BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	))))	Case No. 21-637-GA-AIR
In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation.	)))	Case No. 21-638-GA-ALT
In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of a Demand Side Management Program for its Residential and Commercial Customers.	))))))	Case No. 21-639-GA-UNC
In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods.	)))	Case No. 21-640-GA-AAM

OBJECTIONS TO THE PUCO STAFF'S REPORT OF INVESTIGATION BY NORTHEAST OHIO PUBLIC ENERGY COUNCIL AND OFFICE OF THE OHIO CONSUMERS' COUNSEL

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I. INTRODUCTION

Moderating rates is especially important for consumers now, given many are emerging from a pandemic with financial challenges, energy prices are soaring, inflation is on the rise, and a recession is possible. Columbia Gas of Ohio, Inc. ("Columbia" or "Utility") seeks to increase its revenues by $221.4 million,[1] which would increase the

[1] PUCO Staff Report of Investigation ("Staff Report"), at 7, Schedule A-1.

amount that consumers pay for natural gas distribution service by 27.07%.[2] The Staff of the Public Utilities Commission of Ohio ("PUCO") filed its report of investigation (the "Staff Report") in this case on April 6, 2022. The PUCO Staff recommends a much lower revenue increase for Columbia, between $35.2 million and $57.6 million.[3] The PUCO Staff's recommendations would give consumers important protections that are intended under Ohio's ratemaking law for traditional rate cases. But the Staff Report does not go far enough to protect consumers.

The Northeast Ohio Public Energy Council ("NOPEC") is the largest governmental retail energy aggregator in Ohio and provides energy aggregation service to approximately 1 million residential and small commercial consumers in the state including consumers of Columbia. The Office of the Ohio Consumers' Counsel ("OCC") is the statutory representative of over 1.4 million residential customers of Columbia who will pay the increased charges determined by the PUCO.[4] NOPEC and OCC (collectively "Consumer Parties") appreciate the PUCO Staff's recommendations in the Staff Report that benefit consumers. However, the Staff Report falls short of fully protecting consumers in a number of ways, as explained in these objections. OCC and NOPEC, while filing jointly, are submitting these Objections with full rights as respective parties.

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[2] *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters*, Case Nos. 21-637-GA-AIR, et al., Testimony of Melissa L. Thompson at 3.

[3] Staff Report, Schedule A-1.

[4] *See* R.C. Chapter 4911.

In its base rate case (Case No. 21-637-GA-AIR), Columbia originally sought to increase charges to consumers by $221 million.[5] Columbia updated this amount to $212 million in its March 31, 2022 notice to update its filing to actual December 31, 2021 data and operating income statements. Under Columbia's Application, residential consumers would each pay an additional $120 per year (or more) in base rates (which would include the roll-in of certain riders currently in place).[6]

In its alternative regulation case (Case No. 21-638-GA-ALT), Columbia wants to continue charging consumers for five more years (through 2027) under single-issue ratemaking charges. Those charges are its infrastructure replacement program ("IRP") rider and capital expenditure program ("CEP") rider.[7]

Columbia also proposes several new riders including the Federally Mandated Investment ("FMI") rider.[8] These proposed riders would drastically increase the fixed monthly charges paid by residential consumers served by Columbia. If Columbia's proposal is approved, residential consumers could eventually pay nearly $16 per month under the CEP rider,[9] $11 per month under the IRP rider,[10] and $7 per month under the FMI rider.[11]

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[5] Case No. 21-637-GA-AIR, Application, Schedule A-1 (June 30, 2021) ($221,429,000 revenue increase requested).

[6] Case No. 21-637-GA-AIR, Schedule E-5 (showing dollar increases of $10.26 to $12.24 per month, per consumer, depending on usage).

[7] Case No. 21-638-GA-ALT, Application at 2; Ex. A at 16 (June 30, 2021).

[8] Case No. 21-638-GA-ALT, Application, Ex. A at 21 (June 30, 2021).

[9] Case No. 21-638-GA-ALT, Application, Ex. A at 20 ($15.89 per month in 2027).

[10] Case No. 21-638-GA-ALT, Application, Ex. A at 11 (June 30, 2021).

[11] Case No. 21-638-GA-ALT, Application, Ex. A at 24 (June 30, 2021).

Consumer Parties calculated that a residential consumer could be paying approximately $80 per month in fixed monthly charges in 2027 even if the residential consumer uses no gas at all in a certain month. That is unjust and unreasonable for consumers to pay for natural gas distribution service, especially before a single cubic foot of gas is burned.

In its energy efficiency case (Case No. 21-639-GA-UNC), Columbia wants to charge consumers more than $30 million per year ($150 million over five years) to continue subsidizing non-mandated gas energy efficiency programs.[12] Columbia expects consumers to pay additional charges through shared savings so that Columbia can profit, at consumer expense, from these non-mandated energy efficiency programs.[13]

As noted, the Staff Report's recommendations, if adopted by the PUCO, would reduce the rate increase that Columbia is proposing for residential consumers to pay.

II. SUMMARY OF STAFF REPORT RECOMMENDATIONS SUPPORTED OR NOT OPPOSED BY CONSUMER PARTIES

Consumer Parties support many findings and recommendations in the Staff Report.[14] Consumer Parties also do not oppose certain positions and adjustments proposed in the Staff Report. Consumer Parties reserve the right to amend and/or

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[12] Case No. 21-639-GA-UNC, Application at 1 (June 30, 2021).

[13] Case No. 21-639-GA-UNC, Application at 17 (June 30, 2021).

[14] Although the Consumer Parties support these PUCO Staff findings, conclusions, and recommendations, some of the proposed adjustment amounts do not fully reflect the updated actual December 31, 2021, amounts filed by Columbia on March 31, 2022. Consumer Parties will not update any of the PUCO Staff adjustment amounts in this document using December 31, 2021, data and amounts, because the intent is to provide citation to specific amounts cited in the PUCO Staff Report. However, Consumer Parties' direct testimony will begin with Columbia's updated filing and related adjustments based on actual December 31, 2021, data and amounts – and will revise these adjustments when it is appropriate. For some adjustments, Consumer Parties and Staff used a similar approach, although Consumer Parties relied upon December 31, 2021 data and amounts, and Staff relied on data and amounts for periods prior to December 31, 2021.

supplement these objections if the PUCO Staff changes, modifies, or withdraws its position, at any time prior to the closing of the record, on any issue contained in the Staff Report. Additionally, if the PUCO Staff has indicated that its position on a particular issue is not known at the date of the Staff Report, Consumer Parties reserve the right to later supplement these objections once the PUCO Staff's position is made known. Consumer Parties also reserve the right to file additional expert testimony, produce fact witnesses and introduce additional evidence.

Consumer Parties also submit that the lack of an objection in this pleading to any aspect of the Staff Report does not preclude Consumer Parties from cross-examination or introduction of evidence or argument regarding issues on which the PUCO Staff changes, modifies, newly raises, or withdraws its position on any issue between the issuance of the Staff Report and the close of the record. Moreover, Consumer Parties reserve the right to contest other aspects of Columbia's Application not specifically addressed by the Staff Report.

A summary of these findings and recommendations is included here and Consumer Parties may choose to file testimony explaining their support or non-opposition.

Revenue Requirement, Rate Base and Operating Income

- The PUCO Staff correctly removed Cloud Software plant in service costs of $3,582,685 from rate base.[15]
- The PUCO Staff correctly removed plant in service costs of $31,577,272 ($27,180,704 and $4,396,568) from rate base related to assets that could not be identified, lacked supporting documentation, and whose existence could not be verified.[16]

[15] Staff Report at 9-10.

[16] Staff Report at 10.

