Columbia Exhibit No.

BEFORE
THE PUBLIC UTILTIES 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

PREPARED SUPPLEMENTAL DIRECT TESTIMONY OF
JOHN J. SPANOS
ON BEHALF OF COLUMBIA GAS OF OHIO, INC.

☐ Management policies, practices, and organization
☐ Operating income
☐ Rate base
☐ Allocations
☐ Rate of return
☐ Rates and tariffs
☒ Other

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May 13, 2022

PREPARED SUPPLEMENTAL DIRECT TESTIMONY OF JOHN J. SPANOS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania 17011

Q. By whom are you employed?

A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC(“Gannett Fleming”).

Q. Are you the same John J. Spanos who submitted Prepared Direct Testimony in this proceeding?

A. Yes, I am.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of Columbia Gas of Ohio in this rate proceeding.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your Supplemental Direct Testimony in this proceeding?

A. The purpose of my Supplemental Direct Testimony is to support the following Objections Columbia filed on May 6, 2020 in response to the Staff Report that was filed on April 6, 2022:

Columbia’s Objection to the Staff’s recommendation of a depreciation composite accrual rate that does not properly incorporate all the components of the life estimates for the two sub-categories in Account 375.70 (which is labeled as “2.1.3.2. Depreciation Accrual Rates and Depreciation Expense” in Columbia’s May 6, 2022 Objections to the Staff Report); and

Columbia’s Objection to Staff’s approach to plant auditing and tacit rejection of Columbia’s mass accounting system utilized since 2003 consistent with industry standards (which is discussed in Columbia’s Objections “2.1.2.1. No Address Provided, Not Asset Tagged, or No Locational Data” and “2.1.2.4. Assets Not Located for or During Field Inspection”)

III. DEPRECIATION ACCRUAL RATE FOR ACCOUNT 375.70, OTHER DISTRIBUTION SYSTEM STRUCTURES

Q. Why has Columbia objected to Staff's recommendation for the revised depreciation rate for Account 375.70.?

A. Staff misstated all of the parameters in the depreciation study related to the recovery of assets within the account. There are two different groups of structures in the account. The first is large operating centers or service centers. The second are various small structures. These two groups have different life characteristics and different net salvage percentages. Additionally, Staff has not considered all of these factors before attempting to develop a composite rate for the entire account.

Q. Please identify the parameters that must be considered for Account 375.70.

A. First, there are two life components: The average service life and survivor curve for each asset and the life span estimate for each large structure. Second, is the net salvage percentage for each subaccount or type structure. Third, the proper weighting of the two subaccounts for establishing a composite rate.

Q. Have all of these components been addressed and considered in the development of the depreciation rate or rates for Account 375.70 in the Depreciation Study?

A. Yes. On page III-6 of the Depreciation Study, there is discussion related to how life characteristics were established for Account 375.70 which includes the life span technique. On page VI-4, there is a schedule that sets forth the depreciation rate for each of the two subaccounts and a composite rate for the entire account. Pages VII-19 through VII-26 presents the statistical life analysis which sets forth the survivor curve for each subaccount including the truncation of the large structure survivor curve. Pages VIII-2 through VIII-4 set forth the net salvage analysis for various structure subaccounts. On pages IX-6 through IX-10, the detailed depreciation calculation with all parameters for each location or subaccount is identified.

Q. Did the Staff Report identify any changes or disagreements with any of these parameters?

A. No.

Q. What has caused the objection to the Staff Report related to Account 375.70?

A. There is nothing in the Staff Report that identifies any parameter or component change, however, the Staff Report sets forth an insupportably low depreciation rate for this account. Based on review of the calculation it appears the Staff Report disregards the life span component of the depreciation rate which improperly recovers the investment in the account. Without this component of the life estimate, Columbia will not match recovery to utilization and in turn will not fully recover its investment while in service.

Q. Does the Staff Report consider the life characteristics of larger operations or service centers?

A. No. The Staff Report only reflects the interim retirements of those structures. The life span component reflects that fact that there will be a concurrent date that the structures are rehabilitated, retired, sold or demolished.

