

I. Introduction

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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. Are you the same Kelley K. Miller that filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to:

- Provide an updated revenue requirement deficiency of \$45,572,790; which incorporates adjustments provided by all rebuttal company witnesses. This update is labeled as Exhibit KKM-1R;
- Provide a brief explanation of each item that contributed to the changes to the Company’s revenue requirement;
- Respond to comments made by Mr. Keller, witness for the Bureau of Investigation and Enforcement (“I&E”) regarding rate case expense and injuries and damages;

- 1 • Respond to claims made against annualizing labor and rents & leases made
- 2 by Mr. Morgan, witness for the Office of Consumer Advocate (“OCA”); and
- 3 • Identify an error in Rate of Return utilized by Mr. Keller, witness for I&E
- 4 when determining his recommended revenue requirement deficiency.

5

6 **II. Exhibit KKM-1R, Updated Revenue Requirement**

7 **Q. Have you determined a revised revenue requirement deficiency?**

8 **A.** Yes, Exhibit KKM-1R reflects an updated Exhibit 102, Schedule 3 and computes a
9 revised revenue requirement deficiency of \$45,572,790. This deficiency is noted on
10 Line 13.

11 **Q. Can you provide a summary of items that the Company is adjusting that**
12 **impact the revenue requirement?**

13 **A.** Yes, below is a listing of each adjustment:

- 14 1. Witness Lai has provided to me a revised Exhibit 103, which changes Exhibit 102,
15 Schedule 3, Page 3, Column 4:
 - 16 a. Line 2, Base Rate Revenues by \$288,409,
 - 17 b. Line 3, Fuel Revenues by \$331,851,
 - 18 c. Line 4, Rider USP by \$77,865,
 - 19 d. Line 5, Gas Procurement Charge by \$4,281
 - 20 e. Line 6, Merchant Function Charge by \$5,454 and
 - 21 f. Line 7, Rider CC by \$54.

- 1 2. Witness Lai's revised Exhibit 103 also changes the expenses for Gas Supply and
2 Rider USP within Operations and Maintenance "O&M":
3 a. Line 15, Gas Supply Expenses by \$331,851 and
4 b. Line 18, O&M Expenses by \$77,865
5 3. Witness Hanson has provided an adjustment of (\$76,200) to O&M Expenses
6 relating to rents and leases,
7 4. Witness Paloney has provided a Rate Base adjustment of \$126,310,
8 5. Witness Moul has provided a revised % Rate of Return Earned on Rate Base of
9 8.12%; and
10 6. Witness Spanos has provided an adjustment of \$32,580 to Amortization
11 Expense.

12 **Q. Is the Company proposing any additional changes impacting the**
13 **revenue requirement deficiency and Exhibit 102?**

14 **A.** Yes. The adjustments listed above, when worked through the Company's Cost of
15 Service Model, result in updated amounts for Interest Expense, Return on Rate
16 Base, Uncollectible Expense on Additional Revenue Requirement and Income
17 Taxes.

18
19 **III. Rate Case Expense and Injuries & Damages**

20 **Q. I&E witness Keller recommends a 15 month normalization period for**
21 **rate case expenses versus the 12 month normalization period utilized**

1 **by the Company, do you agree?**

2 **A.** No. The Company utilized a 12 month period for normalizing rate case expense
3 because Columbia is now filing annual rate cases and it anticipates filing annual
4 rate cases in the near future. Therefore, a 12 month normalization period is
5 appropriate.

6 **Q. Have you reviewed witness Keller's recommendation for determining**
7 **Injuries & Damages ("I&D") expense?**

8 **A.** Yes.

9 **Q. Do you agree with his recommended approach to determining expenses**
10 **for I&D?**

11 **A.** No. Witness Keller employs the Company's exact same method of determining I&D
12 based upon actual cash payments, with one exception. Witness Keller arbitrarily
13 selected a three year average to determine Injuries & Damages expense versus a five
14 year average which was used by the Company. The effect is to remove a year where
15 the Company experienced a higher level of cash payouts for I&D claims.

16 **Q. Has the Company utilized a five year average for I&D in prior base rate**
17 **proceedings?**

18 **A.** Yes. The Company has utilized the same 5 year average of cash payments method,
19 which has not been opposed by I&E, in the Company's last four base rate
20 proceedings.

21 **Q. Is it appropriate to select a different time period to normalize, simply to**

1 **produce a lower result?**

2 **A.** No. Columbia has consistently used a five year average of actual I&D payments. It
3 is not reasonable to now select a different period to calculate the normalized level
4 simply to produce a lower outcome.

5 **Q. Has OCA Witness Morgan recommended a different method of**
6 **determining I&D?**

7 **A.** Yes. Witness Morgan proposes to use an average based upon five years of data,
8 excluding the highest and lowest experienced years. He also includes actual
9 payments, without consideration for inflation over the years.