- The PUCO Staff correctly removed plant in service costs of $16,172,902 from rate base related to assets that lacked adequate supporting documentation.[17]
- The PUCO Staff correctly removed plant in service costs of $1,688,266 from rate base related to assets that are no longer located at the related site or are not in service.[18]
- The PUCO Staff correctly excluded the plant in service costs of $2,029,572 from rate base that were identified in the Capital Expenditure Program ("CEP") audit in Case No. 21-0023-GA-RDR.[19]
- The PUCO Staff correctly reduced rate base by the 13-month average balance of customer deposits of $11,090,577.[20]
- The PUCO Staff correctly reduced NiSource Corporate Services expenses by $124,455 to remove expenses that are not appropriate for ratemaking purposes.[21]
- The PUCO Staff correctly recommended the denial of the COVID-19 deferral balance of $5,170,000 for recovery and its amortization as a test year expense.[22]
- The PUCO Staff correctly removed the environmental remediation deferral balances of $15,781,862 for recovery and the related amortization expense of $2,257,600.[23]
- The PUCO Staff correctly recommends the continuation of the WarmChoice® program and removes the $7.1 million in program funding from base rates.[24]
- The PUCO Staff correctly removed the cross-bore program expense of $10,234,000 including field/system training.[25]
- The PUCO Staff correctly removed the $3,082,376 for annualized fees for residential credit, debit card, ACH and check transactions and fees for residential walk-in transactions.[26]

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[17] Staff Report at 11.

[18] Staff Report at 11.

[19] Staff Report at 10.

[20] Staff Report at 13.

[21] Staff Report at 21.

[22] Staff Report at 13-14.

[23] Staff Report at 14-16 and 23.

[24] Staff Report at19-20.

[25] Staff Report at 21.

[26] Staff Report at 21.

- The PUCO Staff correctly removed all call center representative ("CSR") salary increases of $1.6 million.[27]
- Consumer Parties do not oppose the PUCO Staff's rationale to remove incentive expense based on financial metrics. However, Consumer Parties will also treat this incentive expense issue as an Objection from the standpoint that the PUCO Staff and Consumer Parties use a different percentage of financial metrics to be excluded.
- Consumer Parties do not oppose the PUCO Staff's recommendation that the PUCO should reject the Utility's request to continue deferral of pension and OPEB expense – regardless of the PUCO Staff's adjustment to OPEB expenses for the test year.[28]
- Consumer Parties do not oppose the PUCO Staff and Columbia's adjustment to reduce test year operating expenses by $109,868,000 related to synchronizing gas cost expense recovered via Columbia's Choice/Standard Choice Offer Reconciliation Rider ("CSRR") with the adjusted test year gas cost revenues.[29]
- Consumer Parties do not oppose the PUCO Staff's recommendations regarding treatment for impact of the Tax Cuts and Jobs Act of 2017 ("TCJA"), that is to increase base rates by $5.68 million beginning in 2024 and reject Columbia's proposal to increase base rates by an additional $1.2 million beginning in 2024.[30]

Rate of Return

- The PUCO Staff correctly recommended the use of actual embedded cost of debt of Columbia in setting the rate of return.[31]
- The PUCO Staff correctly recommended the use of the actual capital structure of Columbia in setting the rate of return.[32]

[27] Staff Report at 22.

[28] Staff Report at 16.

[29] Staff Report at 19.

[30] Staff Report at 54.

[31] Staff Report at 26.

[32] Staff Report at 26.

Rates and Tariffs

- The PUCO Staff correctly recommended not to increase the breakpoint between the SGS Rate Classes and GS Rate Classes and maintain the current 300 Mcf breakpoint.[33]
- The PUCO Staff correctly recommended that the credit/debit card and pay station convenience fees not be collected in base rates.[34]
- The PUCO Staff correctly recommended that late payment charges apply only once to charges and therefore interest is not compounded.[35]
- The PUCO Staff correctly recommended not to add pandemic to the list of force majeure events for interruptions of transport service because Columbia could not define essential elements of an event such as when it begins and ends and did not require any interruptions.[36]
- Consumer Parties do not oppose the PUCO Staff's recommendations pertaining to Columbia's tariff proposals discussed in pages 28 to 30 of the Staff Report.[37]

[33] Staff Report at 36.

[34] Staff Report at 21.

[35] Staff Report at 30.

[36] Staff Report at 30.

[37] They including (1) Original Sheet 1d - Definitions, Commercial Customer; (2) Fifth Revised Sheet No. 3, Section 1 – Service 11 - Right of Way; (3) Fourth Revised Sheet No. 4, Section 1 - Service, 15 - Right to Shut Off Gas; (4) Fourth Revised Sheet No. 5, Section 2 – Metering and Billing 1 - Quality of Gas Delivered by Meter; (5) Sixth Revised Sheet No. 6, Section 2 – Metering and Billing 4 - Billing Periods; (6) Second Revised Sheet No. 6a, Section 3 – Physical Property 1 -Service Lines - (h) Customer Rights and Responsibilities; (7) Fifth Revised Sheet No. 7, Section 3 – Physical Property 4 - Meter Location; (8) Fourth Revised Sheet No. 9, Section 3 – Physical Property 12 - Extension of Distribution Mains; (9) Fourth Revised Sheet No. 10, Section 3 – Physical Property 13- Addition and Replacement of Facilities; (10) Fifth Revised Sheet No. 10, Section 3 – Physical Property 14 - Farm Tap Consumer, 15 - Farm Tap Consumer Service, and 16 - Farm Tap Consumer Abandonment; (11) Fourth Revised Sheet No. 13, Section 4 – General 6 Miscellaneous Charges- (e) Excess Flow Valve Charge; (12) Third Revised Sheet No. 14, Section 4 – General 6 - Miscellaneous Charges - (h) Meter Test Charge; and (13) Nineteenth Revised Sheet No. 27, Section 5 – Sales Service Rider IRP – Infrastructure Replacement Program Rider.

Alternative Rate Plan and Riders

- The PUCO Staff correctly recommended the denial of Shared Savings (Profits) on the Demand Side Management ("DSM") Program.[38]
- The PUCO Staff correctly recommends that Columbia's proposals to expand the scope of the Infrastructure Replacement Program ("IRP") be denied.[39]
- The PUCO Staff correctly recommends that Columbia should exclude all compensation related to achievement of financial performance metrics from the IRP ("Financial Performance Incentives") going forward.[40]
- The PUCO Staff correctly recommends reducing Columbia's proposed caps on annual IRP Rider increases by $0.48 per year.[41]
- The PUCO Staff correctly rejects Columbia's transition plan for rolling the existing IRP Rider/assets into base rates and continuing the IRP Rider for collecting IRP investments during the pending rate case.[42]
- The PUCO Staff correctly recommends that if Columbia does not file a base rate case within five years of the PUCO's Order in this case, then Columbia should be required to reimplement the depreciation offset that is currently in place for the CEP under the same terms and formula that is now in place.[43]
- The PUCO Staff correctly recommends that, going forward, incremental revenue generated by Capital Expenditure Program assets should be used to offset the CEP Rider.[44]
- The PUCO Staff correctly rejects Columbia's proposed caps on annual CEP Rider increases in favor of $0.75 annual Rider Caps with no deferrals for CEP plant assets that exceed the cap.[45]

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[38] Staff Report at 20.

[39] Staff Report at 45.

[40] Staff Report at 45. Staff states that "payments related to financial performance metrics should be funded by a utility's shareholders, not its ratepayers."

[41] Staff Report at 45.

[42] Staff Report at 46.

[43] Staff Report at 47. Columbia should be required to file a base rate case no more than five years post the PUCO's Order in this case to avoid issues such as an outdated and potentially inflated rate of return being used to set CEP Rider rates and stale depreciation rates.

[44] Staff Report at 47.

[45] Staff Report at 47.

- The PUCO Staff correctly recommends that the PUCO reject Columbia's proposed Federally Mandated Investment Rider.[46]

Deferral Request and Other Matters

- The PUCO Staff correctly recommended that the PUCO reject Columbia's proposed deferral of expenses related to the Picarro mobile leak detection system that is currently being used by Columbia on a trial basis.[47]
- The PUCO Staff correctly recommended that all Manufactured Gas Plant environmental remediation costs presented in this case be offset by insurance proceeds resulting in no additional costs to ratepayers.[48]
- The PUCO Staff correctly recommended the PUCO deny the Regulatory Assessment Rider consistent with its prior policy.[49]
- The PUCO Staff correctly recommended the denial of the Federal/State Tax Reform Rider.[50]
- The PUCO Staff correctly recommended the denial of the Carbon Reduction Rider.[51]

III. OBJECTIONS TO THE STAFF REPORT

The PUCO Staff, in its Staff Report, should have made additional recommendations or revised some of its recommendations to protect Columbia's consumers from unlawful, unjust and unreasonable rates. Consumer Parties request that, pursuant to R.C. 4909.19, R.C. 4909.15 and other authority, the PUCO adopt the following Objections to the Staff Report when determining how much Columbia's consumers should pay for natural gas distribution service and rider charges.

