

# THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE ANNUAL  
APPLICATION OF COLUMBIA GAS OF  
OHIO, INC. FOR AN ADJUSTMENT TO THE  
CAPITAL EXPENDITURE PROGRAM RIDER  
RATE.

CASE NO. 22-621-GA-RDR

## FINDING AND ORDER

Entered in the Journal on August 24, 2022

### I. SUMMARY

{¶ 1} The Commission approves the application of Columbia Gas of Ohio, Inc. to adjust its capital expenditure program rider, subject to the audit adjustments and recommendations, Staff's recommendations, and the agreement of the parties to resolve certain issues as part of Case No. 21-637-GA-AIR et al., or the next annual adjustment of the capital expenditure rider.

### II. DISCUSSION

{¶ 2} Columbia Gas of Ohio, Inc. (Columbia or Company) is a natural gas company, as defined in R.C. 4905.03, and a public utility, as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4929.111 provides that a natural gas company may file an application to implement a capital expenditure program (CEP) for any infrastructure expansion, improvement, or replacement program; any program to install, upgrade, or replace information technology systems; or any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the applicant's statutory obligation to furnish necessary and adequate facilities, which are also found to be just and reasonable, the Commission is tasked with approving the application and authorizing the deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on that portion of assets of the CEP placed in service but not reflected in rates

as plant in service and a regulatory asset for the incremental depreciation directly attributable to the CEP and the property tax expense directly attributable to the CEP but not reflected in rates.

{¶ 4} In Case No. 11-5351-GA-UNC, et al., the Commission modified and approved Columbia's application to implement a CEP for the period October 1, 2011, through December 31, 2012. Under the approved CEP, Columbia was authorized to begin deferring the related PISCC, depreciation, and property tax expenses (CEP Deferral) for capital investments that were not part of its accelerated infrastructure replacement program (IRP) up to the point where the deferred amount, if included in customer rates, would exceed \$1.50 per month for the Small General Service class of customers. In approving the application, the Commission noted that the prudence and reasonableness of Columbia's CEP-related regulatory assets and associated capital spending would be considered in any future proceeding seeking cost recovery, at which time Columbia would be expected to provide detailed information regarding the expenditures for the Commission's review. *In re Columbia Gas of Ohio, Inc.*, Case No. 11-5351-GA-UNC, et al., Finding and Order (Aug. 29, 2012), Entry on Rehearing (Oct. 24, 2012).

{¶ 5} Subsequently, in Case No. 12-3221-GA-UNC, et al., the Commission modified and approved Columbia's application to continue its CEP, including deferral of the related PISCC, depreciation expense, and property tax expense, in 2013 and succeeding years. Once again, the Commission noted that the prudence, reasonableness, and magnitude of the deferrals and capital expenditures would be examined in a future cost-recovery proceeding. *In re Columbia Gas of Ohio, Inc.*, Case No. 12-3221-GA-UNC, et al., Finding and Order (Oct. 9, 2013).

{¶ 6} On November 28, 2018, the Commission approved and adopted a stipulation and recommendation (Stipulation) resolving all issues relating to Columbia's application for an alternative rate plan to establish a new rider mechanism (CEP Rider) to recover the CEP costs, including the CEP Deferral and the corresponding assets to which those expenses

are directly attributable. *In re Columbia Gas of Ohio, Inc.*, Case No. 17-2202-GA-ALT (*Alt. Reg. Case*), Opinion and Order (Nov. 28, 2018). In approving the Stipulation, the Commission permits Columbia to apply to adjust the CEP Rider rates on a yearly basis to collect from customers the prior calendar year's non-IRP capital expenditures and related deferrals. Under the Stipulation, each year's application is to contain schedules based on 12 months of actual data for the prior calendar year and the rate of return used in development of the revenue requirement is to be based on the capital structure and cost of capital authorized by the Commission in Columbia's most recent base rate case, Case No. 08-72-GA-AIR, et al. The Commission also prescribed annual rate caps by customer class per year. Finally, the Stipulation directed that Staff, or its designee, perform a review of Columbia's annual filing to determine the necessity, prudence, lawfulness, and reasonableness of the non-IRP capital expenditures and related assets for the prior calendar year.