10 **Q. Is Witness Morgan's recommended approach consistent with the**
11 **current method that was utilized and unopposed by all parties in the**
12 **Company's last four base rate proceedings?**

13 **A.** No it is not. Mr. Morgan's method is quite different than the current method and
14 suggests eliminating the use of Average GDP Deflators to restate expenses at
15 current levels, eliminating the highest of the five years and the lowest of the five
16 years to arrive at a modified historical three year average and eliminating the use of
17 inflation factors to arrive at an appropriate level for the FFRY.

18 **Q. What is the basis for Mr. Morgan's recommended change in method?**

19 **A.** Mr. Morgan rejects the current method as he believes that it "escalates the costs to a
20 level not representative of the level of expense recorded by the company". He also
21 states that the inclusion of I&D payments in twelve months ended November 2010

1 in the average would “skew the average upwards”.

2 **Q. Do you agree with witness Morgan’s recommended change in method**
3 **of determining I&D?**

4 **A.** No. The Company has utilized a 5 year average of claims paid so that the
5 fluctuations that do occur in I&D claims are normalized for ratemaking. The use of
6 the 5 year average is primarily due to some years having more or less than other
7 years. The removal of the highest or lowest year in a 5 year average is counter to the
8 reason the 5 year average is utilized. The approach is inherently unfair to
9 Columbia, regardless of whether the highest year is the first year or the last year of
10 the five year period, it would always be excluded. As a result, Columbia would be
11 denied a reasonable opportunity to recover experienced I&D costs. Also, his
12 rejection of using the price deflator and inflation factors doesn’t reflect costs at the
13 2016 level.

14 **Q. Mr. Morgan asserts that the Company uses five years, excluding high**
15 **and low amounts, to derive its I&E amount for book purposes. Is this a**
16 **basis for adopting his method?**

17 **A.** No. The Company uses accrual accounting for book purposes. That is, the
18 Company books an amount to an accrual account for reserve, and charges actual
19 I&D payments against the reserve. The Commission does not generally use accruals
20 for I&D expense, but actual payments, as accruals can be influenced by the amount
21 of a reserve the Company desires to maintain. Thus, the methodology used to

1 derive an accrual should not be used to develop the ratemaking expense.
2

3 **IV. Annualizing Labor Expense and**
4 **Rents & Leases Expense**

5 **Q. Do you agree with Witness Morgan's opinion expressed on pages 6, 13**
6 **and 14 of OCA Statement No. 1 regarding annualizing labor expenses**
7 **and page 19 of OCA Statement No. 1 regarding rents and leases?**

8 **A.** No. Annualizing expense is a normal ratemaking adjustment and is permitted by
9 Act 11. Witness Paloney is addressing Act 11 and the use of a FFRY in her rebuttal
10 testimony. Witness Hanson provides further testimony regarding rents and leases.
11

12 **V. I&E Rate of Return Used to Determine**

13 **Recommended Revenue Requirement**

14 **Q. Do you believe that Witness Keller made an error when utilizing**
15 **Witness Mauer's recommended Rate of Return?**

16 **A.** Yes. Witness Mauer recommended an overall rate of return of 7.19%, while Witness
17 Keller used a Rate of Return 7.18%.

18 **Q. What was the impact of this error on I&E's recommended revenue**
19 **requirement deficiency?**

20 **A.** I&E's revenue deficiency is understated by approximately \$220,000 due to this
21 error.

1 **Q. Does this complete your rebuttal testimony?**

2 **A.** Yes, it does.

Columbia Gas of Pennsylvania, Inc.
Statement of Income at Present and Proposed Rates
FTY = Future Test Year TME 11/30/15, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2016