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[46] Staff Report at 48-49. Staff averred that based on Columbia's responses to its data requests and its knowledge of Columbia's system, Columbia's FMIR request is premature, not well developed, and would not be just and reasonable if implemented.

[47] Staff Report at 52-53. Staff avers that, based on its investigation, Columbia's deferral request fails all six parts of the Staff's 6-part test for evaluating deferral requests. The burden of proof is on Columbia.

[48] Staff Report at 14-16.

[49] Staff Report at 50.

[50] Staff Report at 50.

[51] Staff Report at 50-51.

A. Revenue Requirement

<u>Objection No. 1:</u> The Staff Report erred by proposing a higher revenue requirement for base rates and other charges to Columbia's consumers, than are lawful and just and reasonable under R.C. 4909.15 and other authority.

Consumer Parties object to the recommended revenue increase on Schedule A-1 because it is excessive due to the use of inappropriate and incorrect rate base, operating expenses, and rate of return, as detailed below in the Consumer Parties' Objections. Consumer Parties object to each component, including rate base, operating income, and rate of return, of the Staff Report's Schedule A-1 to the extent that other Consumer Parties objections have an impact on the calculation of the recommended revenue increase to Columbia consumers.

<u>Objection No. 2:</u> The Staff Report erred by miscalculating the percentage of the proposed revenue requirement increases and thus understating the magnitude of rate increase to Columbia consumers.

Consumer Parties object to the following Staff Report language: "As shown on Schedule A-1[52] Staff recommends an approximate revenue increase in the range of $35,197,000 to $57,554,000. This represents an increase of 3.98 percent to 6.34 percent over test year operating revenue."[53] The PUCO Staff erroneously used the proposed revenue requirement instead of the Test Year Operating Revenue as the divisor in its calculation of the Net Increase percent. The correct percentages of revenue requirement increase are Applicant Proposed = 27.07%; Staff Lower Bound = 4.14%; and Staff Upper Bound = 6.77%.

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[52] Staff Report at 59.

[53] Staff Report at 7.

<u>Objection No. 3:</u> The Staff Report erred by not proposing an end to the straight-fixed variable ("SFV") rate design that consumers are subjected to for base rates and for Riders IRP and CEP.

Consumer Parties object to the continuation of the straight-fixed variable rate design for base rates and Rider IRP and CEP, especially for residential consumers. The very high fixed monthly charges as proposed by Columbia and the Staff Report, are unjust and unreasonable particularly for residential consumers who use very little gas. Thus, continuation of the straight-fixed variable rate design is inconsistent with Ohio natural gas policy, which requires the provision of reasonably priced natural gas services to consumers.[54]

B. Rate Base

<u>Objection No. 4:</u> The Staff Report erred by only removing from rate base $12,046,410 of capitalized short-term incentive payments back to January 2018, and by not removing 100 percent of these costs from rate base. (Due to a lack of clarity in the Staff Report, Consumer Parties were unable to determine the percent of incentive payments that Staff removed that are related to financial performance metrics.)

Consumer Parties object to the PUCO Staff's short-term incentive adjustment on two grounds. First, the PUCO Staff should have removed capitalized incentive payments back to at least January 1, 2008, per the last Columbia rate case test period ending September 30, 2008 (Case No. 08-72-GA-AIR). Second, the Consumer Parties object to PUCO Staff removing anything less than 100 percent of capitalized incentives based on financial performance metrics and other factors. The PUCO Staff should have removed 100 percent of incentive payments.

[54] *See* R.C. 4929.02(A)(1).

<u>Objection No. 5:</u> The Staff Report erred in allowing Columbia to collect from consumers the entire amount of its proposed Pipeline Safety Program ("PSP") deferred balance of $149.1 million[55] (accumulated over the periods 2015 through March 2021) via a ten-year amortization period and resulting in annual amortization expense of $14.9 million.[56]

Consumer Parties object to the Staff Report because the PUCO Staff should have capitalized some of the PSP deferred costs to plant in service (and depreciated these costs using the composite depreciation rate), and also disallowed a significant amount of these PSP costs due to excess earnings (profits) in prior years, along with other reasons. This objection is similar to Consumer Parties' Objection No. 8 below related to depreciation expense on the capitalized PSP costs.

<u>Objection No. 6:</u> The Staff Report erred by not proposing additional measures (including requiring a management audit per R.C. 4909.154) to address Columbia's failure to locate, identify, and document plant in service assets in violation of R.C. 4909.05 and other authority.[57]

The Staff Report describes various assets that Columbia was unable to locate, identify, and/or document for inspection by the PUCO Staff.[58] The PUCO Staff made rate base reductions for these items.

However, Consumer Parties object because all the assets that could not be located or identified should be permanently written off and removed from Columbia's plant in service. These items should not merely be subject to a one-time rate case adjustment in this proceeding.

The PUCO should also require a management audit (to be paid for by Columbia and not charged to consumers). The management audit should be conducted by a property

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[55] PUCO Staff proposed some minor adjustments to the unamortized PSP deferred balance.

[56] Staff Report at 23.

[57] Staff Report at 10-11.

[58] Staff Report at 10-11.

records expert firm. The auditor should perform a global review of Columbia's property and related records to identify all assets that cannot be located or be physically inspected, or for which adequate supporting records or documentation does not exist.

The level or degree of unidentified or inadequately supported assets needs to be further evaluated to determine the extent of the problem. For example, the audit should review whether Columbia has an ongoing systemic internal control problem affecting significant asset costs, or whether the problem involves a shorter time period that can be cured.

With or without the audit, the PUCO should be determining, per R.C. 4909.154, that Columbia's practices related to these issues are "inadequate" or "improper" (and imprudent), as they appear to be.

Additionally, the unlocated or undocumented assets identified by the PUCO Staff should be subject to statistical analysis to determine the appropriate and statistically valid adjustment to be applied to all of Columbia's physical assets in rate base. The PUCO should require a management audit that would perform this type of analysis, in addition to reviewing assets that Columbia cannot identify, locate, or document. It is not uncommon for auditors to use this approach when they find errors in financial statements based on a smaller sample size, and to calculate a statistically valid adjustment that would apply to the entire data base or account subject to error.

Consumers should not be charged for the deficiencies in Columbia's record keeping that make it unauditable for applying the used and useful standard per R.C. 4909.15 and in violation of R.C. 4909.05 and other authority. That includes R.C. 4909.154 as described above.

Columbia bears the burden of proof per the requirement in R.C. 4909.18 and 4909.19. Columbia cannot prove that the undocumented items in question are used and useful for including in the rates consumers pay.

C. Operating Income

<u>Objection No. 7:</u> The Staff Report erred by allowing Columbia to include $15 million of Pipeline Safety Program ("PSP") operating expenses into the base rates consumers pay.

Columbia proposes to amortize all of its $149.4 million deferred PSP costs over 10 years at an annual amortization expense of $14.9 million, and convert its current $25 million annual PSP capital deferral allowance to a $25 million annual PSP expense allowance so this can be built into customer rates going-forward. This would increase the annual PSP revenue requirement to $40 million going forward ($14.9 million in PSP expense amortization, plus $25 million in annual PSP expense allowance).[59]

The PUCO Staff adjusted the $149.4 million deferred PSP balance by a minor amount and supports recovery of the $14.9 million in annual amortization expense over 10 years. Also, PUCO Staff agrees with converting the $25 million annual PSP deferral allowance to a $15 million annual expense allowance, by removing $10 million of the annual expense allowance related to Columbia's Damage Prevention Technology Initiative ("DPTI") that expires no later than December 31, 2023.

However, Consumer Parties object because the entire $25 million annual PSP expense allowance proposed by Columbia should be removed, not just the annual $10 million DPTI expense allowance. The $25 annual million PSP expense allowance is not supported by any actual costs or documentation in Columbia's testimony. Further,

[59] Staff Report at 23.

Columbia does not adequately explain why the annual PSP allowance should continue in the future. Columbia's failure of support and explanation means Columbia is failing its burden of proof per R.C. 4909.18 and 4909.19.

Note that Columbia's approach will have a significantly larger impact on customer rates as an annual "expense" allowance compared to its current treatment as an annual "capitalized deferred" amount. That is problematic for consumers.

Nor does Columbia explain why similar significant PSP costs amounts are not incurred by affiliate gas companies in other jurisdictions (either in the prior years or currently going forward).

