

**I&E Statement No. 1**  
**Witness: D. C. Patel**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**COLUMBIA GAS OF PENNSYLVANIA, INC.**

**Docket No. R-2018-2647577**

**Direct Testimony**

**of**

**D. C. Patel**

**Bureau of Investigation and Enforcement**

**Concerning:**

**OPERATING AND MAINTENANCE EXPENSES**

## TABLE OF CONTENTS

|                                      |    |
|--------------------------------------|----|
| SUMMARY OF I&E OVERALL POSITION..... | 4  |
| RATE CASE EXPENSE.....               | 5  |
| LABOR EXPENSE.....                   | 8  |
| OTHER EMPLOYEE BENEFITS.....         | 15 |
| INCENTIVE COMPENSATION.....          | 19 |
| FICA TAXES.....                      | 22 |
| NCSC - SHARED SERVICES.....          | 24 |
| NCSC - SHARED OPERATIONS.....        | 28 |
| INJURIES AND DAMAGES.....            | 30 |
| CORPORATE INSURANCE.....             | 32 |
| PUC, OCA, OSBA FEES.....             | 34 |
| PENSION DEFERRAL AMORTIZATION.....   | 35 |
| HARDSHIP FUND.....                   | 41 |
| FEDERAL INCOME TAXES.....            | 50 |

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is D. C. Patel, and my business address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Pennsylvania Public Utility Commission (Commission or PUC) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

**Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND?**

An outline of my education and employment background is set forth in the attached Appendix A.

**Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

A. I&E is responsible for representing the public interest in proceedings before the Commission. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to review the base rate filing of Columbia Gas of Pennsylvania, Inc. (Columbia or Company) and make recommended adjustments to the Company's proposed operating and maintenance (O&M) expenses for the fully projected future test year (FPFTY) ending December 31, 2019.

**Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

**Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.**

A. The following table summarizes my recommended adjustments:

|  | <b>Company Claim</b> | <b>I&amp;E Recommended Allowance</b> | <b>I&amp;E Adjustment</b>   |
|--|----------------------|--------------------------------------|-----------------------------|
| Rate Case Expense                        | \$1,060,000          | \$795,000                            | (\$265,000)                 |
| Labor Expense                            | \$32,917,256         | \$31,589,502                         | (\$1,327,754)               |
| Other Employee Benefits                  | \$6,951,000          | \$6,678,770                          | (\$272,230)                 |
| Incentive Compensation                   | \$2,214,000          | \$1,897,675                          | (\$316,325)                 |
| Payroll/FICA Taxes                       | \$2,598,027          | \$2,476,444                          | (\$121,583)                 |
| NCSC - Shared Services                   | \$39,380,343         | \$37,663,567                         | (\$1,716,776)               |
| NCSC - Shared Operations                 | \$27,311,762         | \$27,234,202                         | (\$77,560)                  |
| Injuries & Damages                       | \$352,959            | \$327,797                            | (\$25,162)                  |
| Corporate Insurance                      | \$3,614,000          | \$3,494,000                          | (\$120,000)                 |
| PUC, OCA, OSBA Fees                      | \$2,420,000          | \$2,248,344                          | (\$171,656)                 |
| Pension Deferral Amortization            | \$2,816,591          | \$0                                  | (\$2,816,591)               |
| <b>Total O&amp;M Expense Adjustments</b> |                      |                                      | <b><u>(\$7,230,637)</u></b> |

**Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS PROCEEDING?**

A. The Company used the twelve months ended November 30, 2017 as the historic test year (HTY), the twelve months ending November 30, 2018 as the future test year (FTY), and the twelve months ending December 31, 2019 as the FPFTY in this rate case proceeding.

**Q. HAS THE COMMISSION ADOPTED RULES AND REGULATIONS REGARDING THE USE OF A FPFTY?**

A. No. At this time, the Commission has not adopted any rules or regulations or issued any guidance regarding the use of a FPFTY in base rate case filings by regulated utilities. Pursuant to the Commission's Final Implementation Order at Docket No. M-2012-2293611 addressing Act 11 (Order Entered August 2, 2012); the Commission initiated a separate proceeding at Docket No. L-2012-2317273 for adopting rules and regulations for the use of a FPFTY in accordance with 66 Pa. C. S. §315 (relating to burden of proof), and this proceeding is ongoing.

**Q. HAVE YOU MADE ANY RECOMMENDED ADJUSTMENTS TO THE COMPANY'S CLAIM FOR FPFTY ANNUALIZATION OF EXPENSES?**

A. Yes. As discussed below, I have recommended disallowance of the Company's proposed annualization of FPFTY expenses, mainly labor expense. My proposed

removal of annualization adjustment serves to provide a more accurate portrayal of the twelve months of expenses to be incurred in the FPFTY.

**SUMMARY OF I&E OVERALL POSITION**

**Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT?**

A. I&E's total recommended revenue requirement for the Company is \$580,207,521. This recommended revenue requirement represents an increase of \$7,392,679 to the I&E-adjusted present rate revenues of \$572,814,842. This total recommended allowable increase incorporates my adjustments made in this testimony and those made in the testimonies of I&E witnesses Christopher M. Henkel (I&E Statement No. 2) and Ethan Cline (I&E Statement No. 3).

