

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility)
Commission)
)
)
vs.)
)
)
Columbia Gas of Pennsylvania, Inc.)
)
)
)

Docket No. R-2015-2468056

DIRECT TESTIMONY OF
MATTHEW T. HANSON
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

RECEIVED
2015 AUG -7 PM 12: 04
PA PUC
SECRETARY'S BUREAU

Columbia Stmt. 9
R-2015-2468056
8-4-15
Harrisburg JS

1 Q. Please state your name and business address.

2 A. My name is Matthew T. Hanson and my business address is 290 W. Nationwide
3 Boulevard, Columbus, OH 43215.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by NiSource Corporate Services Company ("NCSC"). I assumed my
6 current position as Director of Financial Planning in September 2012.

7 Q. What are your responsibilities as Director of Financial Planning?

8 A. I am responsible for the financial planning and budgeting process for the NiSource
9 Inc. ("NiSource") gas distribution business segment ("NGD"), which includes
10 Columbia Gas of Pennsylvania, Inc. ("Columbia" or "the Company").

11 Q. What is your educational and professional background?

12 A. I received a Bachelor of Science in Business Administration degree, majoring in
13 Accounting, in 1998 from The University of Dayton. My career began at Ernst &
14 Young LLP in 1998 as a member of the Audit/Advisory function. In 2001, I took a
15 role at Cardinal Health where I was employed in roles of increasing responsibility
16 until 2011 culminating as the Director of Finance. In 2011, I left Cardinal Health to
17 take a position as the Vice President of Financial Planning and Analysis at inVentiv
18 Communications where I remained until I came to NiSource in my current capacity.

19 Q. Have you ever testified before a regulatory Commission?

20 A. Yes. I provided testimony in Columbia's 2014 base rate case at Docket No. R-2014-
21 2406274.

1 Q. What is the purpose of your testimony in this proceeding?

2 A. My testimony supports Columbia's projected Operations and Maintenance
3 ("O&M") expenses for the Fully Forecasted Rate Year (through December 31, 2016),
4 that have been incorporated in Columbia witness Miller's cost of service analysis.

5 Q. What is the basis for the forecasted O&M expense included in the Fully Forecasted
6 Rate Year?

7 A. The forecasted O&M expense included in the Fully Forecasted Rate Year test period
8 is derived from the Company's most recent O&M budget.

9 Q. How is Columbia's O&M budget developed?

10 A. The O&M expense budgeting methodology used by Columbia is a combination of a
11 "top down" and "grass roots" approach. The O&M expense budget serves as a key
12 component of the overall Columbia budget and as a cost management tool for both
13 NGD and Columbia management.

14 Q. Please explain.

15 A. The NGD management team, including Columbia's management team, first
16 identifies general O&M requirements and planning objectives in conjunction with
17 NiSource Inc.'s senior management. These requirements and objectives are then
18 communicated to each successive layer of management and employees, as well as
19 the NGD Financial Planning team, which is responsible for the development of all
20 NGD budgets. It is the responsibility of these groups, working together, to ensure:
21 (1) that Columbia's budgets, including O&M expenses, are developed in accordance

1 with overall financial goals and objectives; and (2), that individual company
2 operational and administrative requirements are addressed.

3 Q. How is the O&M budget developed?

4 A. The O&M budget for Columbia is based on a grass roots concept in which
5 individuals responsible for approving expenditures are also responsible for
6 budgeting the expenditures. The process generally follows organizational
7 responsibility. Department heads are responsible for overseeing the development
8 of O&M budgets for all cost centers under their control. Budgets originate in
9 operating center locations in the field and other departments representing
10 Columbia's major business functions; these budgets are combined with a corporate-
11 level budget to arrive at a total company budget. I will discuss the corporate-level
12 budget later in my testimony.

13 Annually, the Company's O&M budget is developed by department by cost element
14 with the assistance of the NGD Financial Planning department. Each department's
15 budget is reviewed with and approved by the NGD CFO and CEO. This review
16 includes a comparison of a series of data points based on most recent experience.
17 Specifically, the proposed O&M budget is compared to the most recent year's O&M
18 budget as well as compared to the prior year's actual, experienced amounts. These
19 comparisons help identify trends and allow for measurement against management's
20 expectations. Once finalized, the departmental O&M expense budget is
21 incorporated into the business unit's operating plan.