<u>Objection No. 8:</u> The Staff Report erred by not reclassifying a significant amount of Pipeline Safety Program deferred costs to the plant in service accounts and by not disallowing a significant amount of other PSP deferred costs and adjusting depreciation expense on these assets.

As noted above in Objection No. 7, Consumer Parties object to the Staff Report because the PUCO Staff should have denied all of the $14.9 million in PSP expense amortization. And the Staff should have capitalized some of the PSP deferred costs to plant in service and recorded related depreciation expense at the Columbia-proposed composite depreciation rate of 2.83 percent.

<u>Objection No. 9:</u> The Staff Report erred, in violation of R.C. 4909.15 and other authority, by not removing 100 percent of long-term incentives from operating expense. These incentives are entirely driven by financial performance-related metrics to benefit shareholders (not consumers), and should be excluded from rates.

The Consumer Parties object because it does not appear that that PUCO Staff removed any long-term incentives expenses related to financial performance metrics. The PUCO Staff removed certain Columbia short-term incentive expenses related to financial performance metrics; the Consumer Parties do not disagree with this adjustment of removing these short-term incentive expenses. However, Consumer Parties object if the

PUCO Staff has not removed 100 percent of long-term incentives, which are entirely driven by the same financial performance metrics as short-term incentives.

Employee incentives that relate to financial performance metrics primarily benefit shareholders (not consumers). As such, these items are not a proper cost of rendering public utility service and are not just and reasonable for including in the rates consumers pay, per R.C. 4909.15.

Objection No. 10: To protect consumers, the Staff Report should modify adjustments regarding Columbia's Ohio direct payroll expense identified in Schedule C-3.14.

The Staff Report adjusted Columbia's Ohio direct labor expense based on actual employee levels and average hourly rates as of October 2021.[60] Consumer Parties do not object to the PUCO Staff's adjustment to the extent the final adjusted payroll expense is close to Consumer Parties' adjusted payroll expense. Consumer Parties are proposing a significant reduction to Columbia's Ohio direct payroll expense.

However, the Staff Report erred because it may not include sufficient adjustments to reflect test year expense by removing certain post-test period payroll raises, or reducing the amount of payroll expensed (by revising the percent of payroll expensed factor), or reducing the amount of overtime payroll (by revising the percent of payroll overtime factor), along with other reasonable changes.[61] In addition, the Staff used payroll data at October 2021. But the Staff should use updated actual December 31, 2021 payroll data as the starting point for its adjustment (as Consumer Parties did).

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[60] Staff Report at 20.

[61] Staff Report at 20.

<u>Objection No. 11:</u> To protect consumers the PUCO should exclude from operating expense the amortization expense on fully amortized software.

Consumer Parties object to the Staff Report because it did not properly remove significant amortization expense related to software that is, or will be, fully amortized by December 31, 2021 and December 31, 2022. These expenses thus will not likely be reflective of the expenses to be incurred during the rate effective period. The PUCO Staff's failure to adjust amortization expense imposes unreasonable and excessive costs on consumers.

<u>Objection No. 12:</u> To protect consumers the Staff Report should have removed Costs to Achieve ("CTA") related to the NiSource Next Initiative.

Consumer Parties object to the Staff Report because it did not properly remove significant one-time CTA such as severance expenses, outside consulting fees, and other costs related to implementing the NiSource Next Initiative program that began in prior years and continued in the test period. Such one-time costs are not representative of costs likely to be incurred during the rate effective period. Alternatively, Consumer Parties object to the Staff Report, to the extent that the PUCO Staff failed to properly amortize the CTA and the related savings ratably over the proper years to match NiSource Next Initiative related expenses and savings to the benefit of customers.

<u>Objection No. 13:</u> To protect consumers, the Staff Report should have excluded expenses related to Columbia's Supplemental Executive Retirement Program ("SERP").

Consumer Parties object to the Staff Report because it did not remove Supplemental Executive Retirement Program expenses from the test period. SERP expenses include additional retirement benefits (beyond those provided to most employees) to top level or key executives. These expenses provide no meaningful benefits to consumers and are not necessary in the provision of utility service to consumers under R.C. 4909.15. Therefore, consumers should not be forced to pay for SERP expenses.

<u>Objection No. 14:</u> The Staff Report's adjustment for Columbia's Direct Payroll Headcount Complement does not sufficiently protect consumers.

The Staff Report adjusted Columbia's Ohio direct payroll Headcount Complement by reducing Columbia's proposed $3,269,266 to zero because this adjustment was already reflected in Staff's method for adjusting Columbia's direct payroll.[62] Consumer Parties agree with the PUCO Staff that Columbia's Ohio direct payroll headcount complement adjustment needs to be removed.

However, Consumer Parties object to certain assumptions, methods and calculations the PUCO Staff used to determine its related adjustment to Columbia direct payroll as previously explained. (Plus, Staff used October 2021 data in its calculations. But the Consumer Parties used updated December 31, 2021 data in its calculations – updated data that the PUCO Staff should also use.) [63]

<u>Objection No. 15:</u> The Staff Report's adjustment for NiSource allocated base payroll does not sufficiently protect consumers (Schedule C-3.21).

The Staff Report properly makes adjustments for NiSource allocated base payroll.[64] Consumer Parties agree with the PUCO Staff that a significant reduction to NiSource allocated base payroll is warranted.

[62] Staff Report at 20-21.

[63] Staff Report at 20-21.

[64] Staff Report at 21.

However, the Consumer Parties object to PUCO Staff's adjustment to the extent it may not include adequate adjustments to remove certain post-test period payroll raises, reduce the amount of payroll expensed (by revising the payroll expense factor), or reduce the amount of overtime payroll (by revising the payroll overtime factor), along with other reasonable changes.[65]

Objection No. 16: The Staff Report should have excluded (but didn't) certain line location and One Call expenses that are not test year expense.

The Staff Report erred by not excluding a sufficient amount of line location and one call (call before you dig) expenses from the test period. Consumer Parties recommend that this amount should be reduced to an average amount of prior years' expenses and not rely solely on the test year amounts. The test year level may not be representative of the expenses expected to be incurred during the period rates will be in effect.

D. Rate of Return

Objection No. 17: The Staff Report erred by proposing a too-high rate of return than is fair and reasonable under R.C. 4909.15(A)(2) and other authority, which will result in too-high rates and charges to consumers.

The Staff Report recommends a rate of return in the 6.88 to 7.39 percent range.[66] Consumer Parties object to the Staff Report because it contains a proposed rate of return for Columbia that is not fair and reasonable. The Staff used data and a methodology that are inconsistent with current financial market conditions, recognized financial analysis, and established regulatory principles and state policies. Instead, Consumer Parties

[65] Staff Report at 21.

[66] Staff Report at 26.

recommend a rate of return range of 6.66 to 6.86 percent, which will result in a fair and reasonable rate of return to be charged to consumers.

<u>Objection No. 18:</u> The Staff Report erred in the development of the Return on Equity by selecting a proxy group that is mostly comprised of electric utilities, resulting in an imprecise measurement of the required returns on equity and a too-high Return on Equity that is not fair and reasonable to charge consumers per R.C. 4909.15.

Consumer Parties object to the Staff Report's selection of comparable companies for the estimation of the required return on equity. The PUCO Staff selected a group of companies that are mostly electric utilities, not natural gas distribution companies.[67] Electric and natural gas distribution companies have different operating characteristics. Thus, comparable group companies in the PUCO Staff's selection can overstate risks to Columbia, which would result in an excessive estimation of the return on equity that is unfair and unreasonable to charge to consumers per R.C. 4909.15.

<u>Objection No. 19:</u> The Staff Report erred by applying an unreasonable risk-free rate in the application of the CAPM model, which will lead to too-high rates and charges to consumers than are fair and reasonable per R.C. 4909.15.

Consumer Parties object to the Staff Report's selection of risk-free rate in the CAPM model.[68] The PUCO Staff employed the weighted average of 10-year and 30-year monthly closing Treasury Yields for the period of September 1, 1991, through September 1, 2021. The average yield is 4.35%. The use of an historical interest rate does not reflect the current capital market condition. The long-term interest rates have been declining in the last 30 years and they are not mean reverting. Thus the historical average interest rate overestimates the future interest rate significantly. In this case, it over-estimates the

[67] Staff Report at 26.

