend. During this period of
3 settlement discussions, DEO circulated a written term sheet and various drafts of a
4 stipulation for the parties' review and comments. During the meetings, DEO answered
5 questions from the parties, and invited feedback and counterproposals to the proposed
6 settlement terms. Counterproposals were circulated, discussed, and considered. Changes
7 to the stipulation's drafted language were proposed and deliberated. All agreed upon
8 terms and conditions have been incorporated into the Stipulation. Although OCC did not
9 sign the Stipulation, there was recognition and acknowledgment by the parties that an
10 impasse had been reached.

11 **Q30. Were the parties represented by capable, knowledgeable persons?**

12 A. Yes. All of the parties were represented by attorneys, most if not all of whom have years
13 of experience in regulatory matters before this Commission, and all of the parties either
14 employed or had access to technical experts with comparable experience.

15 **Q31. Does the Stipulation reflect compromises from the proposals supported in DEO's**
16 **Application?**

17 A. Yes. As discussed elsewhere in my testimony, the parties' negotiations resulted in a
18 compromise that differs materially from the proposals supported in DEO's Application.

19 **B. THE STIPULATION BENEFITS CUSTOMERS AND IS IN THE PUBLIC INTEREST.**

20 **Q32. Does the Stipulation benefit customers and is it in the public interest?**

21 A. Yes. As described more fully below, the Stipulation continues existing customer benefits,
22 introduces new incremental customer benefits, and is in the public interest.

1 **Q33. What facts support the conclusion that the Stipulation benefits customers and is in**
2 **the public interest?**

3 A. The Stipulation benefits DEO’s customers and is in the public interest in a number of
4 ways such as:

- 5 1) Continuing the PIR program, which provides customers and the public with
6 significant benefits in terms of safety and reliability;
- 7 2) Continuing the PIR Cost Recovery Charge, which provides for timely cost
8 recovery of PIR investments;
- 9 3) Continuing to incorporate rate increase caps and an O&M savings offset, which
10 mitigate the bill impact of the PIR Cost Recovery Charge;
- 11 4) Providing for the undertaking of an Interim Review of the PIR program by an
12 experienced, independent, third-party consultant selected by Staff; and
- 13 5) Voluntarily and prospectively excluding Capitalized Financial Incentives, which
14 will also tend to mitigate bill impacts.

15 **Q34. Has the Commission previously recognized that the PIR program benefits**
16 **customers and is it in the public interest?**

17 A. Yes. In previous decisions approving the PIR program, the Commission has recognized
18 that the overarching purpose of the PIR Program is the continued safety and reliability of
19 DEO’s pipelines. *See* Case No. 15-362-GA-ALT, Opin. & Order (Sept. 14, 2016) ¶¶ 37,
20 52-53; Case No. 11-2401-GA-ALT, Opin. & Order (Aug. 3, 2021) at 9; Case No. 18-169-
21 GA-ALT, *et al.*, Opin. & Order (Oct. 15, 2008) at 12. It is my understanding that the
22 Commission has made similar findings with respect to the benefits of other accelerated
23 pipeline replacement programs. *See In re Vectren Energy Delivery of Ohio, Inc., et al.*,
24 Case No. 18-298-GA-AIR, Opin. & Order (Aug. 28, 2019) ¶ 105; *In re Columbia Gas of*
25 *Ohio, Inc.*, Case No. 16-2422-GA-ALT, Opin. & Order (Jan. 31, 2018) ¶ 72.

1 **Q35. Have the core goals and benefits of the PIR program changed since the last**
2 **reauthorization?**

3 A. No. The core goals and safety and reliability benefits of the PIR program, which were
4 discussed in the Company's Application, remain unchanged. (Alternative Rate Plan Exs.
5 at 1; DEO Ex. 1.0 at 8-9.)

6 **Q36. How does DEO's continued timely recovery of PIR investment benefit customers**
7 **and the public in general?**

8 A. R.C. 4905.22 requires utilities to "furnish necessary and adequate service" and "provide
9 such instrumentalities and facilities as are adequate and in all respects just and
10 reasonable." Permitting DEO to timely recover costs and deferrals associated with PIR
11 capital investments funds further necessary investment in DEO's systems and the
12 continued improvement of gas infrastructure that benefits Ohio citizens and businesses.
13 And by ensuring that DEO is given the opportunity to timely recover its PIR investments
14 in annual updates, the Stipulation encourages continued investment in Ohio. The
15 Company believes that these annual adjustments to PIR charges strike a critical balance:
16 mitigating rate impacts and ensuring thorough review of PIR investments, without
17 discouraging future investment by imposing undue or inconsistent restrictions or delays
18 on capital recovery.