{¶ 7} On June 30, 2021, in Case No. 21-637-GA-AIR, Columbia filed an application to increase its base rates and charges, pursuant to R.C. 4909.18, and, in Case No. 21-638-GA-ALT, an application for approval of an alternative rate plan, pursuant to R.C. 4929.05. Among the parties granted intervention in Columbia's base rate and alternative rate plan application cases is Ohio Consumers' Counsel (OCC). *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 et al. (*Rate Case*), Entry (June 3, 2022) at ¶¶ 13, 18.

{¶ 8} On January 26, 2022, in the above-captioned case, the Commission issued an Entry directing Staff to issue a request for proposal for audit services to review the necessity, prudence, and reasonableness of the non-IRP capital expenditures, CEP Deferral, and associated capital expenditures related to Columbia's CEP program as contemplated in Case Nos. 11-5351-GA-UNC, 12-3221-GA-UNC, and the *Alt. Reg. Case*. In the January 26, 2022 Entry, the Commission noted that this review would consist of a two-part audit. First, the audit would review and attest to the accounting accuracy and used-and-useful nature of Columbia's non-IRP capital expenditures and related assets and corresponding depreciation

reserve for investments and deferrals from January 1, 2021, through December 31, 2021. Second, the audit would assess and inform on the necessity, prudence, lawfulness, and reasonableness of Columbia's non-IRP capital expenditures and related assets for the same period.

{¶ 9} By Entry dated February 23, 2022, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or auditor) to assist Staff in performing the necessary review of Columbia's CEP Rider.

{¶ 10} On February 25, 2022, Columbia filed its annual application to adjust the CEP Rider, including proposed rate schedules, a typical bill analysis, and various schedules supporting the application. Recognizing the potential for overlap between the implementation of the proposed CEP rider rates and new base rates, Columbia also filed proposed rate schedules, a typical bill analysis, and various schedules supporting the CEP application that reflect the expected impact of its pending base rate application. On February 25, 2022, Columbia also filed the testimony of Melissa L. Thompson and Benjamin A. Freiman in support of its application to adjust the CEP Rider rates. Columbia proposes to adjust its CEP Rider, commencing September 1, 2021, as follows:

Applicable Rate Schedule	Current Monthly Charge	Proposed Monthly Charge	Proposed Increase
SGS Rate <sup>1</sup>	\$5.91	\$7.33	\$1.42
GS Rate <sup>2</sup>	\$41.45	\$54.01	\$12.56

<sup>1</sup> Small General Service (SGS) includes Small General Sales Service, Small General Schools Sales Service, Small General Transportation Service, Small General Schools Transportation Service, Full Requirements Small General Transportation Service, and Full Requirements Small General Schools Transportation Service.

<sup>2</sup> General Service (GS) includes General Sales Service, General Schools Sales Service, General Transportation Service, General Schools Transportation Service, Full Requirements General Transportation Service, and Full Requirements General Schools Transportation Service.

LGS Rate <sup>3</sup>	\$1,005.05	\$1,273.85	\$268.80
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{¶ 11} On April 7, 2022, OCC filed a motion to intervene which was granted by Entry issued July 21, 2022.

{¶ 12} On June 29, 2022, Blue Ridge filed its Audit of the Plant in Service and Capital Expenditure Program for the 2021 Annual Adjustment to the CEP Rider Rate of Columbia Gas of Ohio, Inc. (Audit Report). In the Audit Report, Blue Ridge recommends seven adjustments summarized as follows:

(a) Blue Ridge notes that while Columbia indicates that the Company does not currently own any large machinery or equipment that would require the need to have capital spares on hand, Blue Ridge recommends that Columbia develop a written procedure specifically for capital spares that includes a checklist of criteria for the necessity of obtaining capital spares including approval requirements (Audit Report at 34).

