COLUMBIA STATEMENT NO. 4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	)	
vs.	)	Docket No. R-2015-2468056
Columbia Gas of Pennsylvania, Inc.	)	

DIRECT TESTIMONY OF
KELLEY K. MILLER
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

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

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I. Introduction

Q. Please state your name and business address.

A. Kelley K. Miller, 290 Nationwide Blvd, Columbus, Ohio 43215.

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

A. I am employed by NiSource Corporate Services Company ("NCSC"), as a Lead Regulatory Analyst.

Q. What are your responsibilities as a Lead Regulatory Analyst?

A. My primary responsibilities include providing support for regulatory filings for several NiSource operating companies, including, but not limited to, Columbia Gas of Pennsylvania, Inc. ("Columbia" or "the Company"), Columbia Gas of Maryland and Columbia Gas of Massachusetts. The types of filings include rate cases and various rate filings. My other regular duties include account reconciliations, assisting in the planning process, providing assistance, training and oversight to other regulatory analysts and other duties as assigned.

Q. What is your educational and professional background?

A. I graduated cum laude from Ohio Wesleyan University with a Bachelor's of Arts degree in Accounting and Economics with Management Concentration in 1985. I began my professional career with the Columbia Gas System in Columbus, Ohio in 1986, beginning in the Management Information Department as an Accountant. I was promoted to Senior Accountant in 1987 in the Consolidation Accounting Department of the Columbia Gas System in Wilmington, Delaware. In 1989, I was offered and accepted a promotion to the position of Lead Accountant for Columbia Gas of Ohio as a member of Columbia Distribution Company's Financial Accounting and Reporting Architecture Team. As a member of this team, I was responsible for acting as a liaison between the Accounting departments and the project team that designed and implemented new accounting systems including the General Ledger, Employee Time Reporting and Labor Account Distribution. I remained in this role until all new systems were implemented in 1993. At that time, I was assigned the role of Lead Accountant for first Columbia Gas of Maryland, and then Columbia Gas of Pennsylvania. Responsibilities in this role included, but were not limited to coordinating the monthly closing process; preparing journal entries, preparing financial statements and overseeing and preparing account reconciliations. I remained in this role until 1997, when I decided to leave the workforce to start a family. During the years from 1997 to 2009 I remained out of full-time employment. In October of 2009, I accepted the position of Regulatory Analyst for NCSC. In April 2011, I was promoted to Senior Regulatory Analyst and in March of 2012, I was promoted to my current position as Lead Regulatory Analyst.

Q. Have you ever testified before a regulatory Commission?

A. Yes, I was the Cost of Service witness for Columbia Gas of Pennsylvania, Docket No. R-2014-2406274.

II. Statement of Purpose

Q. Please describe the purpose of your testimony in this proceeding.

A. The purpose of my testimony is to present Columbia's cost of service and to quantify an existing revenue deficiency based on Twelve Months Ended December 31, 2016 operating costs and revenues, as adjusted. As part of the cost of service analysis, my testimony supports all rate making adjustments to Columbia's Cost of Service Operating and Maintenance ("O&M") expenses.

Q. Would you please provide a listing of the exhibits that you are sponsoring through your testimony?

A. Yes. For the historic test year, I am supporting Exhibit 1, Exhibit 2, Exhibit 4, and Exhibit 408. For the future test year and fully forecasted rate year, I am sponsoring Exhibit 101, Exhibit 102, Exhibit 104 (in coordination with Company witness Hanson), and Exhibit 414. All of these exhibits were either prepared by me or under my direct supervision and control.

Q. What test years will you be addressing in this testimony?

A. I will be addressing the twelve-month period ending November 30, 2014 as the "historic test year" or "HTY", the twelve-month period ending November 30, 2015 as the "future test year" or "FTY" and the twelve-month period ending December 31, 2016 as the "fully forecasted rate year" or "FFRY".

Q. What is the basis for Columbia's claim for revenue deficiency?

A. Columbia's revenue deficiency is calculated utilizing a rate year ending December 31, 2016 for rate base, revenues and expenses, with pro forma adjustments for known and measurable changes. This approach recognizes that a utility's revenues should be sufficient to recover the reasonably and prudently incurred costs of providing safe and reliable service to its customers, including a reasonable opportunity to earn a fair rate of return on the used and useful investment that the utility has devoted to such service.

Q. Would you please summarize the results of the cost of service requirement and resulting revenue deficiency?

A. As indicated on Exhibit 102, Schedule 3, Page 5, Columbia has a revenue deficiency of $46,172,483 based upon pro forma revenue requirement for the twelve months ending December 31, 2016. Columbia's computation of the revenue deficiency reflects total rate base of $1,325,130,928. In addition, the computation of the revenue deficiency reflects known and measurable changes to both utility operating income and rate base, which are explained later in my testimony and in the testimony of other Company witnesses.

Q. How is your following testimony organized?

A. I will first address the HTY, Exhibit 2 and Exhibit 4, followed by a discussion of the FTY and FFRY, Exhibit 102 and Exhibit 104.

III. HTY – Exhibit 2 – Statement of Income

Q. Please describe Exhibit 2, Schedule 3, Page 3.

A. This Exhibit is the statement of operating income, pro forma at present and proposed rates, for the HTY. Column 2 reflects the per book operating revenue, operating revenue deductions, income taxes and utility operating income for the Company for the twelve months ended November 30, 2014. These amounts have been adjusted to reflect pro forma operating income at HTY present rates in Column 4. Column 5 adjustments are detailed in Exhibit 2, Schedule 3, Page 6. Column 6 shows the resulting pro forma operating revenue, expenses and income for the HTY at proposed rates.

Q. Please describe the data inputs of Exhibit 2, Schedule 3, Page 3.

A. Operating revenues are supplied by Company witness Lai (Columbia Statement No. 3) and are included on lines 1 through 11. Witness Lai also provides the level of Gas Supply Expense and Off System Sales Expense that are included on lines 14 and 15. These two items are exactly offsetting to the level of revenue included in this case and accordingly do not impact the base rate claim in this case; rates for these items are determined in the Company's annual gas cost proceedings. I am supporting the Operating and Maintenance Expense level as presented on line 17. Lines 18 and 19, Depreciation and Amortization and Net Salvage Amortized are provided by Company witness Spanos (Columbia Statement No. 5). Taxes Other Than Income, Income Taxes and Investment Tax Credit, lines 20, 23 and 24 have been provided by Company witness Fischer (Columbia Statement No. 10), and Rate Base on line 26 has been provided by Company witness Paloney (Columbia Statement No. 6). The Percentage Rate of Return at Proposed Rates on Line 27, Column 6 is provided by Company witness Moul (Columbia Statement No. 8). Each witness' testimony provides detailed support for each of these items.

Q. Please describe Exhibit 2, Schedule 3, Pages 4 through 6.

A. Page 4 shows pro forma interest expense as calculated by multiplying the Rate Base shown in Exhibit 8 by the weighted cost of short and long term debt shown in Exhibit 400, Schedule 1, Page 1.

Exhibit 2, Schedule 3, Page 5 shows the derivation of the Revenue Conversion Factor on lines 8 through 17. The Revenue Conversion Factor is then utilized to determine the Gross Revenue Requirement.