19 **Q37. How does the Stipulation continue to mitigate the bill impacts of PIR rates?**

20 A. In accordance with the Stipulation, the bill impacts of the PIR rates will continue to be
21 mitigated in a number of ways. First, the stipulated annual rate increase caps continue to
22 limit the amount of PIR investment that can be recovered in any given year. As set forth
23 in the Application and Staff Report, the stipulated rate increase caps reflect only a three
24 percent annual increase in PIR investment. Second, the costs recoverable through the PIR
25 Cost Recovery Charge continue to be offset by Operations and Maintenance (O&M)

1 expense savings, using the methodology most recently approved in Case No. 15-362-GA-
2 ALT. Lastly, Staff's annual review of PIR investments continues to ensure that PIR costs
3 are necessary, prudent, and reasonable.

4 **Q38. What new commitments has DEO made in the Stipulation?**

5 A. As discussed above, Paragraph 3 sets forth DEO's agreement to an Interim Review of the
6 PIR program. Paragraph 4 contains DEO's commitments to reflect PIR plant balances in
7 proposed rate base in the next rate case and also address the treatment of PIR-associated
8 EDIT in that filing. Paragraph 5 contains DEO's commitment to prospectively exclude
9 Capitalized Financial Incentives.

10 **Q39. How does DEO's agreement to an Interim Review of the PIR program constitute a**
11 **ratepayer benefit?**

12 A. The process for the Interim Review of the PIR program will eventually culminate in the
13 review's results being submitted in DEO's next rate case or subsequent reauthorization
14 proceeding. The Company, Staff, and other parties to the case will be able to consider
15 those results with respect to any proposals concerning the PIR Program, including the
16 pace and completion date. Paragraph 3 also, among other things, confirms that Staff will
17 undertake the review and select the experienced, independent, third-party consultant. This
18 process and related requirements set forth in the Stipulation, which neither the
19 Application nor the Staff Report proposed, benefit customers because the Commission
20 will ultimately be supplied information that it can weigh when deciding issues concerning
21 the PIR program.

22 **Q40. How do DEO's commitments in Paragraph 4 constitute a ratepayer benefit?**

23 A. Customers benefit from these commitments because they provide certainty to Staff, the
24 other parties to this case, and the Commission as to the treatment of PIR balances in

1 DEO's next rate case and require DEO to address in its rate case application the proposed
2 treatment of PIR-associated EDIT.

3 **Q41. How does the commitment to exclude costs associated with Capitalized Financial**
4 **Incentives constitute a ratepayer benefit?**

5 A. The exclusion of Capitalized Financial Incentives (i.e., LTIP, LIP and the financial-
6 performance component of the AIP) from PIR plant additions will result in revenue
7 requirements that will be lower than they would be without this commitment to the
8 benefit of ratepayers. In addition, these exclusions also resolve a potentially contested
9 issue in future PIR proceedings. This commitment thus supports judicial efficiency and
10 avoids the parties' spending time and resources litigating the inclusion of these costs in
11 PIR rates in subsequent annual updates.

12 **Q42. Can you briefly explain the LTIP?**

13 A. The LTIP for executives provides focus on long-term performance and strategic goals as
14 well as retention. The LTIP utilizes restricted stock awards with time-based vesting and
15 cash awards based on financial performance metrics.

16 **Q43. Can you briefly explain the LIP?**

17 A. The objective of the LIP is retention of certain key non-officer employees through
18 restricted stock grants.

19 **Q44. Can you briefly explain the AIP?**

20 A. The AIP program reflects the Company's application of pay-for-performance principles
21 tied to results that align with the interests of our customers, employees, shareholders and
22 the communities we serve. The AIP program plays an important part in maintaining
23 market-competitive total compensation for all employees and places a portion of
24 compensation at risk through performance goals. The AIP is structured to focus the

1 workforce on goals that align with corporate values and drive toward safe and efficient
2 operations, reliable service for our customers, and the achievement of financial results.
3 The objective is to strive for targeted performance levels in the areas of safety, diversity
4 and inclusion, and environmental benefits; financial performance; and other operating
5 and stewardship targeted performance, by emphasizing teamwork on common goals. The
6 AIP program is focused on ensuring that these goals are achieved within a culture of
7 economic efficiency and cost control.