1 Q. Does that conclude the development of the O&M expense budgeting process?

2 A. No. Upon agreement and sign-off on the departmental O&M expense budget, the
3 current year O&M budget is then developed in more detail (i.e., at the individual
4 cost center level) beginning in the preceding fourth quarter for the current year.
5 The process concludes in January.

6 The current year detailed O&M budget is reviewed against actual results each
7 month throughout the year to determine the reasons for variances and to take
8 appropriate action. If known variances are the result of timing that will be resolved
9 within the year, then those variances are monitored closely but no further action is
10 taken unless it is deemed at some point during the year that the variance will result
11 in a true budget variance at the end of the year. When the review of monthly budget
12 versus actual reveals variances that are expected to last throughout the year, the
13 Financial Planning department and NGD CFO will work with Columbia
14 management to determine the drivers of the variances and steps to be taken to
15 reduce the variance to the overall budget. In the case of an unexpected underspend,
16 funds will be re-allocated to other departments within Columbia to complete
17 projects or work that may have been scheduled for future periods or work that was
18 on hold pending available funds. If the variance is expected to result in an
19 overspend, costs will be managed tightly within the department and Columbia as a
20 whole to mitigate the budget variance identified.

1 Q. Does the O&M expense budgeting methodology described in your testimony result
2 in an accurate estimate of expenses to be incurred during the fully forecasted rate
3 year?

4 A. Yes. Columbia has experienced a variance of less than 3% to the original O&M
5 budget in four of the last six years with the only exceptions being 2011 and 2014
6 when the variance was approximately 6.5% and 4.5% respectively. Specifically, in
7 2011 Columbia experienced larger than budgeted pension contributions. When that
8 factor is normalized, the remaining budget variance for the year was well below 1%.
9 In 2014, the variance to the budget was driven by a few key factors. One factor was
10 that \$1.3M of productivity savings was budgeted to help Columbia achieve the
11 overall budget objective established by management but this savings was not
12 realized. In addition, NCSC Shared Services costs were higher than expected;
13 primarily as a result of IT spend, as significant projects were ramped up. Incentive
14 compensation also drove this variance, as the payout was higher than anticipated
15 due to positive business results. Notably, in each of the last 6 years Columbia has
16 actually overspent the original O&M budget in the ranges noted, which supports the
17 fact that the O&M budget is a conservative approach for ratemaking purposes.
18 Please refer to Exhibit MTH-1 accompanying this testimony for a comparison of
19 actual results versus the annual original O&M budget for the years 2009 through
20 2014. Overall, this Exhibit indicates a high level of O&M budgeting accuracy by

1 Columbia and, accordingly, provides a high level of confidence as to the accuracy of
2 the O&M expenses included in the fully forecasted rate year.

3 Q. Have you excluded certain cost categories from your comparison?

4 A. Yes. O&M expenses that are designed to match, or track against, revenues related
5 to specific programs or costs such as gas costs and low-income programs have been
6 excluded. Such revenue matching mechanisms have been previously approved by
7 this Commission, and ensure that there is no impact on net operating income. The
8 accounting treatment generally allows such expenses to be deferred as incurred and
9 reclassified to expense when the recovery of program costs is recorded in revenue.
10 While these O&M expense variances may be material, there is a corresponding
11 offsetting revenue variance. For that reason, I have excluded these expenses from
12 the comparison so as not to distort the accuracy of the budget.

13 Q. What is meant by the term corporate-level budget?

14 A. Earlier in my testimony I explained that Columbia's budget for field operating
15 centers and other major business functions is combined with a corporate-level
16 budget to arrive at a total company budget. The corporate-level budget represents
17 categories that are budgeted at a total Columbia or a NiSource-level, and not an
18 individual Columbia department level. This allows for each corporate-level
19 department to focus exclusively on the expenditures for which they are directly
20 responsible. Examples of O&M expenses included at the corporate-level are

1 employee benefits, benefits administration fees, audit fees, in-house legal, human
2 resources, corporate insurance, regulatory amortizations, and revenue trackers.

3 Q. What are the principal assumptions used in the development of the labor cost
4 element for specific department budgets included in the forecasted test period O&M
5 expenses?