[68] Staff Report at 26.

interest rate by more than 200 basis points, resulting in a significantly higher estimate of ROE and too-high charges to customers that are not fair and reasonable per R.C. 4909.15.

Objection No. 20: The Staff Report erred in the development of the Return on Equity by applying abnormal beta values in the application of CAPM model, which will lead to too-high rates and charges to consumers than are fair and reasonable per R.C. 4909.15.

Consumer Parties object to the Staff Report's selection of beta values in the CAPM model. The Staff employed the average of the S&P's betas of the selected comparable group companies.[69] The average beta value was 0.8. However, the beta values of the gas utilities have increased significantly since March 2020, and the currently elevated beta values are due to the impact of the COVID-19 pandemic. The onset of the pandemic increased the risks of the gas utility companies as well as the electric utility companies, however, the impact is transitory. The currently high beta value is an artifact of beta estimation based on a period of 3-5 years. Therefore, the S&P beta without adjustment for the abnormal market condition of year 2020 over-estimates the risk of the gas utilities, leading to a significantly higher estimate of ROE and too-high charges to customers **than are fair and reasonable per R.C. 4909.15.**

Objection No. 21: The Staff Report erred in the development of the Return on Equity by applying historical GNP growth rate in the application of the DCF model, which will lead to too-high rates and charges to consumers than are fair and reasonable per R.C. 4909.15.

Consumer Parties object to the Staff Report's selection of historical GNP growth rate as the expected long-term dividend growth rate in the model of DCF.[70] The PUCO Staff used a non-constant growth DCF model which requires an estimate of long-term

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[69] Staff Report at 26.

[70] Staff Report at 27.

earnings growth rate. The PUCO Staff is correct in assuming the long-term growth rate to be the growth rate of the overall economy.

However, the PUCO Staff used the average GNP growth rate of 6.41% for the period of 1929-2020, which is too high for the expected future GNP growth rate. The PUCO Staff's long-term growth rate assumption ignores the fact that the GNP/GDP growth rate has declined over the last several decades and the expected long-term growth rate has been considerably lower. As a result, the PUCO Staff's DCF model overestimates the ROE and will lead to an unfair and unreasonable rate of return under R.C. 4909.15.

<u>Objection No. 22:</u> The Staff Report harms consumers by inappropriately increasing the rate of return and the cost of common equity by allowing an adjustment for equity issuance and other costs, resulting in a too-high rate of return than what is fair and reasonable under R.C. 4909.15.

Consumer Parties object to the PUCO Staff's inclusion of an equity issuance and other costs to the PUCO Staff's estimate of cost of common equity.[71] The inclusion of these costs is not supported by sound regulatory principles. Even if an adjustment for equity issuance and other costs were allowed, the Staff Report inappropriately increased the cost of common equity by using a hypothetical and generic issuance cost factor of 3.5%. The Staff Report has not explained why this generic issuance cost factor is reasonable or why it should be applied in this proceeding. In addition, there is no demonstration in the Staff Report that Columbia is likely to incur these costs soon or the magnitude of these costs. The addition of arbitrary and unproven equity issuance and

[71] Staff Report at 27.

other costs will unfairly and unreasonably increase the cost of gas services to Columbia's customers, in contradiction of R.C. 4909.15.

E. Rates and Tariffs

<u>Objection No. 23:</u> The Staff Report erred because it failed to make specific recommendations regarding modifications to Columbia's Cost of Service Study ("COSS").

The PUCO Staff determined that the results of Columbia's COSS are not "a reasonable presentation of the costs to serve each rate class and should not be used as a starting point for designing rates."[72] Accordingly, the Staff Report recommended that Columbia rerun the COSS.

While Consumer Parties agree with the PUCO Staff's recommendation that the COSS should be rerun, Consumer Parties object because the Staff Report failed to make further recommendations regarding : (A) what will be in the modified COSS; (B) when Columbia should provide the modified COSS; (C) whether Consumer Parties and other intervening parties should be allowed to respond to any PUCO Staff recommendations based on the modified COSS; and (D) an extension of the procedural schedule based on a modified COSS.

Indeed, it is unclear when (or if) Columbia will provide an updated COSS. At a minimum, Consumer Parties and other parties should have ample time to review the updated COSS and respond to new recommendations made by the PUCO Staff. The Staff Report's failure to clarify these issues was error.

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[72] Staff Report at 38.

<u>Objection No. 24:</u> The PUCO Staff erred by not rejecting Columbia's proposed class allocations and by failing to recommend a levelized revenue increase to all customer classes.

As noted above, the Staff Report recommended that Columbia modify its COSS. Yet the Staff Report also concluded that "the Applicant's proposal reflects a reasonable movement toward the cost to serve each class identified by the Applicant's COSS at the Applicant's proposed cost to serve."[73] Consumer Parties object to that determination because it conflicts with the PUCO Staff's recommendation to modify the COSS. The PUCO Staff also found that "[t]he interclass subsidies identified by the Applicant's COSS could change substantially when taking Staff's recommendations into account."[74] Thus, given the inadequacy of the COSS, the PUCO Staff should have recommended a levelized, across-the-board increase to all customer classes to produce charges that are just and reasonable per R.C. 4905.22, R.C. 4909.15 and other authority.

<u>Objection No. 25:</u> The Staff Report harms consumers by continuing the Straight-Fixed Variable Rate Design for residential consumers (instead of ending it).

Consumer Parties object to the Staff Report's apparent recommendation to continue the straight-fixed variable ("SFV") rate design for the Small General Service ("SGS") class, which includes residential consumers.[75] However, the Staff Report found that "The IRP and CEP rider rate designs for GS and LGS rate classes should not be wholly fixed monthly fees. The rates could be designed at a percentage of the customer's base distribution charge or a combination of fixed and volumetric rates."[76] The Staff

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[73] Staff Report at 37.

[74] Staff Report at 38.

[75] Staff Report at 39.

[76] Staff Report at 40.

Report further states that "Customers within these rate classes are not homogenous. Customers who use less gas have been paying the same rider rates as customers that use more gas, leading to higher bill increases for the lower use customers."[77] The PUCO Staff should also have made the same findings for the SGS class. Continuation of the SFV rate design harms residential consumers who use very little gas. The SFV is not just and reasonable under R.C. 4905.22, R.C. 4909.15 and other authority.

<u>Objection No. 26:</u> The Staff Report erred by not making consumer protection improvements with regard to the refund language in its current and proposed tariffs, so as to enable the potential for refunds to consumers should circumstances (such as a Supreme Court reversal) warrant it.

The Consumer Parties object to the Staff Report to the extent it does not recommend that Columbia include strong, enforceable refund language in its tariffs. Columbia does have refund language in some of its tariffs. For example, the current Columbia Gas Tariff Sheet 6th Revised Sheet, No. 30d provides as follows:

> RECONCILIATION ADJUSTMENT: This Rider is subject to annual reconciliation or adjustment, including but not limited to, increases or refunds. Such annual reconciliation or adjustment shall be limited to the incremental twelve-month period of CEP Investment upon which the rates were calculated, if determined to be unlawful, unreasonable, or imprudent by the Commission in the docket those rates were approved or by the Supreme Court of Ohio.

The Staff Report should have recommended that the existing refund language be revised to read:

> RECONCILIATION ADJUSTMENT: This Rider is subject to annual reconciliation or adjustment, including but not limited to, increases or refunds as a result of the Rider being declared unlawful by the Supreme Court of Ohio or the Public Utilities Commission of Ohio. Such annual reconciliation or adjustment shall be limited to the incremental twelve-month

[77] Staff Report at 40.

> period of [TARIFF/RIDER] Investment upon which the rates were calculated, if determined to be unlawful, unreasonable, or imprudent by the Commission in the docket those rates were approved or by the Supreme Court of Ohio.

The language proposed should be in all applicable tariffs and riders (including current and proposed) making them subject to refund.

F. Alternative Rate Plan and Riders

1. DSM: Demand Side Management Program ("DSM")

Objection No. 27: To protect consumers, the Staff Report should have recommended annual audits of funds provided to WarmChoice®.

The Staff Report recommended the removal of $7.1 million of funding for Columbia's WarmChoice® program from base rates and that the funding be collected through the DSM Rider.[78]

Consumer Parties object, however, because the Staff Report failed to recommend that WarmChoice® funds be subject to an annual staff review and audit. Annual audits and PUCO Staff reviews are appropriate to protect consumers from improper spending by Columbia.