Q. Is it reasonable to depreciate all the investment in this account with a composite rate?

A. The most appropriate approach would be to depreciate the two subaccounts separately as presented on page VI-4 of the Depreciation Study. This would be a depreciation rate of 2.30 for the large Distribution System Structure and a depreciation rate of 3.73 for the other small structures. However, it would be acceptable to utilize the composite rate of 2.52 percent for the entire account based on the plant investment in the account, as also shown on page VI-4.

Q. Is the Staff Report recommendation of 1.70 percent reasonable?

A. No. First of all, no assets in the account have a rate this low. Second, there is no support for a composite rate this low given the parameters in place that Staff did not dispute.

IV. ADJUSTEMENTS TO RATE BASE DUE TO STAFF'S MANNER OF AUDITING AND TACIT REJECTION OF INDUSTRY STANDARD MASS ACCOUNTING OF PLANT ASSETS.

Q. In its objections to the Staff Report, Columbia uses the term "mass accounting." Can you describe this term?

A. A regulated gas utility installs and replaces a significant volume of retirement units that are similar in nature on a daily basis. The large volume of these assets means that for record-keeping purposes, these fixed assets will be recorded by retirement unit, by year-in-service, with total quantity, total construction cost (directs and loadings), and average cost. Included in these groupings for a gas company are gas main, services, meters, and regulators. Generally speaking, this is the idea behind "mass accounting."

It is not reasonable to expect all individual assets be recorded and also to maintain the cost record at an individual level. This means that there is no ability to select a specific retirement unit and attribute fully loaded costs and track it to every individual physical location.

Mass property is accounted for in the federal Uniform System of Accounts applicable to regulated gas utilities. 18 CFR 201, Section 8(A) requires the following information for record keeping purposes for plant records for retirement units:

(1) The name or description of the unit, or both;
(2) The location of the unit;
(3) The date the unit was placed in service;
(4) The cost of the unit as set forth in Plant Instructions 2 and 3 of this part; and
(5) The plant control account to which the cost of the units is charged

18 CFR 201, Section 8(B) governs the record-keeping requirements for mass property, which does not include a requirement to track the location of the assets:

(1) A general description of the property and quantity;
(2) The quantity placed in service by vintage year;
(3) The average cost as set forth in Plant Instructions 2 and 3 of this part; and
(4) The plant control account to which the costs are charged.

Q. In its objections to the Staff Report, Columbia uses the term "blanket work order." Can you describe this term?

A. A blanket work order is used to record and classify those assets that are treated as mass property. It is common practice for utilities to use Blanket Work Orders to aggregate together high volume, homogenous work for the purpose of creating financial assets based on the incurred charges. An example of this would be risers. As the work performed is ubiquitous between each installation, blanket work orders allow the Company to efficiently record the costs of these installations on a single work order. To track every riser as an individual work order would not provide any additional benefit to the company and would be burdensome to maintain. This additional processing would require Columbia to incur significant additional costs, paid for by customers with no material benefit.

Q. Why has Columbia objected to Staff's reductions or disallowances to rate base?

A. The Staff Report excludes a considerable amount of rate base without a reasonable basis for excluding. Specifically, on page 10 of the Report, Staff indicates that it removed over $27 million worth of assets that were part of blanket work orders because these were not asset-tagged. Utility property records are capital intensive with hundreds of thousands of records to be recorded by plant account. Columbia's recording of these assets, which does not require locational tagging for all assets that were a part of blanket work orders, has been consistent for many years.

Q. Are Columbia's property record details consistent with industry practices?

A. Yes. I have reviewed hundreds of fixed asset systems related to property records of utilities across the United States and Canada. The property records for Columbia maintain a description of the asset, the cost of the asset, quantity or unit detail, year placed in service, original year of installation, property account identifier, type of transaction and various other asset identifiers. Some, but not all, of which include location information. It is a normal industry practice to maintain records in this manner. If the Commission were to adopt Staff's recommendation for disallowance, Columbia would be required to create a new costly inventory system to provide locational information for all of its plant assets. This would create a financial burden for its customers, who will be ultimately responsible for this enormous cost, without an equal benefit.