Page 6 shows the calculated adjustments to pro forma expenses and income taxes to achieve the requested return on Rate Base of 8.14% shown on Exhibit 400 using the HTY data.

IV. <u>HTY – Exhibit 4 - Operation & Maintenance Expenses</u>

Q. What are Columbia's per books historic test year O&M Expenses?

A. In the HTY, Columbia recorded $157,859,589 in O&M expense exclusive of gas cost, as shown on Exhibit 4, Schedule 1, Page 2, Column 1. The O&M data is presented in a Cost Element format which provides a breakdown by cost causation.

Q. Did you make adjustments to the actual HTY O&M to reflect a pro forma HTY O&M expense level?

A. Yes. I have prepared pro forma O&M expenses for this filing. The historic test year level of O&M expense starts with O&M Expense per books, which was then normalized and annualized to determine the pro forma level of O&M Expense as summarized on Exhibit 4, Schedule 1, Page 2 and Column 5.

Q. What types of adjustments are you proposing to the O&M expense?

A. I propose the following ratemaking adjustments to the HTY, each of which will be explained in greater detail later on in my testimony:

a) The removal of Rate Case expense related to the Company's prior base rate proceeding;
b) The removal of all Polypipe related expenses and credits to expense;
c) Labor related adjustments to annualize normal payroll for employees as of the end of the HTY;
d) Incentive compensation has been adjusted;
e) Removal of the negative OPEB expense;
f) Annualization of building rents and leases;
g) Corporate insurance adjusted to latest known and measurable levels;
h) Injuries and Damages adjusted to reflect a five year average of cash payments;
i) Company Memberships adjusted to latest known and measurable level;

j) Removal of fuel used in company operations;

k) Advertising adjusted to remove non-recoverable items;

l) Adjust Commission fees to latest known and measurable level;

m) NiSource Corporate Services costs adjusted to annualize labor and incentive costs and remove non-recoverable items;

n) Adjust deferred OPEB refund amortization to reflect the annualized level;

o) Adjust NCSC OPEB amortization level to reflect the annualized level;

p) Remove NiFiT expenses which are included in the NiFiT amortization;

q) Adjust NiFiT amortization to reflect the annualized level;

r) Removal of lobbying expenses;

s) Removal of Charitable Contributions;

t) Normalization of rate case expense;

u) Adjust Uncollectible expense;

v) Adjust USP Rider expense to match revenue; and

w) Interest on customer deposits.

A. Rate Case Expense Removal

Exhibit 4: *Schedule 1, Page 2, Column 2; Schedule 2, Page 1.*

Q. Please provide a brief explanation of the adjustment to remove rate case expense.

A. The HTY included actual rate case expenses related to the Company's prior base rate proceeding, Docket No. R-2014-2406274. These expenses are removed, as rate case expense is included at a normalized level in Schedule 1, Page 2, Line 27 which is explained later in my testimony. The removal of these prior rate case costs is detailed in Column 2 as they impact several Cost Elements of O&M expense.

B. Removal of Polypipe

Exhibit 4: *Schedule, 1 Page 2, Column 3; Schedule 2, Page 2.*

Q. Please provide a brief explanation of the Polypipe adjustment.

A. In December 2012, the Company reached an agreement with a supplier of plastic pipe that had a manufacturing abnormality that reduced its intended service life. According to this agreement, the supplier will reimburse the Company for any costs associated with the remediation efforts. Both costs and reimbursement credits to expense should be removed from the Cost of Service for ratemaking purposes. This ratemaking practice is consistent with the removal of Polypipe related costs and reimbursement credits in Columbia's last two base rate cases. Since the HTY includes both remediation costs and credits to reimburse the Company for these costs, it is appropriate to remove both. This adjustment impacts two lines of O&M expense, which is why the removal of Polypipe is detailed in Column 3 on Exhibit 4, Schedule 1.

C. Labor

Exhibit 4: *Schedule 1, Page 2, Line 1; Schedule 2, Pages 3, 4 and 5.*

Q. Please provide a brief explanation of the labor adjustments.

A. Labor costs in the historic test year were adjusted to reflect the annualized gross base or normal wages of the 580 active Columbia employees as of November 2014. The difference, or annualization adjustment, was further adjusted to net O&M Expense by applying the labor capitalization ratio as provided on Exhibit No. 4, Schedule 2, Page 7. The resulting adjustment of $1,119,411 as calculated in Schedule 2, Page 3 is being added to the actual HTY labor expense level of $25,550,026 in Schedule 1, Page 2. Total Pro Forma HTY labor expense level is $26,669,437 as shown on Exhibit 4, Schedule 1, Page 2.

D. <u>Incentive Compensation</u>

Exhibit 4: *Schedule 1, Page 2, Line 2; Schedule 2, Page 6*

Q. Please provide an explanation of the historic test year incentive adjustment.

A. Columbia's historic test year per books incentive level of $1,963,563 was decreased by $254,672 to reflect the actual level of expense associated with incentive compensation paid in 2014. This adjustment removes any out of period true-ups for the prior year and adjusts the accrual made in the test year to the experienced pay out level at the claimed capitalization percentage. Detail supporting the historic test year adjustment is provided on Exhibit 4, Schedule 2, Page 6.

E. <u>OPEB – Other Post Employment Benefits</u>

Exhibit 4: *Schedule 1, Page 2, Line 4; Schedule 2, Page 8*

Q. Please describe the ratemaking adjustment for OPEB.

A. Per paragraphs Nos. 23 and 24 of the settlement agreement in the Company's last base rate case, Docket No. R-2014-2406274, the OPEB allowance in current rates is zero. Therefore, the adjustment removes the credit OPEB expense of $829,647 to reflect an adjusted expense level of $0, which matches the amount recovered in revenues. It is important to note that the OPEB credit amount is an accounting calculation, and the Company did not actually receive a credit payment.

F. <u>Rents and Leases</u>

Exhibit 4: *Schedule 1, Page 2, Lines 7&8; Schedule 2, Page 9*

Q. How were rents and leases adjusted for the historic test year?

A. Rents and leases were first separated into a) rents and leases related to buildings, and b) other rents and leases including communications equipment and lines, office machines and furnishings. Rents and leases attributable to contractual levels for buildings were annualized on Exhibit 4, Schedule 2, Page 9 for a total of $1,158,694. This amount was then reconciled with the per book test year level of $944,568. The resulting adjustment was $214,126. The remaining portion of rents and leases includes communications equipment and lines, office machines, and other items. The historic test year level related to these is $686,635 and remains unchanged.

G. <u>Corporate Insurance</u>

Exhibit 4: *Schedule 1, Page 2, Line 9; Schedule 2, Page 10*

Q. Please explain the Corporate Insurance adjustment for the historic test year.

A. Corporate insurance includes property insurance premiums, workers compensation premiums, and other miscellaneous premiums. The premium policies are primarily on a fiscal year ending June of each year. The historic adjustment annualizes at the monthly November 2014 premium level which mostly reflects premiums paid in mid-2014 with effective periods of July 1, 2014 to June 30, 2015. Detailed support for these adjustments has been provided on Exhibit 4, Schedule 2, Page 10.