6 A. Labor expense is based on projected headcount and wage increase assumptions.
7 More detailed labor budgets are developed by projecting the year's labor based on a
8 trend analysis. The projection includes estimates for headcount, gross salary,
9 overtime, vacation and sick time, and labor charges in from other departments.
10 This results in a sub-total for total labor dollars available by month, and this pool is
11 then split between O&M accounts, capital, and charges to other departments. The
12 second step of the process involves developing an estimate for the following year's
13 O&M labor budget based on the projected work by activity, and this estimate will be
14 used to determine how much of the labor budget should be allocated to O&M
15 accounts. The remaining labor resources are then allocated to capital or charged
16 out to other departments where work may be performed. A final reasonableness
17 check is done to compare the budgeted amount for capital labor against prior year
18 actual charges to ensure the numbers are in line with the most recent results.

19 Q. Does your budgeting analysis include any projections regarding Columbia
20 headcount?

1 Yes, Columbia is projecting 616 and 633 active full-time employees for 2015 and
2 2016 respectively, and an overall wage increase guideline of 3% for exempt
3 employees. The headcount is increasing above the ending Historic Test Year level of
4 580 active full-time employees. These increases are driven primarily by increases
5 in Field Operations and System Operations to support safety initiatives and ongoing
6 compliance work. This includes adding damage prevention coordinators, leak
7 inspectors and front line leaders in the field. Increases in headcount are also
8 expected in Engineering and Construction.

9 Q. Can you provide examples of such non-labor activities or events that have been
10 taken into account in the development of the O&M expense budget?

11 A. Yes. Non-labor expenses start with the assumption that amounts are to be held
12 relatively flat year to year reflecting a normal, ongoing level of expenses and further
13 adjusted for activities or events that are reasonably expected to occur.

14 Expenses related to enhanced Operator Qualification ("OQ") training beginning in
15 January 2015 have been added to the budget. The estimated impact of this training
16 has been taken into account in the increased labor expected to be incurred as well as
17 in the travel and facilities needed to support the training. The non-labor costs
18 appear primarily in the travel that hits employee expenses and in the increased rent
19 and leases for the new facilities. Columbia has also budgeted for facilities costs
20 related to new facilities and lease expenses as we move to more functional locations
21 beginning in 2014 and ramping up in 2015 and 2016. Increased damage prevention

1 spend is also included in 2015 and 2016 for new GPS technology used for line
2 locating. Safety spend increases are included in the future test year and the fully
3 forecasted rate year outside services budget category at a full year's spend level,
4 because these increased activities were not at a full year operating level during the
5 Historic Test Year.

6 Q. Is Columbia provided with any assumptions when preparing forecasted O&M
7 budgets?

8 A. Yes, corporate assumptions are provided to Columbia and other NiSource
9 companies for purposes of establishing O&M budgets. Corporate assumptions
10 provided to Columbia include several major categories. Employee benefits expenses
11 are based on information provided by NiSource's independent actuary, AON
12 Hewitt. For instance, the pension costs projected in the budget for the rate year are
13 part of the actuarial estimates provided by AON Hewitt. Corporate insurance
14 expenses are based on estimated property and casualty premium costs developed by
15 NiSource's Corporate Insurance Department. Audit fees are based on estimates
16 developed by NiSource Accounting. Telecommunications expenses are based on
17 estimates developed by NiSource Information Technology. NCSC Shared Service
18 expenses are based on estimates of services to be performed by NCSC, NiSource's
19 shared services company, for Columbia, and are included in the NCSC Shared
20 Services budget. This year, that budget has been broken down into two cost
21 elements, NCSC- Shared Services and NCSC- Shared NGD Operations. Please refer

1 to pages 18-19 of Columbia witness Miller's testimony for an explanation of the
2 distinction between these cost elements. Benefits administration fees and incentive
3 plan expenses are based on estimates developed by NiSource Human Resources.
4 Expenses related to the implementation of a single general ledger and chart of
5 accounts for all NiSource companies are based on estimates developed by the
6 NiSource Financial Transformation (NiFIT) group.

7 Q. How are the budgets developed for the corporate-level O&M budgets?

8 A. NCSC Shared Services budgets, such as the legal and human resources budgets, are
9 based on the individual budgets developed by each NCSC department. Similar to
10 Columbia's O&M budgeting methodology, NCSC budgets its O&M expenses by cost
11 categories such as labor, materials, outside services and other expenses. In addition,
12 each department is allocated a portion of NCSC's indirect costs, such as benefits,
13 taxes, depreciation and other expenses to arrive at a fully loaded cost. The fully
14 loaded corporate-level budget is allocated to Columbia and other NiSource
15 companies through the NCSC Shared Services budget using an allocation basis or
16 bases as determined by each department.