8 **Q45. You indicated above that DEO considers these costs to be recoverable in natural gas**
9 **rider rates. Can you explain the basis for DEO's position?**

10 A. Although I am not attorney, as I noted above, it is my understanding that the Commission
11 recently addressed this issue in Case No. 19-971-GA-ALT, which was the proceeding in
12 which the Commission approved the CEP Rider for Duke Energy Ohio, Inc. The
13 Commission Order in that case contained the following statement:

14 Finally, we find no merit in OCC's arguments related to the
15 Stipulation's provisions imposing rate caps and allowing inclusion
16 of earnings- and stock- based incentives in the CEP Rider. ... With
17 respect to the latter, the Signatory Parties have explained that their
18 recommendation that earnings- and stock-based incentives be
19 recovered through Duke's CEP Rider is consistent with GAAP, as
20 well as the treatment of such incentives in the Company's natural
21 gas base rates and the CEP riders and base rates for other natural
22 gas companies (Co. Ex. 7 at 4). Accordingly, the Commission
23 finds that the inclusion of these incentives in Duke's CEP Rider is
24 not unreasonable.

25 *In re Duke Energy Ohio, Inc.*, Case No. 19-791-GA-ALT, Opin. & Order (Apr. 21, 2021)

26 ¶ 69. Based on my understanding of this language, the same reasoning would apply to
27 DEO. In accordance with Generally Accepted Accounting Principles (GAAP), costs
28 incurred for DEO's PIR capital projects include labor charges as well as associated
29 charges for payroll taxes and employee benefits, which would include a component of

1 costs such as LTIP, LIP, and the financial-performance component of the AIP. The
2 Commission also has previously approved PIR rates that include capitalized incentive
3 compensation costs. However, as indicated above, the Company has agreed to
4 prospectively exclude costs it considers recoverable in PIR rates to reach an overall
5 compromise in this case for the Commission’s approval.

6 **C. THE STIPULATION DOES NOT VIOLATE ANY IMPORTANT REGULATORY**
7 **PRINCIPLE OR PRACTICE.**

8 **Q46. Does the Stipulation violate any important regulatory principle or practice?**

9 A. No. On the contrary, it encourages compromise as an alternative to litigation and allows
10 DEO to recover its prudent costs through just and reasonable rates. The Stipulation also
11 supports DEO’s financial condition and ability to provide safe and reliable service, which
12 assists DEO in meeting its obligations under R.C. 4905.22 (“furnish necessary and
13 adequate service and facilities”) and furthers the state policy in R.C. 4929.02(A)(1)
14 (“[p]romote the availability to consumers of adequate, reliable, and reasonably priced
15 natural gas services and goods”). For these reasons and given the benefits provided to
16 ratepayers, which I described above, the Stipulation does not violate any important
17 regulatory principle or practice.

18 **IV. OCC OBJECTIONS TO STAFF REPORT**

19 **Q47. Please summarize OCC’s objections to the Staff Report.**

20 A. OCC submitted six objections to the Staff Report. First, OCC objects to Staff’s
21 recommendation to approve DEO’s Application without “a comprehensive review.”
22 (OCC Objs. at 6.) Second, OCC objects to Staff not recommending an updated rate of
23 return for future PIR rates. (*Id.* at 9.) Third, OCC objects to Staff not recommending the
24 removal of “all financial performance incentives.” (*Id.* at 10.) Fourth, OCC claims that

1 Staff “didn’t require any specific rationale prior to recommending approval of the
2 increases” to annual PIR investment levels. (*Id.* at 11.) Fifth, OCC objects to Staff’s
3 proposed schedule change for failing to estimate the costs or rate impact of such a
4 change. (*Id.*) Lastly, OCC does not support the Staff Report recommendation that the PIR
5 Program be completed by 2033, if that would mean large increases in annual PIR
6 investments and corresponding large increases in PIR rates. (*Id.* at 12-13.)