Line No.	Description	FTY		FFRY			FFRY @ Proposed Rates
		Reference	Test Year	Reference	Test Year	Adjustments	
		(1)	(2)	(3)	(4)	(5)	(6)
			\$		\$	\$	\$
1	Operation Revenues						
2	Base Rate Revenues (Incl. Transportation)	Exhibit 103	309,906,700	Exhibit 103	311,042,312	43,198,821	354,241,133
3	Fuel Revenues	Exhibit 103	190,779,525	Exhibit 103	190,811,611	0	190,811,611
4	Rider USP	Exhibit 103	27,740,348	Exhibit 103	27,722,803	3,068,410	30,791,213
5	Gas Procurement Charge	Exhibit 103	2,327,294	Exhibit 103	2,327,248	(1,771,388)	555,860
6	Merchant Function Charge	Exhibit 103	1,758,148	Exhibit 103	1,758,148	0	1,758,148
7	Rider CC	Exhibit 103	41,846	Exhibit 103	41,954	4,663	46,617
8	Rider CAC	Exhibit 103	0	Exhibit 103	0	960,011	960,011
9	Total Sales and Transportation Revenue				533,704,076	45,460,517	579,164,593
10	Off System Sales Revenue	Exhibit 103	0	Exhibit 103	0	0	0
11	Late Payment Fees	Exhibit 103	1,317,006	Exhibit 103	1,318,074	112,273	1,430,347
12	Other Operating Revenues (Excl. Transportation)	Exhibit 103	584,914	Exhibit 103	584,914	0	584,914
13	Total Operating Revenues		534,455,781		535,607,064	45,572,790	581,179,854
			0				
14	Operating Revenue Deductions						
15	Gas Supply Expense	Exhibit 103	190,779,525	Exhibit 103	190,811,611	0	190,811,611
16	Off System Sales Expense	Exhibit 103	0	Exhibit 103	0	0	0
17	Gas Used in Company Operations		0		0	0	0
18	Operating and Maintenance Expense	Exhibit 104, Sch 1, Pg 2, Col 3	168,507,133	Exhibit 104, Sch 1, Pg 2, Col 6	177,301,481	595,161	177,896,641
19	Depreciation and Amortization	Exhibit 105	45,489,569	Exhibit 105	50,148,566	0	50,148,566
20	Net Salvage Amortized	Exhibit 105	4,540,655	Exhibit 105	4,635,342	0	4,635,342
21	Taxes Other Than Income Taxes	Exhibit 106	3,242,771	Exhibit 106	3,221,085	0	3,221,085
22	Total Operating Revenue Deductions		412,559,653		426,118,084	595,161	426,713,245
23	Operating Income Before Income Taxes		121,896,128		109,488,980	44,977,629	154,466,609
24	Income Taxes	Exhibit 107	35,161,896	Exhibit 107	29,429,355	17,786,606	47,215,961
25	Investment Tax Credit	Exhibit 107	(360,240)	Exhibit 107	(360,240)	0	(360,240)
26	Operating Income		87,094,472		80,419,865	27,191,023	107,610,888
27	Rate Base	Exhibit 108	1,182,458,138	Exhibit 108	1,325,257,238	0	1,325,257,238
28	% Rate of Return Earned on Rate Base		7.37%		6.07%		8.12%

Exhibit No. 102
Schedule 3
Page 4 of 6
Witness: K. K. Miller

Columbia Gas of Pennsylvania, Inc.
Calculation of Proforma Interest Expense
FTY = Future Test Year TME 11/30/15, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2016

<u>Line No.</u>	<u>Description</u>	<u>Pro Forma</u> (1) \$
	<u>FTY Calculation</u>	
1	Rate Base	1,182,458,138
2	Weighted Cost of Short &	
3	Long Term Debt	<u>2.400%</u>
4	Interest Expense	<u><u>28,378,995</u></u>
	<u>FFRY Calculation</u>	
5	Rate Base	1,325,257,238
6	Weighted Cost of Short &	
7	Long Term Debt	<u>2.400%</u>
8	Interest Expense	<u><u>31,806,174</u></u>

Exhibit No. 102
Schedule 3
Page 5 of 6
Witness: K. K. Miller

Columbia Gas of Pennsylvania, Inc.
Rate of Return on Rate Base
Proposed Revenue Requirement

FTY = Future Test Year TME 11/30/15, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2016

Line No.	Acct. No.	Description	Detail	Amount
				(1)
				\$
1		Proforma Rate Base at Present Rates		1,325,257,238
2		Return on Rate Base		8.120%
3		Total Requirement		107,610,888
4		Less: Net Operating Income at Present Rates		<u>80,419,865</u>
5		Net Required		27,191,023
6		Revenue Conversion Factor		<u>1.67602336</u>
7		Gross Revenue Requirement		<u><u>45,572,790</u></u>
8		Revenue Conversion Factor:		
9		Operating Revenue		1.00000000
10		Less: Uncollectibles		0.01305956
11		Plus: Late Payments		0.00246967
12		Income Before State Taxes		0.98941011
13		State Income Tax Effect Tax Rate		0.07225156
14		Less: State Income Tax		0.07148642
15		Income Before Federal Taxes		0.91792369
16		Less: Federal Tax @ 35%		<u>0.32127329</u>
17		Adjusted Operating Income		0.59665040
18		Revenue Conversion Factor		1.67602336

Exhibit No. 102
Schedule 3
Page 6 of 6
Witness: K. K. Miller

Columbia Gas of Pennsylvania, Inc.
Additional Revenue Requirement Adjustments
FTY = Future Test Year TME 11/30/15, FFRY = Fully Forecasted Rate Year Period Ended December 31, 2016

Line No.	Acct. No.	Description	Amount
			(1) \$
1		Additional Revenue Requirement	45,460,517
2	Plus:	Late Payments	112,273
3		Total Revenue Requirement	<u>45,572,790</u>
4	Less:	Uncollectible Accounts Expense	
5		Line 3 X Uncollectible Rate	<u>595,161</u>
6		Income Before State Income Tax	44,977,629
7		State Income Taxes	
8		Exh 107, Pg 17, Col 3 Less Exh 107, Pg 17, Col 2	<u>3,145,286</u>
9		Income Before Federal Income Tax	41,832,343
10		Federal Income Taxes	
11		Line 9 Times 35%	<u>14,641,320</u>
12		Operating Income	<u><u>27,191,023</u></u>