(b) Blue Ridge notes that upon the Commission's decision in Columbia's base rate case, cumulative plant additions through March 31, 2021, will be transferred out of Rider CEP and reflected in base rates. Blue Ridge, therefore, recommends two modifications for consideration prior to the establishment of any rate caps:

(i) The current formula established in Case No. 17-2202-GA-ALT excludes the impact of deferred income taxes on the deferred depreciation regulatory asset. Blue Ridge notes that as of December 31, 2021, the deferred depreciation balance filed by the Company is

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<sup>3</sup> Large General Service (LGS) includes Large General Sales Service, Large General Transportation Service, and Full Requirements General Transportation Service.

\$86,513,521 and had the related deferred tax liability been reflected, Columbia would have realized a corresponding reduction to CEP rate base of \$(18,167,839). While the current formula recognizes the deferred tax liability associated with liberalized depreciation, the regulatory asset is a separate issue that appears to have been conflated. (Audit Report at 34.)

(ii) Blue Ridge states that the 2008 Rate Case Depreciation Offset in CEP rate base also has a deferred tax impact that is currently not reflected. To the extent the application of a depreciation offset is still relevant in the future, Blue Ridge declares that recognition of the omission would result in a deferred tax asset. The auditor notes that as of December 31, 2021, the 2008 Rate Case Depreciation Offset recognized by the Columbia is \$(464,329,621). Blue Ridge calculates that the related deferred tax asset would increase rate base by \$97,509,220. (Audit Report at 34.)

Blue Ridge also notes that the CEP formulas of certain other utilities results in a similar treatment and recommends that if the Commission modifies Columbia's CEP formula, as recommended, that similar amendments be made to the formulas of other utilities upon the reset of their respective CEPs (Audit Report at 34).

(c) Blue Ridge notes that while Columbia has completed a review of the allocation for project costs between the IRP and non-IRP to ensure an accurate reflection of charges, Columbia has not determined the amount of any project adjustments, citing the time-consuming process of updating previously closed financial records. The Company anticipates completing the work by December 31, 2022. Blue ridge notes that the Company's activity may result

in an adjustment to a specific work order and recommends that the work order be reviewed in the next CEP audit. (Audit Report at 35.)

(d) Through its analysis, Blue Ridge found that the project costs on nine work orders with Level 2 variances were created significantly after the work order accrued charges over 75 percent of their budget. Each Level 2 variance should have been created when the project costs exceeded the budget by the amount necessary to trigger a Level 2 variance and not after the assets were placed in service. Blue Ridge recommends that cost approvals take place at the time the cost exceed the budget, and before the assets are placed in service and unitized, by either the percentage and/or costs that would trigger the variance in accordance with the Company Capital Governance Policy. (Audit Report at 35.)

(e) Blue Ridge identified Work Order 0555.34200171342 had \$0 recorded for retirements. Blue Ridge recommends that the Company determine the actual amounts of the retirement and make the appropriate adjustments. (Audit Report at 35.)

(f) Blue Ridge found that the Company could not explain why it had estimated cost of removal amounts for five retirement work orders (0555.34200171342, 0557.34210154116, 0583.34180125882, 0583.34180132465, 0583.34180132607, and 0583.34180148073) but did not book the actual cost of removal. Blue Ridge recommends that Columbia determine the actual amounts of the cost of removal for the work orders and make the appropriate adjustments. (Audit Report at 35.)

(g) Blue Ridge notes that a work order backlog, particularly in the four-to-12-month and the over-12-month categories, are trending upward. Blue Ridge recommends that the next audit review the work order backlog to determine whether the upward trend continues. (Audit Report at 35.)