H. Injuries and Damages

Exhibit 4: *Schedule 1, Page 2, Line 10; Schedule 2, Page 11*

Q. Was an adjustment made for injuries and damages?

A. Yes. The historic test year expense level for injury and damages of $413,698 represents an amount including both actual experience and adjustments to an injury and damages accrual account. An adjustment of $89,293 was made to represent a five (5) year average actual cash outlay experience in real dollars using a Gross Domestic Product ("GDP") Deflator. Detail supporting this adjustment is shown on Exhibit 4, Schedule 2, Page 11.

I. Company Memberships

Exhibit 4: *Schedule 1, Page 2, Line 12; Schedule 2, Page 12*

Q. Please explain the adjustments made for Company memberships.

A. The historic test year expense for company memberships has been adjusted for two items. The adjustment of $862 was made to remove expenses that were inadvertently included. The details of these adjustments are shown on Exhibit 4, Schedule 2, Page 12.

J. Utilities and Fuel Used in Company Operations

Exhibit 4: *Schedule 1, Page 2, Line 13; Schedule 2, Page 13*

Q. What does the historic test year $422,985 adjustment for Utilities and Fuel used in Company Operations represent?

A. This $422,985 decrease to total historic test year utilities and fuel used in company operations was made to recognize inclusion of this amount as both recovery of gas cost and gas purchase expense by witness Lai. Columbia includes the expenses associated with gas used in company operations when establishing its gas cost recovery rates. The purchased gas is recorded as system supply and then reclassified from gas purchase to O&M expense. Therefore, it is necessary to remove the amount above from O&M for the purposes of calculating base rates and appropriately show this same level of expense in gas purchase expense along with an offsetting gas recovery level. The remaining historic test year level of $800,909 represents other utility costs, such as electric, not recovered through the 1307(f) process.

K. Advertising

Exhibit 4: *Schedule 1, Page 2, Line 14; Schedule 2, Page 14*

Q. Was advertising adjusted?

A. Yes. Columbia has made an adjustment to remove the expense associated with its brand advertising campaigns. Please see Exhibit 4, Schedule 2, page 14 for details.

L. **<u>Commission, OCA, OSBA Assessments</u>**

Exhibit 4: *Schedule 1, Page 2, Line 18; Schedule 2, Page 15*

Q. Please explain the $333,405 adjustment to the historic test year expense.

A. The adjustment is needed to increase the historic test year expense to the most current invoice amount for Commission, Office of Consumer Advocate and Office of Small Business Advocate assessments. The normalized test year expense amount of $2,100,840 reflects the most recent invoice amount (September 23, 2014) received as of the submission of this base rate filing.

M. <u>NiSource Corporate Services Company ("NCSC")</u>

Exhibit 4: *Schedule 1, page 2, Lines 19 & 20; Schedule 2, pages 16-23*

Q. Please explain the structure and role of NCSC.

A. NCSC is a subsidiary of NiSource and an affiliate of Columbia within the NiSource corporate organization. NCSC provides a range of services to the individual operating companies within NiSource, including Columbia, and also coordinates the allocation and billing of charges to the NiSource operating companies for services provided by both NCSC directly and by third-party vendors. NCSC was established to provide centralized services economically and efficiently. The rendering of services on a centralized basis enables Columbia to realize substantial economic and other benefits including efficient use of personnel and equipment, and the availability of personnel with specialized areas of expertise.

Q. Is there a contract between Columbia and NCSC?

A. Yes. A copy of the most recent Service Agreement between NCSC and Columbia was filed with the Commission and approved by Order dated December 15, 2005. A copy of the Service Agreement ("2005 Agreement") is provided as Exhibit 4, Schedule 11, Attachment H. Other detailed information regarding NCSC is also provided as a part of Exhibit 4, Schedule 11.

Q. How are NCSC's costs billed to affiliates?

A. There are two types of billings made to affiliates, including Columbia: 1) contract billing; and 2) convenience billing. Contract billings are identified by job order and represent labor and expenses billed to the respective affiliate. Contract billed charges may be direct (billed directly to a single affiliate) or allocated (split between or among several affiliates), depending on the nature of the expense. Convenience billing reflects payments that are routinely made on behalf of affiliates on an ongoing basis, including employee benefits, corporate insurance, leasing, and external audit fees. Each affiliate is billed on a monthly basis for its proportional share of the payments made in that respective month. As the name implies, convenience billing is intended as a convenience to vendors because it eliminates the need for a separate invoice to be generated for each affiliate entity receiving the same services.

Q. How does NCSC determine charges applicable to Columbia?

A. NCSC was regulated by the SEC under the Public Utility Holding Company Act of 1935 until February 8, 2006, when the Public Utility Holding Company Act of 2005 ("PUHCA 2005") was enacted. PUHCA 2005 transferred regulatory jurisdiction over public utility holding companies from the SEC to FERC. Pursuant to FERC Order No. 684, issued October 19, 2006, centralized service companies (like NCSC) must use a cost accumulation system, provided such system supports the allocation of expenses to the services performed and readily identifies the source of the expense and the basis for the allocation. In compliance with PUHCA 2005 and FERC, NCSC uses a job order system to collect costs that are applicable and billable to affiliates, including Columbia. A job order assigns a 10-digit number to the project(s) involved and details how expenses are to be charged for the project(s). This is the same job order system that has been used by NCSC for many years. Specific projects undertaken by an affiliate are assigned by that affiliate to an existing job order or a new job order is created. Costs are recommended to be directly charged to a particular affiliate whenever possible. Some job orders necessarily involve more than one affiliate, and in that case, the job order details how expenses are allocated among participating affiliates.

Q. Please explain how costs assigned to a particular job order are allocated.

A. Allocations among affiliates are made only if it is impractical or inappropriate to charge an affiliate directly. Whenever a new job order is created, a decision is made cooperatively by the operating company and NCSC personnel about how costs assigned to that job order will be allocated among participating affiliates. Costs are then assigned using one of the Bases of Allocation or direct company codes. Unless a change occurs in the identity of the affiliates participating in a specific job order, costs that are assigned to the job order will be consistently billed by NCSC to its affiliates from that point forward because the job order Bases of Allocation remain the same over time.

Q. Please describe the controls in place to ensure that an affiliate is consistently and appropriately billed for a specific job order.

A. The job orders are maintained by the NCSC Accounting Department and, therefore, only a few individuals within NCSC Accounting can create or modify job orders. Each job order can be set up with only one Basis of Allocation and, in many cases, only one specific allocation code or direct company billing is set up for a particular job order, depending on which affiliate(s) benefit from the services. If an individual would attempt to use a different Basis of Allocation with a job order that was not selected at inception, the related accounting systems would prompt an immediate error and not allow data to be input. Allocation Bases are defined in the Service Agreements.

Q. Will NiFiT impact the accounting system used by NCSC?

A. Yes. Effective April 1, 2015, a new accounting system will be in place for NCSC as a part of the overall NiFiT project. The underlying functionality will remain the same; however, the mechanics of the accounting system will be updated.

Q. Has the FERC conducted an audit of NCSC, its billing system and allocation methodologies?

A. Yes. NiSource Inc., including NCSC, underwent a FERC audit, Docket No. FA11-5-000, which covered the period January 1, 2009, through December 31, 2010. The Final Audit Report was issued by the FERC on October 24, 2012. As indicated in the Final Report, the Audit Staff reviewed and tested the supporting details for NCSC's cost allocation methods. They then sampled and selected supporting documents to ensure that NCSC's billings and accounting comply within the USOA (Uniform System of Accounts). FERC did not issue any adverse comments to NCSC related to its allocation methods.