7 **Q48. Does the Stipulation address OCC’s objections?**

8 A. From the Company’s perspective, the Stipulation addresses many of OCC’s objections.
9 However, for the sake of completeness, I will address each objection.

10 **Q49. With respect to its first objection, has OCC demonstrated a need for a**
11 **“comprehensive review” of the PIR program?**

12 A. No. OCC neither cites any precedent nor establishes any need for a “comprehensive
13 review” of DEO’s PIR program. The Commission already regularly reviews DEO’s
14 capital spending and PIR investments in annual updates and recently reviewed the
15 Company’s administration of the PIR program and management of its capital spending.
16 *See* Case Nos. 15-362-GA-ALT; 19-468-GA-ALT; 21-619-GA-RDR. The Stipulation
17 nevertheless provides for an Interim Review.

18 **Q50. How does the Commission review the prudence of PIR costs?**

19 A. During the annual PIR updates, Staff audits and verifies that DEO’s actual PIR
20 investments are prudent and reasonable. *See, e.g.*, Case No. 20-1265-GA-RDR, Finding
21 & Order (Apr. 21, 2021) ¶ 14. The stated purpose of the Staff audit is “to determine if the
22 Company’s Application and supporting documentation justify the requested PIR revenue
23 requirement and can be used as a reliable basis for DEO’s proposed increases to the PIR
24 rider rates.” (Case No. 20-1625-GA-RDR, Staff Cmts. (Mar. 23, 2021) at 6.) Staff audits

1 actual capital expenditures, associated expenses, and over/under-collections. (*Id.*) In
2 addition, Staff issues data requests, conducts investigative interviews, and performs
3 independent analyses when necessary. (*Id.*) As a result of its audit, Staff may propose
4 adjustments to the proposed PIR revenue requirement.

5 **Q51. OCC suggests that customers are not receiving the “full value” of O&M savings**
6 **associated with the PIR program. (OCC Objs. at 8.) Does Staff also annually review**
7 **the O&M savings offset to the PIR revenue requirement?**

8 A. Yes. The Commission has approved the mechanism for crediting savings. The
9 Company’s PIR application each year identifies the actual amount of O&M savings
10 reflected as a credit to the PIR revenue requirement. Staff audits the O&M savings data
11 contained in the Company’s filing and traces the amounts to supporting work papers and
12 source data. This annual review confirms that DEO’s customers are receiving the full
13 benefit of the O&M savings in accordance with the Commission’s prior orders and the
14 approved stipulations. Over the life of the program, DEO has so far passed back to
15 customers over \$20 million in O&M savings, including savings of \$2,484,205.14
16 achieved in 2020 that are currently reflected in the PIR charge. (*See Case No. 20-1625-*
17 *GA-RDR, App. at 2 & Attach. A, Sched. 15.*) To the extent greater investment drives
18 greater O&M savings, the mechanism will capture the increased savings and pass them
19 back to customers.

20 **Q52. Does OCC also have the opportunity to review the Company’s actual PIR costs?**

21 A. Yes. OCC also has the opportunity to intervene in the annual PIR proceedings and submit
22 its own discovery.

1 **Q53. Did Staff review the Company’s management of the PIR program in the last**
2 **reauthorization proceeding?**

3 A. Yes. In the last PIR reauthorization proceeding, Staff and the Commission reviewed
4 DEO’s administration of the PIR Program and found that DEO’s procedures were robust
5 and well-designed. *See* Case No. 15-362-GA-ALT, Opin. & Order (Sept. 14, 2016)
6 ¶¶ 45-46, 51, 54.

7 **Q54. Did DEO propose any changes to the PIR program that has been subject to all these**
8 **prior Commission reviews?**

9 A. No, but for DEO’s proposal to extend the PIR authorization through 2026 and continue to
10 increase its annual PIR investment by three percent.

11 **Q55. Did OCC identify any changes to the PIR program in its prior comments or**
12 **objections to the Staff Report that would require additional Commission review?**

13 A. No.

14 **Q56. OCC suggests that Staff did not investigate the PIR program in this proceeding. Did**
15 **Staff also review the progress and management of the PIR program in this**
16 **proceeding?**

17 A. Yes. As discussed above, the Staff report investigated DEO’s proposal to renew the PIR
18 Program for another five-year period. Specifically, the Staff sent data requests to the
19 Company concerning the actual and planned PIR pipeline replacements, the average
20 installation costs, the external factors impacting the annual level of capital additions, the
21 Company’s contractors, the prioritization of PIR projects, and the Company’s budgeting
22 and benchmarking for PIR projects.