17 Q. What allocation bases are available to each department for allocating their budgets
18 to NiSource companies?

19 A. The direct costs from NCSC departments, as mentioned above, such as labor,
20 materials, outside services and other expenses are allocated based on methods as

1 deemed appropriate by department management. Please refer to Exhibit 4,
2 Schedule 11, Attachment H.

3 Q. What is the O&M expense level for the historic test year and fully forecasted rate
4 year?

5 A. O&M expense before ratemaking adjustments is \$126,964,667 for the historic test
6 year ended November 30, 2014 and \$142,589,000 for the fully forecasted rate year
7 ending December 31, 2016, an increase of \$15,726,683 before pro forma ratemaking
8 adjustments.¹

9 Q. Please explain the key variances in O&M expense levels between the historic test
10 year and the budgeted amounts for the future test year.

11 A. Please refer to Exhibit 104 Schedule 1 Page 3 for a breakdown of the O&M expense
12 variances from the historic test year to the budgeted future test year ended
13 November 30, 2015. The methodology for how Labor is budgeted has been covered
14 in my earlier testimony. Please refer to Exhibit 104 Schedule 10 Page 1 for an
15 illustration of the \$1.4M increase in labor from the normalized historic test year to
16 the budgeted future test year.

17 Incentive compensation decreases from the historic test year to the future test year,
18 despite the increase in labor, due to the fact that actual financial and key metric
19 results in the historic test year resulted in an expected incentive compensation
20 payout above the targeted level. The budget for all future years is always calculated

¹ This testimony compares O&M expenses independent of expense items specifically tracked against revenues as discussed earlier in this Statement.

1 at the target level which creates the year over year decrease from the historic test
2 year to the future test year.

3 As mentioned previously, the budgeted amount for benefit expenses such as
4 pension, OPEB and other benefits are based on actuarial estimates provided by
5 NiSource's independent actuary AON Hewitt. The largest driver of change in
6 benefits from the historic test year amount to the future test year budget is the
7 timing of pension funding, which has resulted in a funding event not occurring
8 within the 12 month future test year window.

9 The decrease in Outside Services from the historic test year to the future test year is
10 illustrated at Exhibit 104 Schedule 11 Page 1.

11 The reason for the increase in rent and lease expense was referenced in my prior
12 testimony. Please see Exhibit 104 Schedule 12 Page 1 for a breakdown of the
13 increase in rents and leases by location.

14 Increases in Employee Expenses are driven by travel increases that will result from
15 the increase in training that is planned to occur during the future test year.

16 The increase in Materials and Supplies expense results from historical trend in
17 spending forecasted out for the future test year, as explained previously.

18 The increases in NCSC Shared Services and NCSC Shared NGD Operations are
19 explained in detail at Exhibit 104 Schedule 13 Page 1 and Exhibit 104 Schedule 14
20 Page 1 respectively.

1 Q. Please explain the key variances in O&M expense levels between the future test year
2 and the budgeted fully forecasted rate year.

3 A. Please refer to Exhibit 104 Schedule 1 Page 4 for a breakdown of the O&M expense
4 variances from the future test year to the budgeted fully forecasted rate year. The
5 methodology for how Labor is budgeted has been covered in my earlier testimony.
6 Please refer to Exhibit 104 Schedule 10 Page 2 for an illustration of the \$1.7M
7 increase in labor from the normalized future test year to the budgeted fully
8 forecasted rate year.

9 Incentive compensation increases from the future test year to the fully forecasted
10 rate year commensurate with the increase in labor costs.

11 As mentioned previously, the budgeted amount for benefit expenses such as
12 pension, OPEB and other benefits are based on actuarial estimates provided by
13 NiSource's independent actuary AON Hewitt.

14 The increase in Outside Services from the future test year to the fully forecasted rate
15 year is illustrated at Exhibit 104 Schedule 11 Page 2.

16 The reason for the increase in rent and lease expense was referenced in my prior
17 testimony. Please see Exhibit 104 Schedule 12 Page 2 for a breakdown of the
18 increase in rents and leases by location.