Q. Has the Company changed the way it is presenting the costs associated with NCSC?

A. Yes. The Company has decided to breakout the costs associated with NCSC into two distinct categories: Shared Services and Shared NGD Operations.

Q. Why has the Company decided to provide this breakout?

A. The Company has decided to provide this breakout in order to provide an additional level of detail that recognizes that NCSC has two major categories of services that are provided to the Operating Companies at NiSource.

Q. Please explain NCSC – Shared Services.

A. The first category of Shared Services includes costs associated with the more traditional services that are provided by a service company, such as Accounting and Finance, Legal Services, Real Estate and Facilities, Information Technology, Human Resources and Supply Chain.

Q. Please explain NCSC – Shared NGD Operations.

A. The second category of Shared NGD Operations includes costs that are typically operational in nature or specialized, but because these groups serve all of NiSource's Gas Distribution companies, they are now a part of NCSC. These groups provide services such as Engineering, Pipeline Safety & Compliance, Technical Training, Rates and Regulatory Support, Call Center, Sales and Marketing, Gas Control etc.

Q. Are you sponsoring the adjustments made on Exhibit 4, Schedule 1, Page 2 to NCSC – Shared Services?

A. Yes. The following adjustments have been made to NCSC - Shared Services charges for ratemaking purposes for the HTY and are summarized on Exhibit 4, Schedule 2, Page 16:

a) Adjustment to Incentive Compensation for actual incentive compensation paid in 2014;
b) Annualization of Labor, Payroll Taxes & Benefits;
c) Removal of "Phantom Stock";
d) Removal of Non-recoverable Items and Non-recurring Items.

Q. Please provide a brief overview of Page 16.

A. Page 16, line 1 states the gross NCSC – Shared Services charges in the HTY. A portion of these costs are recorded to non-O&M accounts (primarily capitalized in Account 107 Construction Work in Progress for support of the infrastructure investments). Line 2 details the charges transferred to balance sheet or non-utility expenses. The HTY O&M costs generated from NCSC – Shared Services billings is $31,221,141.

Q. Please explain the various adjustments made to the actual HTY O&M costs.

A. Continuing on Exhibit No. 4, Schedule No. 2, Page 16, Lines 4 through 15 reflect adjustments made to the actual HTY O&M expense as follows:

Line 4 – Adjusts the NCSC – Shared Services Incentive Compensation to the level paid in 2014 using the latest percentage of NCSC loaded labor charges to Columbia. This calculation is detailed on Page 17.

Line 5 - Annualizes gross NCSC – Shared Services labor, payroll taxes and benefits as detailed on Page 18, net NCSC – Shared Services labor, payroll taxes and benefits adjustment is determined by applying the percentage of NCSC – Shared Services labor charged to O&M and derived on Exhibit 4 Schedule 2 Page 17 Line 14.

Lines 7 – 12 – Non-Recoverable Items that were included in the HTY are removed in the pro forma HTY expense claim.

Line 13 – Non-recurring items that were included in the HTY are removed from the pro forma HTY expense claim.

Q. Are you sponsoring the adjustments made on Exhibit 4, Schedule 1, Page 2 to NCSC – Shared NGD Operations?

A. Yes. The following adjustments have been made to NCSC – Shared NGD Operations charges for ratemaking purposes for the HTY and are summarized on Exhibit 4, Schedule 2, Page 20:

a) Adjustment to Incentive Compensation for actual incentive compensation paid in 2014;
b) Annualization of Labor, Payroll Taxes & Benefits;
c) Removal of Non-recoverable Items and Non-recurring Items.

Q. Please provide a brief overview of Page 20.

A. Page 20, line 1 states the gross NCSC – NGD Shared Operations charges in the HTY. A portion of these costs are recorded to non-O&M accounts (primarily capitalized in Account 107 Construction Work in Progress for support of the infrastructure investments). Line 2 details the charges transferred to balance sheet or non-utility expenses. The HTY O&M costs generated from NCSC – NGD Shared Operations billings is $18,915,049.

Q. Please explain the various adjustments made to the actual HTY O&M costs.

A. Continuing on Exhibit No. 4, Schedule No. 2, Page 20, Lines 4 through 14 reflect adjustments made to the actual HTY O&M expense as follows:

Line 4 – Adjusts the NCSC – NGD Shared Operations Incentive Compensation to the level paid in 2014 using the latest percentage of NCSC loaded labor charges to Columbia. This calculation is detailed on Page 21.

Line 5 - Annualizes gross NCSC – NGD Shared Operations labor, payroll taxes and benefits as detailed on Page 22, net NCSC – NGD Shared Operations labor, payroll taxes and benefits adjustment is determined by applying the percentage of NCSC – NGD Shared Operations labor charged to O&M and derived on Exhibit 4 Schedule 2 Page 21 Line 14.

Lines 6 – 11 – Non-Recoverable Items that were included in the HTY are removed in the pro forma HTY expense claim.

Line 12 – Non-recurring items that were included in the HTY are removed from the pro forma HTY expense claim.

N. <u>Deferred OPEB Refund Amortization</u>

Exhibit 4: *Schedule 1. Page 2, Line 21; Schedule 2, Page 24*

Q. Has the HTY been adjusted to reflect the appropriate amount of deferred OPEB refund amortization?

A. Yes. According to the Settlement in the Company's prior base rate proceeding, Docket No. R-2012-2321748, the Company was to reflect a two year amortization of pre-July 1 deferred OPEB amounts totaling $607,393, or $303,697 annually. The details of this adjustment are found on Exhibit 4, Schedule 2, Page 24. Note that the

FTY reflects an 18 month amortization period starting January 1, 2015 according to the Settlement in the Company's 2014 rate case, Docket No. R-2014-2406274.

O. NCSC OPEB Amortization

Exhibit 4: *Schedule 1, Page 2, Line 20; Schedule 2, Page 20*

Q. Has the HTY been adjusted to reflect the appropriate amount of NCSC OPEB amortization?

A. Yes. According to the Settlement in the Company's prior base rate proceeding, Docket No. R-2014-2406274, the Company is permitted to amortize the regulatory asset of $903,131 associated with the transition of NCSC from a cash to accrual basis for OPEBs, over a ten year period, or $90,313 annually. Exhibit 4, Schedule 2, Page 25 shows that no adjustment is required as the HTY correctly reflects the annualized level of amortization expense of $90,313.

P. NiFiT Expense

Exhibit 4: *Schedule 1, Page 2, Line 23; Schedule 2, Page 26*

Q. Please explain the adjustment to NiFiT Expense.

A. Per the Settlement approved at Docket No. R-2012-2321748, Columbia was allowed amortization recovery of the estimated non-labor NiFiT expenses over a four year period. Upon approval of the settlement by the Commission, Columbia reversed all non-labor NiFiT expenses to date and recorded a regulatory asset. In January 2014, Columbia reached the maximum amount of the allowed deferral according to the

Settlement; all further billings of this nature were expensed. Per the Settlement approved in Docket No. R-2014-2406274, the total amount of estimated non-labor expenses that could be deferred and amortized was increased. Exhibit 4, Schedule 2, Page 26 identifies the amount of non-labor NiFiT expense that needs to be deferred for (and removed from) the HTY.