{¶ 13} Blue Ridge also reviewed Columbia's compliance with the recommendations ordered in the Company's prior CEP Rider audits. *In re Columbia Gas of Ohio Inc.*, Case No. 21-23-GA-RDR, Finding and Order (Aug. 12, 2021); *In re Columbia Gas of Ohio Inc.*, Case No. 20-49-GA-RDR, Finding and Order (Aug. 12, 2020). Of the ten recommendations reviewed, Blue Ridge determined that no further work was necessary as to eight recommendations. With regard to the remaining two recommendations, in the prior audit, the auditor recommended that the Company develop written procedures for capital spares including a checklist of criteria for the necessity of obtaining such capital spares as well as approval requirements. *In re Columbia Gas of Ohio, Inc.*, Case No. 21-23-GA-RDR, Audit Report (June 15, 2021) at 9, Blue Ridge notes that Columbia responded with a memorandum explaining the Federal Energy Regulatory Commission's definition of plant material and operating supplies and how such cost can be capitalized when purchased for a capital project. Blue Ridge believes Columbia's response reflects a misunderstanding of the intent of the recommendation. Blue Ridge explains that the auditor is concerned with a specific procedure for determining the need for capital spares not generally for any capital equipment for a capital project. Accordingly, Blue Ridge reiterates its recommendation in this audit. In addition, in the prior two audits, Staff recommended that Columbia track incremental revenues. Blue Ridge expressed its agreement as to the importance of incremental revenues and recommended that incremental revenues be identified and tracked. However, Columbia did not recognize incremental revenues in calendar year 2021. Blue Ridge reiterates its prior audit recommendation to include incremental revenues in the CEP and advocates the Commission reevaluate the matter in the Company's pending base rate case. *In re Columbia Gas of Ohio, Inc.*, Case No. 19-438-GA-RDR, Staff Review and Recommendation (July 15, 2019) at 3; *In re Columbia Gas of Ohio, Inc.*, Case No. 20-49-GA-RDR, Staff Review and Recommendation (June 30, 2020) at 4.

{¶ 14} On July 15, 2022, Staff filed its review and recommendation regarding Columbia's application (Staff Report). In summary, Staff fully adopts the adjustments and recommendations made by Blue Ridge. Staff also notes that, based on the auditor's



adjustments, the new rate for residential customers is approximately \$7.33 per month per meter, subject to Columbia's final calculation. Staff notes, however, that this is a temporary rate considering the Company's pending rate case. When the new base rates in the *Rate Case* go into effect, the capital expenditures as of March 2021 included in this CEP rider will be recovered as part of base rates. Accordingly, CEP rider rates must be reduced when Columbia implements rates pursuant to the order in the base rate case. Once the new base rates go into effect, Staff recommends that the CEP rate be adjusted to cover assets invested after date certain in the rate case of March 31, 2021, through December 31, 2021, but all other parameters remain as approved in this CEP case. The Company estimates that the new rate CEP rate would be approximately \$1.40.<sup>4</sup> Staff recommends that the Company promptly file revised tariffs for this case upon the Commission's decision in the base rate case. If there are changes or discrepancies between the CEP rider and the base rate case, Staff recommends that these issues be addressed in the base rate case and/or in the next annual CEP rider filing. Further, based on its investigation, Staff concludes that Columbia supports its application with adequate data and information to ensure that the CEP Rider revenue requirement and rates are just and reasonable. Accordingly, Staff recommends that the Commission approve Columbia's application, as modified by the adjustments and recommendations of Blue Ridge and the recommendations of Staff.

{¶ 15} Pursuant to the Stipulation adopted in the *Alt. Reg. Case*, the new CEP Rider rate will become effective by September 1 following the February application filing unless Staff finds Columbia's filing to be unjust and unreasonable or if any other party granted intervention files an objection to either Columbia's annual filing or Staff's review that is not resolved by Columbia by July 31 of each year. If Staff finds that Columbia's application is unjust or unreasonable, or if an intervening party files an objection that is not resolved by July 31, Columbia must propose an expedited hearing process in order to effectuate, to the

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<sup>4</sup> Staff Data Request #4, Schedule CEP 13. A final rate will be calculated by the Company at the time the new rate goes into effect.

extent practicable, the implementation of the CEP Rider rates by September 1 or the first billing cycle of the revenue month following the Commission's decision.