Objection No. 28: To protect consumers, the Staff Report should have required Columbia to provide an analysis of how the WarmChoice® fund will be used to weatherize homes.

WarmChoice® funds should be used to cover only the incremental expenses necessary to weatherize eligible consumers' homes. These funds should be coordinated in combination with the Federal Home Weatherization Assistance Program ("HWAP"), home repair programs, and other social services. Consumer Parties object to the Staff

[78] Staff Report at 20.

Report because it does not require Columbia to provide a description and analysis of how Columbia will accomplish this objective.

<u>Objection No. 29:</u> The Staff Report erred by failing to clarify the expenses ineligible for the WarmChoice® program.

Consumer Parties object to the Staff Report because it does not clarify that certain expenses, such as landlord maintenance and repairs and other home improvements not directly related to weatherization or health and safety, will be ineligible for WarmChoice® funding.

<u>Objection No. 30:</u> To protect consumers, the Staff Report should have found Columbia's proposed non-low-income Demand-Side Management programs to be unjust, unreasonable and unlawful.

The Staff Report contained a finding that Columbia could continue its DSM program at 2022 levels. We object to that finding for non-low-income programs.[79] Non-low-income DSM is available to consumers in the competitive market, which should be relied upon instead of government-monopoly utility programs. Also, the Staff Report did not provide any explanation or rationale why Columbia should be allowed to continue its consumer-funded DSM program. (Such issues are currently the subject of the PUCO's energy efficiency workshops and under review.) The Staff Report erred in not analyzing Columbia's proposed programs as to whether they are just, reasonable, and lawful.

The proposed programs are not just, reasonable, and lawful, and should not be charged to consumers. Shared savings (profits for Columbia at consumer expense) especially should not be charged to consumers.

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[79] Staff Report at 20.

Further, the PUCO Staff should have analyzed an alternative non-subsidy approach such as a Pay As You Save ("PAYS") program. PAYS does not involve charging consumers for subsidies. PAYS should be implemented, instead of Columbia's proposed non-low-income programs, to assist consumers with energy efficiency.[80] Attached is an explanation of the PAYS concept.

2. Infrastructure Replacement Program ("IRP")

<u>Objection No. 31:</u> To protect consumers from unreasonable charges, the Staff Report should have recommended a comprehensive evaluation of the Infrastructure Replacement Program before supporting continuation of the program at consumer expense.

The Staff Report recommended that the IRP be reauthorized for a new five-year period subject to modifications.[81] Consumer Parties object to the Staff Report because it does not require a comprehensive review of the effectiveness and costs of the IRP by an independent consulting firm familiar in natural gas distribution operations, capital asset replacement programs, and utility ratemaking.

Alternatively, the PUCO Staff should have recommended that collection of future IRP Rider costs should be suspended without deferral or future collection of ongoing expense deferrals or carrying costs until such a review has been conducted and its findings and recommendations analyzed.

<u>Objection No. 32:</u> The Staff Report erred in recommending approval of Columbia's proposed method of recognizing Operating &Maintenance ("O&M") Savings in the Accelerated Mains Replacement Program ("AMRP"). Columbia's O&M Savings proposal fails to recognize the full amount of O&M Savings that should flow back to customers during the AMRP.

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[80] This position regarding the PAYS program is submitted by OCC only.

[81] Staff Report at 44-46.

Consumer Parties object to the Staff Report because it recommends that the PUCO adopt Columbia's proposal for recognizing O&M savings in the AMRP component of the IRP.[82] Columbia's proposal is inadequate for consumer protection. It is especially inadequate given the large magnitude of charges for new pipelines compared to the minimal savings Columbia would share with consumers for the program. Columbia proposes to calculate the O&M savings offset using expenses incurred in calendar year 2021 as a baseline and then providing the better of actual savings realized or $2.0 million per year.

The PUCO Staff's adoption of this approach fails to recognize that as more aging infrastructure is replaced each year, less expense should be incurred by Columbia given the new infrastructure. And these O&M savings should be passed on to consumers to partly offset what they are being charged for the upgrades under single-issue ratemaking (riders).

3. Capital Expenditure Program ("CEP")

Objection No. 33: The Staff Report's recommendation that Columbia should be able to renew the Capital Expenditure Program in a future alternative rate application should be rejected.

Consumer Parties object to the Staff Report's recommendation that Columbia be able to renew the CEP in a future alternative rate application.[83] Consumer Parties agree with the PUCO Staff that Columbia's implementation of the CEP should extend for no more than five years.

[82] Staff Report at 46.

[83] Staff Report at 46-47.

However, Consumer Parties object to Columbia renewing the CEP through an alternative rate application. Unlike the IRP, Columbia's CEP has an undefined scope in that it is not a program with a defined number of miles replaced within a specified period. As a result, it is more difficult to track the progress, efficacy, costs, and benefits for the CEP for consumers. To protect consumers, any future renewal of the CEP should be decided in a base rate proceeding where all aspects involving Columbia's rates and plant additions are being considered simultaneously.

Objection No. 34: The Staff Report should have recommended that the Capital Expenditure Program include an O&M offset.

Consumer Parties object to the Staff Report because it fails to recommend that the CEP should include an O&M savings offset. The O&M offset is needed for consumer protection. It should be recognized that the CEP spending categories to varying degrees involve replacement and upgrade of existing infrastructure and facilities. Similar to Columbia's Infrastructure Replacement Program, which also involves replacement of older infrastructure, replacement and upgrade of existing infrastructure and facilities under the CEP should also generate O&M savings for consumers. Those savings should be passed back to consumers via reduction of the CEP Rider.

Objection No. 35: The Staff Report erroneously allowed Columbia to collect annual CEP audit costs from consumers, through base rates.

Consumer Parties object to the Staff Report recommendation that Columbia can collect annual CEP audit costs in base rates, rather than the CEP Rider.[84] Audit costs should not be collected from Columbia's consumers at all. The PUCO Staff justified its recommendation on the grounds that it confirmed that the costs for such audits are

[84] Staff Report at 47.

included in Columbia's test year expenses. The PUCO Staff is correct that Columbia should not be permitted to double collect on the audit expenses through both base rates and also through the CEP Rider.

However, audit costs should not be collected from Columbia's consumers at all. The CEP is a very generous program for Columbia. Consumers get no added benefit if Columbia recovers CEP investments via the CEP Rider or in a base rate case. Only Columbia benefits from the elimination of regulatory lag through the collection of CEP costs through the CEP Rider. Therefore, Columbia should directly pay the entire costs for audits designed to confirm that Columbia's costs are just and reasonable.

G. Consumer Protections

<u>Objection No. 36:</u> The Staff Report erred by not proposing reductions to the monthly fixed charges (customer charge plus rider charges). Reasons include that the fixed charges have a disproportionate and adverse impact on low-income residential consumers. The fixed nature of the charges also wrongly prevents non-low-income consumers from saving money through reductions in usage.

Consumer Parties object to the significant increase in monthly fixed charges from \$34.91 to \$46.31 initially and astronomical increase by 2027 (estimated to be \$80 per month if Columbia's proposals are approved as filed). The high fixed monthly charges, as proposed by Columbia and the Staff Report, are unjust and unreasonable for consumers and particularly for the low-income, low-usage residential consumers.

<u>Objection No. 37:</u> The Staff Report erred by not proposing adequate consumer protections, including energy justice and equity measures, that can make natural gas services more affordable for all consumers and protect at-risk, low-income, working poor, and fixed-income senior Ohioans from potential loss of natural gas services.

Consumer Parties object to the absence of adequate and reasonable consumer protections. Those protections include but not are limited to disconnection moratoria and increased bill-payment assistance by Columbia shareholders to help low-income, at-risk, working poor consumers, and seniors on fixed incomes avoid being disconnected for non-payment. Existing programs available to Columbia consumers will not do enough to protect low-income consumers from the harms of an increased fixed monthly customer charges including rider charges.

Accordingly, the PUCO should order Columbia to offer a $10 million bill-payment assistance program, at shareholder expense. The $10 million will be fully used for the intended program purpose. The funds shall be distributed by Columbia within three years of the PUCO's initial Order in this case or such longer period as is necessary to disburse all funds. Program eligibility would be for low-income, at-risk, fixed-income seniors, and working-poor Ohioans. Program terms would be resolved between Columbia, OCC and NOPEC. Through reporting and other means, Columbia will make the program completely transparent to OCC, NOPEC and the PUCO.