Q. <u>NiFiT Amortization</u>

Exhibit 4: *Schedule 1, Page 2, Line 24; Schedule 2, Page 27*

Q. Please explain the NiFiT Amortization adjustment.

A. According to the Settlement in the Company's prior base rate proceeding, Docket No. R-2014-2406274, the Company is permitted to defer and amortize over a five year period, non-company labor start-up costs of the new financial software of $2,029,202, which was the estimated remaining level of non-labor expense. NiFiT Amortization has been adjusted to this new level of $405,840. Please see Exhibit 4, Schedule 2, Page 27 for the details of this adjustment.

R. <u>Lobbying Expense</u>

Exhibit 4: *Schedule 1, Page 2, Line 25; Schedule 2, Page 28*

Q. Please describe the lobbying expense adjustment.

A. An adjustment has been made for the removal of lobbying expenses related to labor as well as other O&M cost drivers. As such, this adjustment has not been categorized by cost driver but instead is shown as a stand-alone line item on Exhibit

4, Schedule 1, Page 2, Line 25. Detail for this adjustment is provided on Exhibit 4, Schedule 2, Page 28.

S. Charitable Contributions

Exhibit 4: *Schedule 1, Page 2, Line 26; Schedule 2, Page 29*

Q. How were charitable contributions treated as a cost of service item?

A. Charitable contributions are normally booked below the line in a non-utility account and are not a part of Columbia's claim as a cost of service item. Please see Exhibit 4, Schedule 2, page 29 for the details of removing any contributions that were inadvertently booked above the line.

T. Rate Case Expense Normalization

Exhibit 4: *Schedule 1, Page 2, Line 27; Schedule 2, Page 30*

Q. Has the Company included a normalized level of rate case expense in its HTY Cost of Service?

A. Yes. The approved rates from the Company's last rate case include an amount for recovery of rate case expenses. As explained previously, actual rate case expense from the Company's prior rate case has been removed from pro forma HTY expense. I have included a normalized level of rate case expense based on the proposed rate case expense normalization included in this current case as determined on Exhibit 104, Schedule 2, and Page 21.

U. Uncollectible Accounts Expense

Q. Please explain Columbia's claim for recovery of uncollectible accounts expense.

A. Two major categories of uncollectible accounts have been recorded historically and have been represented in the development of cost of service support. These two categories are "normal" (or non-CAP) uncollectible accounts and Customer Assistance Program ("CAP") uncollectible accounts.

Normal uncollectible accounts expense has been developed on Exhibit 4, Schedule 2, Page 31 for the historic test year. The CAP uncollectible accounts expense has been developed on Exhibit 4, Schedule 2, Page 33 for the historic test year.

V. Normal Uncollectible Accounts

(Uncollectible Accounts & Uncollectible Accounts – Unbundled gas)

Exhibit 4: *Schedule 1, Page 2, Line 28 & 29; Schedule 2, Pages 31 – 33*

Q. Please explain the development of the historic test year normal uncollectible accounts expense.

A. Exhibit 4, Schedule 2, pages 31 through 33 set forth the development of a percentage for uncollectible accounts related to normal charge offs recovered through base rates. The schedules also calculate a three year average write off for large volume customers.

The write off percentage for charge offs related to normal customers recovered through base rates is calculated based on comparing the three-year average of write-offs for normal uncollectible accounts expense to billed revenue. Several adjustments to billed revenue are necessary to develop the write off percentage. First, account write-offs lag billed revenue by approximately 120 days or 4 months. This lag in days includes consideration for the time between original billing and an account being placed into final status, as well as consideration for the average time between an account being placed into final status and termination of service, which is when the account is written-off. I have used billed revenue for the twelve months ended July of each year to appropriately reflect the lag (4 months) between the billing and write-off of accounts.

Additionally, I have provided on Page 32, the average write-off rate for Residential customers as well as the combined write-off rate for Commercial and Industrial customers. This information was utilized by Company witness Lai in the development of the Merchant Function Charge.

Q. What other adjustments have been made to billed revenue?

A. Columbia's Distributive Information System ("DIS") billing system is used to bill all residential and small business accounts and, therefore, includes revenues applicable to CAP customer accounts. Line 2 of Page 31, titled as, "Total DIS Billed Revenue," has been adjusted to remove the revenue associated with Columbia's CAP (Page 31, Line 3), as CAP uncollectibles are accounted for separately. Line 4 of Page 31 represents Adjusted DIS Billed Revenue that relates to the net write-offs as shown on Line 9 of Page 31.

Q. How were the net write-offs shown on Line 9 developed?

A. The net write-offs shown on Line 9 of Page 31 represent the summation of gross charge-offs and recoveries for all customers billed through DIS.

Q. How are the adjusted billed revenue and net write-off amounts used in the development of normal uncollectibles?

A. The three years of adjusted revenue is added together to generate the total revenue as shown on Line 4. Similarly, a three year total is developed for net write-offs. An uncollectible rate is then calculated by dividing the total net write-off by the total adjusted revenue. This rate, which is shown on line 10, is then applied to the annualized DIS revenue as provided by witness Lai for the historic test year. The result is Columbia's adjusted historic test year normal uncollectibles for DIS billed customers, line 16.

Q. Does this fully describe all adjustments made to the historic test year normal uncollectible expense?

A. No. DIS is one of three billing systems used to bill revenue related to normal uncollectible write-offs. The other billing systems, the Gas Transportation System ("GTS") and Gas Measurement Billing ("GMB"), are used to bill larger customers including chart read customers, daily read customers, customers with multiple rate components, and non-CHOICE transportation customers. A three year average net write-off was developed for uncollectible accounts related to these larger customers. Columbia did not include these write-off amounts in the calculation of a net write-off rate, as was done for DIS billed accounts, because larger customer write-offs occur infrequently, but can produce disproportionate write-off amounts when they do occur, as can be seen in the three-year experience write offs for this type of customer.

Q. Please summarize Columbia's proposed normal historic test year uncollectible accounts expense adjustments.

A. The historic normal uncollectible adjustment is a decrease to expense of $335,673 as shown on Exhibit 4, Schedule 1, Page 2, Lines 28 and 29. This amount has been developed by comparing an annualized DIS, GTS, and GMB net write-off as described above and comparing that to the normal uncollectible expense level as recorded in Columbia's test year ending November 30, 2014.

W. <u>Rider USP Costs</u>

(Uncollectible CAP – Rider USP & Rider USP – LIURP/Energy Efficiency)

Exhibit 4: *Schedule 1, Page 2, Line 30; Schedule 2, Page 34*

Q. Are you sponsoring an adjustment for Rider USP costs as well?

A. Yes. Rider USP adjustments have been made to the historic test year as shown on Exhibit 4, Schedule 2, Page 34.

Q. Please explain the test year adjustments.

A. The adjustments are a result of the matching of expenses to revenue, as Rider USP is a fully reconciled mechanism. As calculated in Exhibit 3, Page 10, Rider USP revenues are $28,799,344 for the normalized historic test year. Consequently, the various adjustments reflect changes that are necessary to match the expense with the revenues as determined by Company witness Lai. As a result, the Rider USP net impact to operating income is zero with the expense offsetting revenues. Therefore, Rider USP costs do not impact the base rate increase requested in this case.