23 **Q57. Did OCC receive a copy of the Company’s responses to the Staff data requests?**

24 A. Yes.

1 **Q58. Has the Commission reviewed DEO’s capital spending in other proceedings?**

2 A. Yes. In the past three years, in connection with its review of DEO’s Capital Expenditures
3 Program (CEP) Rider and non-PIR plant additions, the Commission’s independent
4 auditor has twice reviewed DEO’s management of capital spending and cost-containment
5 strategies and found the Company’s processes to be prudent. *See* Case No. 19-468-GA-
6 ALT, Opin. & Order (Dec. 30, 2020) ¶¶ 32, 60; *see also* Case No. 21-619-GA-RDR.
7 Specifically, the auditor found that “the Company is taking appropriate measures to
8 control labor and contractor costs, which in turn control spending” and “did not see
9 anything during field testing that would indicate the Company is ‘gold plating’
10 construction.” (Case No. 21-0619-GA-RDR, Blue Ridge Consulting Services, Inc., Plant-
11 in-Service and Capital Expenditure Program Audit of The East Ohio Gas Company d/b/a
12 Dominion Energy Ohio (July 15, 2021) at 26.) These comprehensive, third-party reviews,
13 which lasted many months and included hundreds of data requests, interviews with DEO
14 personnel, field inspections, and variance analysis and detailed transactional testing,
15 demonstrate that DEO’s management of its capital spending is prudent and that its cost
16 containment strategies and practices are effective.

17 **Q59. OCC suggests that the Commission should consider “freezing” the PIR program.**
18 **(OCC Objs. at 7.) Has OCC offered a valid basis to “freeze” PIR cost recovery?**

19 A. No. Eliminating accelerated rate recovery of such capital-intensive work would force
20 DEO to scale back construction. This could disrupt the Company’s planning and
21 prioritization of projects, its annual budgeting process, and ultimately its relationships
22 with contractors. OCC fails to justify such an extreme disruption of a program critical to
23 public safety.

1 **Q60. Would DEO’s next base rate case provide the Commission with another opportunity**
2 **to review the PIR Program?**

3 A. Yes. As discussed above, the Company has made continually clear that additional
4 funding increases beyond the levels permitted by the approved rate-increase caps would
5 be needed to complete the PIR program by 2033. That reality has not changed, and OCC
6 recognizes this tension in its objections – increasing the speed of the program increases
7 the cost of the program. As I mention below, in response to OCC’s fourth objection, to
8 the extent that the Company wants to revisit the PIR investment levels caps, it could do
9 so in the next base rate case, which would provide Staff and other parties another
10 opportunity to review the status of the PIR program. Updated information regarding
11 future rate inputs (*e.g.*, tax rates, the rate of return, O&M costs and savings, *etc.*) would
12 also be available during the Company’s next rate case. In addition, as discussed above,
13 the Stipulation sets forth the process for an Interim Review, the results of which would be
14 submitted in the next rate case or the subsequent reauthorization proceeding.

15 **Q61. With respect to OCC’s second objection, an updated rate of return, has the**
16 **Commission recently addressed this issue?**

17 A. Yes. Although I am not an attorney, I am aware that this issue was litigated by the parties
18 and decided by the Commission in Case No. 19-468-GA-ALT, the proceeding in which
19 the Commission approved DEO’s CEP Rider. It is my understanding that in its order
20 approving the stipulation submitted in that proceeding, the Commission decided that
21 there was adequate justification to continue its practice to utilize the cost of capital and
22 capital structure approved in the utility’s last base rate case in subsequent alternative rate
23 plan and rider proceedings. Case No. 19-468-GA-ALT, Opin. & Order (Dec. 30, 2020)
24 ¶¶ 68, 70, 79. It is also my understanding that the Commission decided that no argument

1 presented by opposing intervening parties in that proceeding convinced the Commission
2 to change or revise its practice. *Id.* ¶ 79.