Protections for low-income, at-risk, working poor, and fixed-income senior consumers are especially important for consumers now. That is so given many Ohioans are emerging from a pandemic with financial challenges, energy prices are soaring, inflation is on the rise, and a recession is possible.

<u>Objection No. 38:</u> The Staff Report erred by failing to examine the economic impacts that the coronavirus pandemic and other challenges have had and will increasingly have on low-income, at-risk, fixed-income seniors, and working-poor consumers – and by failing to respond to the pandemic impacts by making more consumer protection recommendations. The ratemaking principle of equity, among other things, should be applied for these consumers.

Consumer Parties object to the failure of the Staff Report to recognize the continuing and increasing economic hardship that is faced by low-income, at-risk, fixed-income seniors, and working-poor Ohioans in Columbia's service areas – and to make recommendations for more consumer protection. The ratemaking principle of equity, among other things, should be applied for these consumers. These Ohioans can struggle to pay their day-to-day bills, and the significant increase in Columbia irreducible fixed monthly charges only exacerbates the struggle. Indeed, many Ohioans are emerging from a pandemic with financial challenges, energy prices are soaring, inflation is on the rise, and a recession is possible.

H. Rejection of Columbia's Application

<u>Objection No. 39:</u> Based on the foregoing, the Staff Report is flawed because the PUCO Staff should have recommended an outright rejection of Columbia's unjust and unreasonable application.

Although the PUCO Staff recommended an increase for Columbia that is lower the Columbia's requested increase, the PUCO Staff failed to account for the totality of the overall impact of Columbia's application, including additional increasing riders, on residential consumers. In addition, Commission Staff issued a recommended rate increase even through Columbia's application was missing critical information, such as an accurate COSS. Columbia, as the applicant, has the burden of proof under R.C.4909.18 and 4909.19 to show that its proposed rates and charges are just and reasonable. When considering the impact of Columbia's proposed application, including the continuation of ever-increasing riders and the significant flaws in Columbia's proposal such as the need to re-run the cost of service study, the application is unjust and unreasonable as to residential customers. Further, Columbia has failed to submit the information necessary for Staff to conduct a full investigation as required under R.C. 4909.19. Accordingly, the PUCO Staff should have recommended that Columbia's application be rejected and recommended that Columbia file a new rate case application.

IV. CONCLUSION

To protect consumers from paying unjust, unreasonable and unlawful rates, Consumer Parties respectfully request that the PUCO adopt Consumer Parties' recommendations as set forth in these objections and in the supporting testimony.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing Objections was served by electronic transmission upon the parties below this 6th day of May 2022.

/s/ Angela O'Brien
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The PUCO's e-filing system will electronically serve notice of the filing of this document on the following parties:

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PAYS® Questions for KCPL MEEIA
January 10, 2019

Q. An overview of PAYS® would be appreciated, how long in business, where it operates etc.?

- The Energy Efficiency Institute, Inc. (EEI) was incorporated in 1988 by Harlan Lachman and Paul A. Cillo. Each of them has 40 years of experience in the resource efficiency field, including program implementation, design, expert witness testimony, and management assistance.
- Work on the development of the PAYS® system started in 1998. The system was first presented in a NARUC commissioned paper in 1999.
- The New Hampshire Public Utilities Commission approved the first PAYS tariff in 2001.
- The first PAYS program was started by Public Service Company of New Hampshire, an IOU, now Eversource in 2002 and they are still running their program.
- A number of questions EEI was asked to address appear to make two assumptions:
  1. That PAYS is an entity, and
  2. That PAYS involves loans to individual customers.
- EEI wants to address both of these now very clearly:
  1. There is no PAYS entity. PAYS is a system developed by the Energy Efficiency Institute, and EEI holds the trademark to the name of that system: PAYS® and Pay As You Save®.
  2. PAYS does not involve loans to individuals. PAYS is a system that allows utilities to invest in efficiency upgrades on the customer side of the meter and recover their costs through a tariffed charge on the participant's bill. It does not involve consumer loans, no individual debt, and not credit checks.

Q. Is there a customer income level profile that PAYS® believes is most effective for targeting for achieving energy savings?

- No. The PAYS system has been designed for all customer classes and types of customers.
- It has been implemented at Investor Owned, Cooperative, and Municipal utilities, and by electric, gas and water utilities.
- Programs based on the PAYS system have been targeted to municipal customers and residential customers (both single family and multifamily).
- Participants in Arkansas and North Carolina live in some of the most economically distressed service territories in the country; other programs have primarily served middle-income to upper-income families.
- The most important criteria is that the customer have cost-effective savings opportunities.

- If I were a utility manager, I would probably run a residential program with funds allocated to multifamily homes where customers pay utility bills and single family customers (with some funds allocated to customers in economically distressed neighborhoods). The no-debt and immediate net savings features of PAYS are also especially attractive to customers managing public buildings and to industrial customers.

Q. Can and is the PAYS® model utilized by customers across multiple classes i.e. low income, middle income etc.? Please discuss any examples, experiences.

- Yes, No PAYS programs have been implemented with income criteria, although some marketing has been targeted to economically distressed neighborhoods and service territories.
- To be clear, PAYS has served all types of customers.

Q. Can and is PAYS® utilized by small businesses/small commercial customers?

- Yes.
- However, depending on your definition of small business/small commercial customers, this is the most challenging market to serve. Unlike all residential customers who live in homes, with some heating and often cooling systems, refrigeration, hot water, and televisions and computers, there are very different types of customers and usages often classified as small business/small commercial.
- For that reason, if I were starting a program, I would not start with small commercial customers.
- That said, in the second PAYS program implemented, a tiny program at a cooperative utility, the utility upgraded HVAC systems for customers operating a health club and retail stores.

Q. What types of energy saving purchases do customers make by availing themselves of PAYS®? (furnaces, insulation etc?)

- PAYS is a utility investment program in resource efficiency on the customers' side of the meter.
- Participants do not purchase items, they receive none of the benefits of ownership. They allow upgrades to be installed and allow the utility to recover its costs through a tariffed charge. The utility "owns" the upgrades through the cost recovery period. Ownership is transferred to the owner of the location when cost recovery is completed.
- Generally, any upgrade that is a proven technology, that produces a reliable savings stream that can pay for the upgrade and provide immediate net savings to the customer, can and has been installed.
- Upgrades installed in PAYS programs include, solar water heaters, street lighting, room lighting, water saving showerheads, toilets, insulation, air and duct sealing, dry summer drought tolerant landscaping, HVAC improvements, heat pump systems, and ground water source heat pumps.

- In 2004, EEI produced a study for Missouri showing more than 50 Industrial projects identified by Missouri's Industrial Assessment Center that would qualify as PAYS upgrades with an investment of $2 million dollars. All had less than three-year paybacks and had not been implemented. For any jurisdiction interested in economic development, offering PAYS to industrial customers would make a lot of sense.

Q. What efficiency projects remain or cannot be accomplished under the PAYS® model? Does PAYS® perform periodic evaluations of additional energy efficiency projects it may decide to finance?

- Projects with long paybacks (e.g., ten years or more such as new windows) cannot be accomplished using the PAYS system unless rebates are available to bring the payback down to approximately six years or less. Unproven technologies should not be included in a PAYS program because savings must be uncertain. To qualify, upgrades must produce immediate, reliable savings for the customer.
- Utilities or program operators who are using or considering using PAYS review new technologies and proven technologies all the time as installation costs, rates, and technologies change to determine whether they can produce sufficient reliable savings to qualify for installation. For example, this year there will be a study about qualifying rooftop solar photovoltaics and efforts to qualify electrification of buses using PAYS tariffs.

Q. How has credit worthiness criteria been established in other PAYS® programs/ jurisdictions? (ie.: a specific credit score/ reliance on specific credit agencies e.g.,. Experian, TransUnion, Equifax or other criteria (such as presented in PSC Rules 13.030(1)(C). etc.)