X. Interest on Customer Deposits

Exhibit 4: *Schedule 1, Page 2, Line 31; Schedule 2, Page 31*

Q. Please explain the adjustment for Interest on Customer Deposits.

A. An adjustment for interest on customer deposits is necessary to recognize the expense related to interest recorded on customer deposits not included in Operation and Maintenance Expense on the books and records of Columbia. Customer deposits are considered a source of capital in Columbia's rate base for this case and, as such, reduce rate base. This adjustment is made to recognize the expense related to this source of capital. The adjustment reflects the 3% interest rate on customer deposits established under Chapter 14 of the Public Utility Code applied to the average customer deposit balance. No further adjustment is made to this item for either the future test year or the fully forecasted rate year, because the Company has made no projection of changes to the balance of customer deposits.

V. FTY/FFRY – Exhibit 102 – Statement of Income

Q. Is Exhibit 102 presented in the same format as Exhibit 2?

A. Yes. Exhibit 102, Schedule 3 is a Statement of Income based on FTY, FFRY and Proposed Rates. Exhibit 102, Schedule 3, Page 3 as referenced earlier in my testimony when describing Exhibit 2, Schedule 3, Page 3, utilizes data that has been provided by other witnesses in this case to determine a revenue requirement. This Exhibit begins with the FTY at present rates in Column 2 and the FFRY in Column 4. Adjustments in Column 5 are then made to determine the FFRY at proposed rates in Column 6. Column 5 shows the revenue requirement of $46,172,483 necessary to achieve a reasonable opportunity to earn a fair rate of return. The various exhibits in support of the adjustments at present and proposed rates are identified in Columns 1 and 3.

Q. Please explain Exhibit 102, Schedule 3, Page 4.

A. This page calculates synchronized interest expense based upon the FTY rate base multiplied by the weighted cost of debt in Lines 1 through 4 and similarly based on the FFRY year rate base multiplied by the weighted cost of debt in Lines 5 through 8.

Q. Please explain Page 5 of Exhibit 102, Schedule 3.

A. This page presents the calculation of the required revenue increase of $46,172,483 using the revenue conversion factor. The revenue conversion factor accounts for additional normal uncollectible expense of $602,992 generated by Columbia's requested increase in revenues as calculated on page 6 of Exhibit 102 as well as additional Late Payments Fees of $113,901, which is calculated by first determining an experience rate of Late Payments Fees at Present Rates. This is done by dividing the amount of total Late Payment Fees on Exhibit 102, Schedule 3, Page 3, Column 4, Line 11 by Total Sales and Transportation Revenues on Exhibit 102, Schedule 3, Page 3, Column 4, Line 9. This experience factor is then applied to the Additional Revenue Requirement on Line 1 of Exhibit 102, Schedule 3, Page 6 to determine the additional Late Payment Fees.

The effective State Income Tax rate has been recalculated and reflects differences in the tax net operating loss positions.

VI. FTY/FFRY – Exhibit 104 – Operations and Maintenance Expense

Q. Did you utilize a budget-based methodology to determine O&M Expense for the FTY and the FFRY as Columbia has done in the prior base rate proceeding?

A. Yes. The future test year and fully forecasted rate year levels of O&M expense begin with the budget as supplied and supported by Company witness Hanson (Columbia Statement No. 9). A month by month presentation can be found on Exhibit 104, Schedule 1, Pages 5 and 6. Ratemaking adjustments have been made to normalize and annualize the budget to arrive at Pro Forma O&M Expenses.

Q. Have you made modifications to the Exhibit 104 as directed by settlement paragraph 37 of Docket No. R-2014-2406274, which states:

> In all future base rate cases, whether the Company uses a "build-up" or "budget-based" filing format, the schedules for O&M as detailed on Columbia Exhibit No. 104 shall display differences between the pro forma Historic Test Year ("HTY") and Future Test Year ("FTY") amounts, as well as the differences between the FTY and FPFTY amounts.

A. Yes. Exhibit 104, Schedule 1 has been expanded to a total of six pages and provides a clear distinction between "Budget Adjustments" and "Ratemaking Adjustments" for both the FTY and the FFRY. Company witness Hanson is supporting all budget adjustments, while I am supporting all ratemaking adjustments.

Q. Please provide a brief description of each of the 6 pages of Exhibit 104, Schedule 1.

A. Page 1 references pages 2 – 6 of the Exhibit.

Page 2 is the summary view of Operations and Maintenance Expense for all test years in this case. Column 1 presents the Normalized HTY, Column 3 presents the Normalized FTY and Column 5 presents the Normalized FFRY. Columns 2 and 4 provide both the budget adjustments and the rate making adjustments that adjust the HTY to the FTY and the FTY to the FFRY.

Pages 3 and 4 are formatted in a similar manner. Page 3 contains details for the FTY; while page 4 contains the details for the FFRY. Page 3 starts with the Normalized HTY in column 1, followed by the Budget Adjustments & References (Columns 2 and 3) that adjust from the Normalized HTY to the Budgeted FTY (Column 4) which is supported by Company witness Hanson. Columns 5 and 6 provide Rate Making Adjustments and References followed by the Normalized FTY (Column 7). Similarly, Page 4 provides the details for the FFRY, starting with the Normalized FTY (Column 1; from page 3) followed by the Budget Adjustments & References (Columns 2 and 3) that adjust from the Normalized FTY to the Budgeted FFRY (Column 4) which is also supported by Company witness Hanson. Columns 5 and 6 provide Rate Making Adjustments and References followed by the Normalized FFRY (Column 7).

Pages 5 and 6 provide the monthly Budget Data for FTY (Page 5) and FFRY (Page 6); supported by witness Hanson.

Q. Did you utilize the O&M budget for all the O&M items on Exhibit No. 104?

A. No. Lines 1 through 24 on Exhibit No. 104, Schedule No. 1, Column 4, Pages 3 and 4 reflect the O&M budget data used in the FTY and FFRY periods. The O&M budget data was not utilized for the cost items noted on Lines 26 through 31 of these same pages. These items include:

- Line 26 – Rate Case Expense – the amounts reflect normalized costs associated with the current case that should be included in the revenue requirement in this case.
- Lines 27– Uncollectible Accounts – the uncollectible expense is reflective of the standard practice of using a 3 year average of charge-off experience of FTY and FFRY revenues as provided by Company witness Lai.
- Lines 28 & 29 – Uncollectible Accounts – Unbundled & Total Rider USP – the amounts are adjusted to reflect the amounts included in revenues as provided by Company witness Lai.
- Line 30 – Interest on Customer Deposits – this item is not included in the O&M budget.
- Line 31 – Other Adjustments – these items were not identified in time to be included in the O&M budget that was used as the starting point for the FFRY period.

Q. What types of adjustments are you proposing to O&M expense for the FTY and FFRY?

A. I propose the following ratemaking adjustments to determine Pro Forma O&M Expense for the FTY and FFRY, which will be explained in detail later on in my testimony:

a) Annualization of Company Labor;
b) Adjust Pension expense to reflect a two year average of cash contributions;
c) Removal of the negative OPEB expense;
d) Adjustment to remove Polypipe credit;
e) Annualization of building rents and leases;
f) Injuries and Damages adjusted to reflect HTY plus inflation;
g) Removal of fuel used in company operations;
h) Advertising adjusted to a normalized level of recoverable expense;
i) NCSC costs adjusted to annualize labor and remove non-recoverable items;
j) Adjust deferred OPEB refund amortization to reflect the annualized level;
k) Remove NiFiT expenses which are included in the NiFiT amortization;
l) Adjust NiFiT amortization to reflect the annualized level;
m) Removal of lobbying expenses;
n) Normalization of rate case expense;
o) Adjust Uncollectible expense;
p) Adjust Rider USP expense to match revenue;

q) Other Adjustments to the FFRY.