3 **Q62. Does the Company oppose OCC's recommendation to reduce the ROR embedded in**
4 **the PIR revenue requirement?**

5 A. Yes. The Company believes that OCC is raising identical issues with respect to ROR that
6 the Commission resolved in DEO's favor in Case No. 19-468-GA-ALT, less than a year
7 ago. The Company continues to maintain the same position and support the same policy
8 rationales explained in its testimony and briefing in that proceeding and continues to
9 oppose OCC's position. The Company does not believe there are any new facts or other
10 changes that would support relitigating the ROR issue. The Company has also committed
11 to a rate case filing in the midst of the proposed 2022–2026 reauthorization period, in
12 which all capital structure components (both amounts and costs) can be evaluated. Until
13 then, DEO does not believe that it is just and reasonable to adjust the cost of one
14 component, in isolation in a rider proceeding.

15 **Q63. With respect to OCC's third objection, regarding financial performance incentives,**
16 **does the Stipulation resolve this issue?**

17 A. Yes. DEO's commitment in the Stipulation to prospectively exclude Capitalized
18 Financial Incentives from the PIR revenue requirement resolves this issue.

19 **Q64. With respect to OCC's fourth objection, is OCC correct that DEO has not**
20 **supported its proposed three percent annual PIR investment increases in this case?**

21 A. No. The Company indicated in the Application that “[t]he continuation of the previously
22 approved three-percent capital increase will help maintain the current pace of the PIR
23 Program and address inflation and other external cost pressures identified by the
24 Company in Case No. 15-362-GA-ALT.” (DEO Ex. 1.0 at 7.) In addition, as noted
25 above, Staff sent discovery on external factors that were impacted PIR costs and the pace

1 of replacement. Ultimately, the level of this increase does not require supporting
2 calculations per se, but is a policy judgment about reasonable rate design. The three-
3 percent limit supports gradualism and balances the interests of replacing more at-risk
4 pipeline with that of mitigating rate impacts. The Company does not believe that OCC's
5 objection has any merit.

6 **Q65. With respect to OCC's fifth objection, does the Stipulation resolve OCC's concern**
7 **about the rate impact of any schedule change?**

8 A. Yes. The Stipulation recommends that the filing schedule and effective date of the PIR
9 Cost Recovery charge shall remain as currently in effect in accordance with the
10 Application. Since no change to the schedule is being proposed, there is no impact.

11 **Q66. With respect to OCC's sixth objection, does the Company believe that the**
12 **completion of the PIR Program by 2033 would require "large increases in annual**
13 **PIR capital investments"?** (OCC Objs. at 12.)

14 A. While the precise level of increase would need to be determined, DEO does expect (as it
15 has previously made clear) that meeting a 25-year target would require additional
16 increases in investment above the current level permitted by the rate-increase caps. In
17 response to Staff data requests in this case, the Company identified a number of external
18 factors that are currently impacting the costs and pace of PIR replacements. The impact
19 of those factors likely will change over time, and new factors could emerge. For example,
20 any further federal tax reform would affect the costs of the PIR program and the level of
21 PIR investment that can be recovered under the Commission-approved rate increase caps.
22 To the extent that DEO makes the determination that further increases to the level of PIR
23 investments and rate increase caps are necessary to maintain or change the pace of
24 replacement, DEO would need to justify those changes in a proceeding before the
25 Commission.

1 **Q67. Would the Company's next rate case provide such an opportunity to evaluate the**
2 **balance between the cost and pace of the PIR Program?**

3 A. Yes. As explained above, the Interim Review will likely be available by that time. To the
4 extent DEO determines that changes in the annual level of PIR investments and rate
5 increase caps are prudent, the Company could present those changes in the context of its
6 next base rate case application, and parties to the cases would have the opportunity to
7 review and comment on DEO's proposal.

8 **V. CONCLUSION**

9 **Q68. What is your recommendation to the Commission?**

10 A. I recommend that the Commission approve the Stipulation. The Stipulation represents a
11 fair, balanced, and reasonable compromise that provides significant benefits for DEO's
12 customers, thereby meeting the Commission's criteria for adopting settlements.

13 **Q69. Does this conclude your testimony?**

14 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a courtesy copy of the foregoing pleading was served by electronic mail this 12th day of October, 2021, to the following:

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Case No(s). 20-1634-GA-ALT

Summary: Testimony Testimony of Vicki H. Friscic in Support of the Stipulation electronically filed by Christopher T. Kennedy on behalf of The East Ohio Gas Company d/b/a Dominion Energy Ohio