Mass property accounting is not just industry standard, it is permitted and prescribed by the FERC Uniform System of Accounts (see above) as well as allowed under GAAP, NARUC, AGA/EEI and the American Power Association. Each of these regulations and bodies prescribe a method of accounting consistent with Columbia's practices. Due to the volume of similar retirement units installed (e.g. risers) and removed daily it is impossible to record and maintain the cost record at an individual level. However, by vintaging each mass property year, the utility is able to both construct and retire a property unit at the correct unit price. This process is facilitated through the use of a blanket work order.

Utilities use job types or conventions to support the creation and setup of accounting work orders, whether specific work orders or blankets. These types allow for systematic controls through fixed asset software. With a blanket work order, the incurred costs can then be classified as used and useful at some periodic rate such as monthly. The work costs accrued to a blanket work order is very repetitive in nature and requires only minor engineering activity due to this repetitive nature. In other areas, where more engineering is needed, more construction time, or when the project is not homogenous with existing blanket type work, a specific work order will be created for the project.

Q. Does Columbia have bulk or blanket work orders of assets?

A. Yes, bulk or blanket work orders are standard practice in utility fixed assets systems. This is particularly common in large mass property accounts such as mains, services and regulating equipment to name a few. Bulk and blanket work orders identify all the necessary details for the property records, however, each individual asset is not identified by location.

Q. Do bulk or blanket work orders identify a year of installation, quantity and type asset?

A Yes.

Q. Are field visits or inspections a necessary practice in the industry for determining every asset that exists for a utility?

A. No. A required physical inventory or field visit has not been a requirement in the industry for almost 20 years. Many jurisdictions have come to the conclusion that the cost and time involved for physical inventories are not justified because a physical inventory no longer proves whether assets exist. This is particularly the case when small samples of assets are selected to be identified.

Q. Did the Staff Report establish a significant level of sampling or appropriate investigation that justified the exclusion of such a high percentage of assets in rate base?

A. No. First, Staff selected a small group of assets to inventory and when they could not find the specific asset they removed all like assets such as those included in blanket work orders from rate base. This is not a standard practice and does not support the removal of more than $27.2 million in plant in service. Second, Staff excluded over $16.2 million of plant in service because specific invoices or photographs of the assets were not provided. Again, this is an unreasonable expectation given how fixed asset systems have been developed since 2000. Third, $610,703 of assets were excluded because they were not located during a field inspection.

Q. Even if a reasonable asset sampling were established, would removal of over $44 million in plant investment be appropriate?

A. No. There are standard practices between field personnel and property accounting that confirm that the transactional data in the property records are consistent with the projects in the field. Thus, the Staff's exclusion of assets is unreasonable based on the limited work performed and high level assumptions made due to responses received to their requests.

Q. Is there any support for the level of depreciation reserve adjusted in the Staff Report associated with each of the excluded categories?

A. No. First and foremost, Ohio is a whole life jurisdiction which does not require assets to be maintained with an associated depreciation reserve. This is not the choice of Columbia. Second, the Staff Report makes adjustments to the depreciation reserve related to the assets they excluded. However, if they were excluded due to lack of detail, then there is no possible way to calculate the associated reserve with the specific assets being removed. If the reason to remove these assets are retirements, then the depreciation reserve must be reduced by the same amount as the plant investment. Consequently, without knowing the cause of the exclusion of the assets or the age of the assets, then an accurate determination of the accumulated depreciation to be removed cannot be established. This is particularly challenging since rates in Ohio are determined based on whole life not remaining life so accumulated depreciation is not measured by asset.

V. CONCLUSION

Q. Has Columbia properly established depreciation rates for Account 375.70 that properly recover service value over the life of the account?

A. Yes. The Depreciation Study properly identifies the correct level of depreciation. Staff does not challenge any parameters, but recommends an incorrect and unreasonably low composite rate.

Q. Has the Staff Report excluded an excessive amount of rate base without thoroughly reviewing the property records?

A. Yes.

Columbia's property records are reasonable and consistent with industry practices. Staff should accept the level of detail as sufficient to confirm plant assets for inclusion in rate base.

Q. Does this complete your Prepared Supplemental Direct Testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned hereby certifies that a copy of the foregoing document is also being served via electronic mail on the 13th day of May, 2022, upon the persons listed below.

/s/ Joseph M. Clark
Joseph M. Clark

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