A. Labor

Exhibit 104: *Schedule 1, Page 2, Line 1; Schedule 2, Pages 1*

Q. Please provide a brief explanation of the labor adjustments.

A. Columbia has determined annualization adjustments for the FTY of $328,201 and for the FFRY of $297,299. These adjustments are for normal pay increases only and reflect an O&M percentage of 57.21% which is the same percentage as used in the Budget for items that have been adjusted from gross amounts to net O&M expense.

B. Pension Expense

Exhibit 104: *Schedule 1, Page 2, Line 3; Schedule 2, Page 2*

Q. What is the basis for the Company's qualified Pension claim?

A. The Company's claim for the qualified pension expense is based on Pension Contributions made by the Company to the Pension trust. Specifically, the gross claim is based on a two year average of the gross Pension contributions. These gross amounts are then adjusted to expense based on the O&M percentage rate.

Q. Please explain the calculation of the future test year qualified pension adjustment.

A. Columbia's future test year expense was adjusted to reflect the average annual contributions using a 2-year average ending November 30, 2015 – Exhibit No. 104, Schedule No. 2, Page 2, Line 5. Further, Line 7 calculates the net portion charged to

O&M. An adjustment is determined when compared to the amount included in the budget, Line 8. Included in the 2-year average are projected pension contributions as provided by AON Hewitt and provided on Exhibit 104, Schedule 2, Page 3.

Q. Please explain the calculation of the fully forecasted rate year qualified pension adjustment.

A. Columbia's fully forecasted rate year expense was adjusted to reflect the average annual contributions using a 2 year average ending December 31, 2016 – Exhibit No. 104, Schedule No. 2, Page 2, Line 14. Further, Line 16 calculates the net portion charged to O&M. An adjustment is determined when compared to the amount included in the budget, Line 17. Included in the 2 year average are projected pension contributions as provided by AON Hewitt and provided on Exhibit 104, Schedule 2, Page 3.

C. <u>OPEB – Other Post Employment Benefits</u>

Exhibit 104: *Schedule 1, Page 2, Line 4; Schedule 2, Page 4*

Q. Please explain the ratemaking for OPEB Expense as approved in the Company's last rate case.

A. Provision Nos. 23 and 24 of the settlement agreement of the Company's last base rate case address this subject by stating:

> 23. As established in the settlement of Columbia's base rate proceeding at R-2012-2321748, Columbia will be permitted to continue to defer the difference between the

> annual OPEB expense calculated pursuant to FASB Accounting Standards Codification ("ASC") 715, Compensation – Retirement Benefits (SFAS No. 106) and the annual OPEB expense allowance in rates of $0. Only those amounts attributable to operation and maintenance would be deferred and recognized as a regulatory asset or liability. To the extent the cumulative balance recorded reflects a regulatory asset, such amount will be collected from customers in the next rate proceeding over a period to be determined in that rate proceeding. To the extent the cumulative balance recorded reflects a regulatory liability, there will be no amortization of the (non-cash) negative expense, and the cumulative balance will continue to be maintained.
>
> 24. Commencing with the effective date of rates, Columbia will deposit amounts in the OPEB trusts when the cumulative gross annual accruals calculated by its actuary pursuant to ASC 715 are greater than $0. If annual amounts deposited into OPEB trusts, pursuant to this Settlement, exceed allowable income tax deduction limits, any income taxes paid will be recorded as negative deferred income taxes, to be added to rate base in future proceedings.

Q. Is the Company proposing a change to these provisions?

A. No. The cumulative OPEB expense at the end of the HTY is less than zero and the expected on-going OPEB expense continues to reflect credit expense. Therefore, the Company proposes to continue using this ratemaking treatment for OPEB expense.

Q. Do the ratemaking adjustments for OPEB Expense as presented on Exhibit 104, Schedule 2, Page 4 comply with the provisions as listed above?

A. Yes, the FTY and FFRY adjustments remove from the budgets the credit OPEB expense of $780,000 and $853,000, respectively to reflect an adjusted expense level of $0. I emphasize that these credit amounts are not projected cash receipts, but just accounting credits.

D. Outside Services - Polypipe Adjustment

Exhibit 104: *Schedule 1, Page 2, Line 6; Schedule 2, Page 5*

Q. Were outside service expenses adjusted for ratemaking?

A. Yes. As explained earlier in this testimony, all costs and reimbursements related to the Polypipe issue should be removed for ratemaking purposes. The budget for the FTY includes a Polypipe credit to expense which has been removed in the amount of $551,000. The FFRY O&M budget has no costs or credits related to this issue, and thus no adjustment is necessary.

E. Rents and Leases

Exhibit 104: *Schedule 1, Page 2, Line 7; Schedule 2, Page 6*

Q. Please explain the adjustment to rents and leases for the FTY and FFRY.

A. Known changes to building leases were included on Exhibit 104, Schedule 2, Page 6 resulting in an increase of $177,833 for the FTY claim and an increase of $214,395 for the FFRY claim. Please see Company witness Hanson's testimony for more detail regarding rents and leases.

F. Injuries and Damages

Exhibit 104: *Schedule 1, Page 2, Line 9; Schedule 2, Page 7*

Q. Was an adjustment made for injuries and damages?

A. Yes. The FTY and FFRY expense levels for injury and damages were adjusted to reflect the pro forma HTY claim of $413,698 plus applicable inflationary adjustments. As stated earlier in my testimony, the pro forma HTY claim reflects the average claim payments for the five years ending November, 30, 2014.

G. Utilities and Gas Used in Company Operations

Exhibit 104: *Schedule 1, Page 2, Line 12; Schedule 2, Page 8*

Q. Please explain the adjustment for Gas Used in Company Operations.

A. The FTY and FFRY O&M budget amounts include costs associated with Gas Used in Company Operations. In a manner similar to what was done in the HTY pro forma adjustments, an adjustment is also needed to eliminate these costs in the FTY and FFRY periods. The adjustments were calculated using the HTY adjustment level plus an inflationary adjustment.

H. Advertising

Exhibit 104: *Schedule 1, Page 2, Line 13; Schedule 2, Page 9*

Q. Please explain the adjustment for Advertising.

A. The FTY and FFRY O&M budget amounts are not prepared at a level that identify the specific types of advertising. The HTY advertising included a portion of non-recoverable advertising, so for the future periods I have made adjustments to include a representative level of recoverable advertising. In a manner similar to the adjustment for Injuries and Damages, the pro forma level of HTY Recoverable Advertising was adjusted for inflation and included as the Advertising claim for the FTY and FFRY periods. This includes making significant reductions to the levels of advertising expense in the Budget for both periods.