- No program based on the PAYS system has used credit scores or credit agency reports to determine customer eligibility. Some utilities require customers to be current in their utility billing, some require no more than 2 late payments in the preceding year, and some do not require any eligibility standard.
- One of PAYS requirements for residential programs is that on an annual basis, estimated savings to the participant must exceed program services charges by 25%. All customers currently have to pay their bills and risk disconnection if they fail to do so. It should be easier for all customers to pay lower bills.
- Without customer credit checks, uncollectables relating to PAYS upgrades across the country have averaged less than 0.1%. This is a fraction of utilities' typical rate of uncollectables for all other charges.

Q. How has credit worthiness been demonstrated ie: tools such as automated credit risk scoring conducted by the utility, other tools, mechanisms?

- I believe the answer I provided for the previous question addressed this question.

Q. Is underwriting a component in the PAYS ®model and if so how does it work? Who is responsible for defaulted PAYS® financing/loans?

- PAYS involves no loans to participating customers so there is no underwriting needed for PAYS transactions with customers. Customers at a location agree to allow their utility to invest in upgrades at that location and the tariffed program services charges are assigned to the location.

Q. What are the program costs? Is a flat fee or percent of loan charged? What interest rates are applied? Are the interest rates subject to being adjusted? Do participants sign 'Know Before You Owe' documentation?

- PAYS program services charges are fixed monthly amounts based on the upgrades installed at a location and are significantly less than a reliable estimate of customer savings for that specific location.
- Program costs vary and depend on the size and quality of the program. In EEI's response to Cadmus' PAYS (sic) feasibility study filed by the Office of the Consumer Counsel, EEI recommends one way to implement a PAYS program and provides a budget for planning purposes.
- If a utility borrows capital to use to pay the upfront costs for investments, it recovers its interest costs by rolling them into the program services charges. We have seen program services charges that include interest rates between zero and 7%.
- PAYS program costs are much less than on-bill financing (OBF) programs and unlike these loan programs PAYS programs can reach hard-to-reach customers (low- moderate-income customers and renters) and have much higher offer acceptance rates.
- Customers receive offers. Once the offer is made to the customer, the interest rate used to determine the program services charge cannot be changed. Interest rates can be changed during a program.
- EEI has developed and licenses agreements that provide clear statements to participants of program benefits and their responsibilities (and building owners' responsibilities if the customer does not own the building).
- EEI has developed a new system for providing notice of PAYS upgrades at a location that ensures successor customers who purchase or rent a location which had PAYS upgrades installed – learn of PAYS benefits and obligations prior to their taking occupancy.
- Utilities have no responsibility to provide notice and are not liable for a failure to provide notice of PAYS benefits and obligations at a location.

Q. Has on-bill financing typically been included on utility bills?

- On bill financing (OBF) has typically been defined as making loans to help customers purchase resource efficiency upgrades. By definition, OBF programs involve charges on the bill.
- PAYS does not involve loans to customers. PAYS uses a voluntary tariff. Program services charges are on the utility bills at a location at which PAYS upgrades were installed until the utility receives full cost recovery for its investments.

Q. What opportunities and challenges have arisen with integrating PAYS® into utility billing systems?

- One of the eighteen utilities implementing PAYS programs upgraded its billing and information system based on EEI's recommendations and those of its billing staff. The module cost less than $40,000.
- The seventeen other utilities used existing capabilities, likely those associated with rental or financed technologies, supplemented by program CRM software, and have operated their programs without making changes. EEI recommends any utility committing to the PAYS system investigate the real cost of an EEI approved billing system upgrade.

Q. How many utility clients does PAYS® serve and how many customers are served by PAYS®?

- As of June 30, 2019, eighteen utilities in eight states had operated programs using the PAYS system. The first program started in 2002. As of June 30, 2019, customers at more than 4,900 locations accepted offers for upgrade installations at their locations totaling more than $40 million.

Q. What are various utility and or PAYS® processes utilized to handle customer arrearages?

- Since PAYS charges must be treated the same as all other utility charges for essential services, the same processes the utility uses for other arrearages is used.
- Some utilities have established loss reserve funds. Uncollectables have averaged less than 0.1% for all reporting utilities operating PAYS programs. Only 1 charge against the three loss reserve funds in three states has been made in the past 5 years. EEI does not recommend incurring the cost of setting up reserve funds but that utilities use the same mechanisms they currently use to recover their investments.

Q. What are the 'ranges' of arrearage rates that PAYS® sees from its various utility partners/their customers? How are arrearages handled? Are they tied to service disconnection? What are the up and downsides of tying arrearages to service disconnection?

- Uncollectables related to PAYS upgrades are a fraction of all reporting utilities' average rate of uncollectables.

- Utilities implementing PAYS programs are required to use their same processes for collections of arrearages, including disconnection if necessary, as they currently use for all other charges.
- No utility implementing a PAYS program has ever reported disconnecting a PAYS participant or successor customer for non-payment.

Q. Have defaulted loans led to any evictions or foreclosures? If so, what data does PAYS® maintain and have in its possession on such occurrences?

- No. No defaulted tariffs have led to eviction or foreclosures.
- Some homes in California were subject to foreclosure for reasons other than the PAYS tariff as a result of the financial collapse in 2008 - 2009. The tariff is designed to survive foreclosure or extended vacancy.

Q. What data does PAYS® have regarding loans that have transferred ownership? Did transfers result in accelerations of early pay-offs? Does repayment transfer seamlessly to new customers? Please explain how loan transfers work between customers/households.

- There are no loans with the PAYS system.
- Tariffed charges remain at the location and are binding upon any successor customer taking service at a location.
- Some utilities have waived program services charges at times for customer service reasons. These do not represent a PAYS related expense.
- Based on anecdotal information, EEI has revised its intellectual property (i.e., the forms, agreements and worksheets alluded to above) to provide for tariffs that will not be subject to early pay-offs but that assure that all successor customers who purchase locations will learn about the PAYS upgrades at that location and the tariff's benefits and obligations.

Q. Has PAYS® had any complaints filed against it by ie: state attorney general offices, by consumer advocacy groups, utility commission staffs, Better Business Bureaus etc?

- No. There have been no complaints filed against an implementing utility in the 18 years programs have been operated.
- There have been no challenges to the PAYS system elements (i.e., that PAYS charges represent an essential utility service, that PAYS uncollectables shall be treated the same as all other essential utility charges, including disconnection in accordance with existing rules governing disconnection for non-payment, that charges may be assigned to a location and are binding on successor customers who apply for service at an upgraded location, etc.).

Q. Does PAYS® guarantee monthly savings greater than the monthly tariffed repayment? If not, how do low-income customers participate given that some months customers could receive higher bills.

- There are no savings guarantees.
- There is a guarantee that annual savings estimates for each specific location based on current rates will significantly exceed annual program services charges for that location. Most utilities use EEI's 80% rule. This ensures that solid annual savings estimates will exceed annual program services charges by 25% (i.e., providing a healthy margin of error).
- There is also a guarantee that if upgrades fail and are not repaired, program services charges will cease.
- This offer to customers has resulted in more than 50 percent, and sometimes as high as 90 percent, of customers accepting PAYS offers.

Q. If PAYS® projects under-perform' and the energy savings are not what was projected/ calculated what if anything occurs or what recourse does the customer/utility have?

- PAYS uses only proven technologies. Contractor requirements such as insurance and bonding, quality control mechanisms, mechanisms to ensure high quality upgrades and fair prices, along with other design features have kept under-performance from being a problem.
- Additionally, verification protocols alert implementing utilities to anomalies at PAYS locations that enable investigation prior to complaints. Most of the time, higher than anticipated usage results from increased occupancy. Other times higher than expected usage results from customer purchase and use of new energy using technologies.
- Finally, every implementing utility has reported increased customer satisfaction when they have switched to using the PAYS system.

Q. Who bears the burden of making repairs on PAYS® funded projects should they be required during the course of payback?

- If an upgrade fails as a result of contractor error, substandard products, or poor installation, even problems not identified by a post installation inspection, the contractor or product supplier is required to repair the upgrades.
- If the building owner fails to maintain upgrades as per their agreement or if occupants damage the upgrade, causing its failure, they will be made responsible for repairs and the program services charges will continue, assuring utility cost recovery.
- If the upgrade just failed, the utility or its program operator can determine if it is financially viable to pay for a repair and extend the charges (another required PAYS design feature) or to just terminate the charges.
- The use of proven technologies, high quality contractors and contractor requirements has resulted in no utility using the PAYS system reporting the need for upgrade repairs or to waive charges due to upgrade failure.