19 Increases in Fleet are driven by expected headcount and fuel cost increases. The
20 headcount increases have been discussed in my earlier testimony and fuel is not
21 expected to remain at the current cost level. The increases in NCSC Shared Services

1 and NCSC Shared NGD Operations are explained in detail at Exhibit 104 Schedule
2 13 Page 2 and Exhibit 104 Schedule 14 Page 2 respectively.

3 Q. Does this complete your direct testimony?

4 A. Yes it does.

Columbia Gas of Pennsylvania, Inc.
Statement of Operations and Maintenance Expense 0&12 vs. Actual

CE	0&12						Actuals						Variance						
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014	
Labor	23,873	23,108	22,910	23,693	25,709	25,251	23,153	23,577	22,845	23,996	25,124	25,818	(720)	469	(65)	303	(585)	567	
Incentive Compensation	293	1,171	1,149	1,249	1,238	1,333	1,303	1,628	1,649	1,690	1,845	1,816	1,010	457	500	441	607	484	
Pension	2,119	6,005	6,598	-	3	1,137	392	5,799	13,088	91	2,489	1,131	(1,727)	(206)	6,490	91	2,486	(6)	
OPEB	715	1,065	492	(154)	(284)	(550)	1,683	775	(213)	88	(454)	(1,298)	968	(290)	(705)	242	(170)	(748)	
Other Employee Benefits	5,076	6,363	6,509	6,184	6,454	4,584	4,995	7,472	6,210	5,880	5,635	5,432	(81)	1,109	(299)	(304)	(819)	848	
Outside Services	15,636	15,175	13,094	12,123	12,104	22,311	15,180	15,440	13,244	12,133	14,113	22,070	(456)	265	150	10	2,009	(241)	
Rent and Leases	1,314	1,374	1,458	1,615	1,887	2,273	1,306	1,207	1,348	1,485	1,699	1,699	(8)	(167)	(110)	(130)	(188)	(574)	
Corporate Insurance	3,116	3,574	3,413	3,048	3,004	3,087	3,045	3,241	2,926	2,763	2,734	2,796	(71)	(333)	(487)	(285)	(270)	(291)	
Injuries and Damages	1,209	944	795	630	630	500	605	545	340	241	305	(185)	(604)	(399)	(455)	(389)	(325)	(685)	
Employee Expenses	1,109	1,046	1,163	1,142	1,295	1,305	1,405	1,450	1,553	1,465	1,376	1,264	296	404	390	323	81	(41)	
Company Memberships	347	345	249	292	262	256	295	250	293	262	249	313	(52)	(95)	44	(30)	(13)	57	
Utilities and Fuel Used in Company Operations	675	570	567	503	1,167	1,303	451	417	487	1,094	1,247	1,244	(224)	(153)	(80)	591	80	(59)	
Advertising	500	185	170	170	470	170	389	281	167	133	243	236	(111)	96	(3)	(37)	(227)	66	
Fleet	4,663	4,104	4,421	5,046	5,452	5,708	4,650	4,726	5,092	5,357	5,780	6,106	(13)	622	671	311	328	398	
Materials & Supplies	4,929	4,767	4,775	4,898	4,649	5,024	4,741	4,967	4,412	4,353	5,171	5,343	(188)	200	(363)	(546)	522	319	
Other O&M	(3,987)	(3,780)	(116)	(783)	60	(1,906)	(3,527)	(3,005)	157	(63)	31	512	460	774	272	720	(29)	2,418	
PUC, OCA, OSBA Fees	1,673	1,953	1,354	1,454	1,699	1,583	1,721	1,539	1,348	1,523	1,585	1,815	48	(413)	(5)	69	(114)	232	
NCSC Shared Services & NGD Shared Operations	31,889	38,399	37,740	39,742	44,597	47,962	34,023	36,457	38,899	40,164	43,374	50,760	2,134	(1,942)	1,159	422	(1,223)	2,798	
Amortization	82	75	(243)	(1,446)	(1,455)	185	82	0	(489)	(1,446)	(594)	185	(0)	(74)	(246)	(0)	861	-	
Lobbying (Amount Included in above Cost Elements)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operation and Maintenance Expense Before	95,231	106,443	106,498	99,407	108,941	121,516	95,892	106,766	113,356	101,209	111,952	127,057	661	324	6,858	1,802	3,011	5,542	