I. NiSource Corporate Services Company "NCSC"

Exhibit 104: *Schedule 1, Page 2, Lines 18 & 19; Schedule 2, Pages 10 - 15*

Q. Are you sponsoring any ratemaking adjustments to NCSC for the FTY and FFRY?

A. Yes. In a manner similar to the HTY, NCSC Budget and Ratemaking has been broken out into two categories of Expense: NCSC – Shared Services and NCSC – Shared NGD Operations. Exhibit 104, Schedule 2, Page 10 summarizes the ratemaking adjustments to NCSC – Shared Services for the FTY and FFRY; ratemaking adjustments for NCSC – Shared NGD Operations are summarized on page 13. Note that on Page 10 the Budgeted amounts for "Phantom Stock" have been removed from NCSC – Shared Services. NCSC – Shared NGD Operations Budgeted amounts do not include any claims for "Phantom Stock."

I have made adjustments to annualize labor and to remove non-recoverable items for both future periods. Pages 11 and 14 provide the details for the determination of adjustments to annualize labor; the annualization is similar to the HTY adjustment in that I am using the last month of the test period as the basis for the annualization. Since these adjustments were based upon gross amounts, I have utilized the HTY percentages of NCSC Charges to Labor to determine the net adjustments for both periods.

Pages 12 and 15 determine the adjustments for the removal of non-recoverable items. These adjustments are based upon the HTY level of expense, plus incremental adjustments that are produced by using inflation factors.

J. OPEB Deferral Passback Amortization Adjustment

Exhibit 104: *Schedule 1, Page 2, Line 20; Schedule 2, Page 16*

Q. Please explain the level of OPEB Deferral Passback Amortization in the FTY claim.

A. The FTY amortization has been adjusted to reflect the actual amortization as stated in the settlement agreement in the last base rate case, Docket No. R-2014-2406274.

Q. Please explain the level of OPEB Deferred Passback Amortization in the FFRY claim.

A. The FFRY proposed claim is based upon an estimated OPEB deferral balance at January 1, 2016 (the commencement of the FFRY period) and a proposed amortization period of 12 months to continue the passback of these costs. The estimated January 1, 2016 balance of ($114,640) is calculated on Line 12 of Exhibit 104, Schedule 2, page 16.

K. NiFiT Expense Adjustment

Exhibit 104: *Schedule 1, Page 2, Line 22; Schedule 2, Page 17*

Q. What is included in the NiFiT Non-Labor Expense on Line 21?

A. The Company has deferred NiFiT Non-Labor expenses based on the amount stated in the Settlement of the Company's last rate case. However, $42,000 remains in expense in the FTY. I have removed the $42,000 from the FTY.

L. <u>NiFiT Non-Labor Amortization Adjustment</u>

Exhibit 104: *Schedule 1, Page 2, Line 23; Schedule 2, Pages 18 and 19*

Q. What is the adjustment to the FTY for NiFiT Non-Labor Amortization?

A. The FTY expense has been adjusted to reflect the actual amortization for this item as it was stated in the last rate case order; $2,029,202 over a five year period or $405,840.

Q. Does the Company propose to revise the amortization for the FFRY period?

A. Yes. The Company proposes to adjust the amortization to reflect the new estimated NiFiT Non-Labor cost of $2,318,622, which includes actual data through December 2014. The proposed annual amortization of $420,255 is calculated on Page 18 of Exhibit 104, Schedule 2 and provides for the recovery of the new estimate, less the amortization through December 2015. The Company is proposing that this new unamortized amount of $1,260,764 be amortized over three years. The three-year period is recommended as the requested annual amortization is slightly less than the annual amortization as approved in the last case.

M. Lobbying Expense

Exhibit 104: *Schedule 1, Page 2, Line 24; Schedule 2, Page 20*

Q. Please describe the lobbying expense adjustment.

A. An adjustment has been made for the removal of lobbying expenses. The FTY and FFRY adjustments are based upon the HTY level of expense adjusted for inflation.

N. Normalization – Rate Case Expenses

Exhibit 104: *Schedule 1, Page 2, Line 26; Schedule 2, Page 21*

Q. Has Columbia included an adjustment for rate case expense?

A. Yes. Exhibit 104, Schedule 2, Page 21 sets forth the Company's claim for rate case expenses. The estimated expenses for this rate case reflects costs to be incurred for Columbia's cost of capital witness, depreciation witness, outside counsel, and incremental costs associated with legal notices, employee expenses and duplicating. The entire rate case expense included for normalization is $1,030,000. Columbia proposes to normalize these costs over 12 months.

O. Normal Uncollectible Accounts Expense

(Uncollectible Accounts & Uncollectible Accounts – Unbundled gas)

Exhibit 104: *Schedule 1, Page 2, Line 27 & 28; Schedule 2, Page 22*

Q. Please explain the FTY and FFRY claim for normal uncollectible accounts expense.

A. I have utilized the Uncollectible Accounts Average Write-off Rate as developed on Exhibit 4, Schedule 2, Page 31 which represents a three year average experience of net write-offs as a percentage of billed DIS revenues. This rate is applied to annualized FTY/FFRY DIS revenues after adjusting for CAP revenue, to arrive at Total DIS Uncollectible Accounts Expense for the FTY and FFRY.

Q. Has Columbia reflected the unbundling of uncollectibles related to gas costs?

A. Yes. Columbia has identified a portion of the normal uncollectibles that will be collected through the Merchant Function Charge.

Q. What amount is attributed to the uncollectibles related to gas costs?

A. Columbia has identified $1,752,694 in the FFRY expenses associated with the unbundling of uncollectibles related to gas costs. This amount is included in the O&M expense claim and is offset by the same amount of revenues in Exhibit 103 as developed by witness Lai. As a result, the net impact to operating income is zero and does not impact the base rate increase requested in this case. Please refer to Exhibit 104, Schedule 2, Page 22 for details.

P. Total Rider USP Costs

Exhibit 104: *Schedule 1, Page 2, Line 29; Schedule 2, Page 23*

Q. Please explain the test year adjustments.

A. The adjustments reflected in Exhibit 104 are a result of the matching of expenses to revenue, as Rider USP is a fully reconciled mechanism. As calculated in Exhibit 103, Rider USP revenues at present rates are $27,740,348 for the FTY and $27,644,938 for the FFRY. As a result, the Rider USP net impact to operating income is zero with the expense offsetting present rate revenues. Therefore, Rider USP costs do not impact the base rate increase requested in this case. Ms. Lai computes the increase to Rider USP resulting from the proposed rate increase.

Q. Other Adjustments to the FFRY

Exhibit 104: *Schedule 1, Page 2, Line 31; Schedule 2, Page 24*

Q. Are there any other adjustments to O&M Expense that impact Columbia's claim in this case?

A. Yes, Exhibit 104, Schedule 2, Page 24 summarizes the following two additional adjustments totaling $147,648:

- Rider Customer Choice (Rider CC) Adjustment; and
- Emergency Repairs Program Adjustment.

These adjustments are being sponsored by Company witness Krajovic, and details about these adjustments can be found in her testimony.

Q. Why was a 12 month amortization / normalization period used for certain Exhibit 104 items?

A. I have utilized a 12 month amortization period for OPEB Deferral Passback Amortization and a 12 month normalization period for Rate Case Expense because the Company anticipates annual rate filings for the foreseeable future. I note that these amortization periods also align with the remaining Tax Refund Amortization as supported by Company witness Fischer.

Q. Does this complete your direct testimony?

A. Yes, it does.