{¶ 16} By Entry issued July 21, 2022, a procedural schedule was established such that motions to intervene and objections to the application and Staff Report were due by July 29, 2022, and a statement from Columbia, notifying the Commission as to the existence of any unresolved issues or objections, was due by August 8, 2022.

{¶ 17} OCC filed objections and comments on July 29, 2022. OCC argues that the CEP revenue requirement should not include financial performance incentives and expense should be eliminated from consumer charges consistent with prior Commission rulings. *In re Ohio Edison Co., The Cleveland Electric Illuminating Co., and The Toledo Edison Co.*, Case No. 07-551-EL-AIR, et al., Opinion and Order (Jan. 21, 2009) at 17, Entry on Rehearing (Feb. 2, 2011) at 4-5; *In re Duke Energy Ohio, Inc.*, Case No. 15-534-EL-RDR, Opinion and Order at 20, 44-45 (Oct. 26, 2016).

{¶ 18} On August 8, 2022, Columbia filed its statement informing the Commission whether issues raised in objections have been resolved. In its statement, Columbia represents that Columbia, Staff, and OCC agree that any issues, including but not limited to, return on equity, revenue allocations, rate design, capitalized incentive compensation, and other issues impacting the subsequent adjustment of the CEP Rider rate, will be addressed in the *Rate Case*. Further, the parties agree that, in the event the Commission determines, in the *Rate Case*, that capitalized incentive compensation due to financial performance should not be charged to consumers in calendar year 2021 CEP plant-in service, Columbia will refund to consumers the previously recovered capitalized incentive compensation due to financial performance with its calendar year in its next CEP rate adjustment application to be filed in 2023. If the Commission issues an Opinion and Order in the *Rate Case* after Columbia's next CEP application is filed, and the Commission finds that capitalized incentive compensation due to financial performance is inappropriate, then Columbia will file revised schedules in its annual CEP adjustment application case as soon

as practicable reflecting the refund to consumers of the previously collected capitalized incentive compensation. With this agreement, Columbia states all issues raised in this case have been resolved and Columbia states that a hearing is not necessary.

{¶ 19} The Commission has reviewed Columbia's application, the Audit Report, the Staff Report, and Columbia's statement of the parties' agreement. Based on our review, the Commission finds that Columbia's application, as modified by the audit adjustments and recommendations in the Audit Report, the recommendations in the Staff Report, and the parties' agreement to resolve certain issues as a part of Columbia's pending rate case, is reasonable and should be approved. Furthermore, the Commission finds the application is not unjust or unreasonable and, therefore, it is not necessary to hold a hearing in this matter.

### III. ORDER

{¶ 20} It is, therefore,

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

{¶ 22} ORDERED, That Columbia be authorized to file tariffs, in final form, consistent with this Finding and Order. Columbia shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 23} ORDERED, That the effective date of the new tariff shall be a date not earlier than the date upon which the final tariff page is filed with the Commission. It is, further,

{¶ 24} ORDERED, That Columbia shall notify its customers of the changes to the tariff via bill message or insert within 30 days of the effective date of the revised tariff. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

{¶ 25} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 26} ORDERED, That a copy of this Finding and Order be served upon all interested persons and parties of record.

**COMMISSIONERS:**

*Approving:*

Jenifer French, Chair  
M. Beth Trombold  
Lawrence K. Friedeman  
Daniel R. Conway  
Dennis P. Deters

GNS/hac

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**Case No(s). 22-0621-GA-RDR**

Summary: Finding & Order approving the application of Columbia Gas of Ohio, Inc. to adjust its capital expenditure program rider, subject to the audit adjustments and recommendations, Staff's recommendations, and the agreement of the parties to resolve certain issues as part of Case No. 21-637-GA-AIR et al., or the next annual adjustment of the capital expenditure rider electronically filed by Heather A. Chilcote on behalf of Public Utilities Commission of Ohio