A calculation of the I&E recommended revenue requirement is shown below:

| <b>Columbia Gas of PA Inc.</b> | <b>TABLE I</b>        |                             |               |            |               |
|--------------------------------|-----------------------|-----------------------------|---------------|------------|---------------|
| <b>R-2018-2647577</b>          | <b>INCOME SUMMARY</b> |                             |               |            |               |
|                                |                       |                             |               |            |               |
|                                | 12/31/19              | INVESTIGATION & ENFORCEMENT |               |            |               |
|                                | Proforma              | [-----]                     |               |            |               |
|                                | Present Rates         | Adjustments                 | Present Rates | Allowances | Proposed      |
|                                | \$                    | \$                          | \$            | \$         | \$            |
| Operating Revenue              | 575,348,119           | -2,533,277                  | 572,814,842   | 7,392,679  | 580,207,521   |
| Deductions:                    |                       |                             |               |            |               |
| O&M Expenses                   | 354,524,192           | -7,109,054                  | 347,415,138   | 88,013     | 347,503,151   |
| Depreciation                   | 77,301,908            | -4,585,187                  | 72,716,721    |            | 72,716,721    |
| Taxes, Other                   | 3,456,803             | -121,583                    | 3,335,220     | 0          | 3,335,220     |
| Income Taxes:                  |                       |                             |               |            |               |
| Current State                  | 96,242                | 762,538                     | 858,780       | 437,549    | 1,296,329     |
| Current Federal                | 19,608,843            | 2,513,201                   | 22,122,044    | 1,442,095  | 23,564,139    |
| Deferred Taxes                 | 10,162                | 0                           | 10,162        |            | 10,162        |
| ITC                            | -299,568              | 0                           | -299,568      |            | -299,568      |
| Total Deductions               | 454,698,582           | -8,540,085                  | 446,158,497   | 1,967,657  | 448,126,154   |
| Income Available               | 120,649,537           | 6,006,808                   | 126,656,345   | 5,425,022  | 132,081,367   |
| Measure of Value               | 1,899,052,483         | -128,524,778                | 1,770,527,705 | 0          | 1,770,527,705 |
| Rate of Return                 | 6.35%                 |                             | 7.15%         |            | 7.46%         |

### **RATE CASE EXPENSE**

**Q. BRIEFLY EXPLAIN THE NATURE AND TYPES OF EXPENDITURES TYPICALLY ALLOWED AS A PART OF A REGULATED UTILITY'S OVERALL RATE CASE EXPENSE.**

A. The nature and types of individual expenditures that comprise a utility's allowable claim for rate case expense are those directly incurred to compile, present, and defend a utility's request for a base rate increase before the Commission. The

actual expenditures and estimated costs typically found in an allowable rate case expense claim include legal fees for outside counsel, outside consultants, and the cost of printing, document assembly, and postage.

**Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE CASE EXPENSE FOR RATEMAKING PURPOSES?**

A. The Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. The Commission has also cited the importance of considering the involved utility's history regarding the frequency of rate case filings as an essential element in determining the normalized level of rate case expense for ratemaking purposes.

**Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?**

A. The frequency is determined by computing the average number of months between the filing dates of the utility's previous rate cases.

**Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?**

A. The Company's projected total rate case expense of \$1,060,000 is normalized over 12 months, resulting in an annual rate case expense claim of \$1,060,000 (Columbia Exhibit No. 104, Schedule 1, p. 4 and Schedule 2, p. 20).

**Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?**

A. The Company's claim is based on estimated expenses for this case that reflects costs to be incurred for the cost of its capital witness, depreciation witness, outside counsel, and incremental costs associated with legal notices, employee expenses and duplicating. The Company proposes to normalize the entire rate case expense over 12 months (Columbia Statement No. 4, p. 41).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.

**Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

A. I recommend that the Company's rate case expense be normalized over a period of 16 months resulting in an annual expense of \$795,000 ( $(\$1,060,000 \div 16 \text{ months}) \times 12 \text{ months}$ ), or a reduction of \$265,000 ( $\$1,060,000 - \$795,000$ ) to the Company's claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. I disagree with the Company's claimed 12-month normalization period, as it is not supported by the Company's historic filing frequency. The proposed normalization period fails to properly rely upon historic data, and the Company did not provide support for a 12-month normalization period. As such, the proposed normalization period should be rejected.

In contrast to the Company’s claimed 12-month normalization period, I recommend a 16-month normalization period. The normalization period of 16 months is a reasonable interval given the Company’s actual base rate filing history over the most recent four base rate cases. Based on the following data, the Company has an average historic base rate case filing frequency of every 16 months when considering base rate cases filed since 2014:

| <b>Docket No.</b> | <b>Date Filed</b> | <b>Filing Interval</b> |
|-------------------|-------------------|------------------------|
| R-2018-2647577    | March 16, 2018    | 24 months              |
| R-2016-2529660    | March 18, 2016    | 12 months              |
| R-2015-2468056    | March 19, 2015    | 12 months              |
| R-2014-2406274    | March 21, 2014    |                        |

Using the Company’s three most recent base rate case filing dates, the average interval is 16 months ((24 mo. + 12 mo. + 12 mo.) ÷ 3 intervals). The Company’s requested 12-month recovery period is not supported by its historic filing record. Thus, a 12-month normalization period should be rejected, as it would result in an unreasonable increase in rates.

**LABOR EXPENSE**

**Q. WHAT IS INCLUDED IN THE COMPANY’S CLAIM FOR LABOR EXPENSE?**

A. The Company’s labor claim includes annualized gross wages for regular payroll, overtime, premium pay, and net affiliate labor transferred (Columbia SDR

GAS-RR-026, Attachment A). Per the Company's response to I&E-RE-54-D, the Company has expensed and capitalized portions of its labor and related expenses in the FPFTY claim by applying a labor capitalization ratio of 43.70% (I&E Exhibit No. 1, Schedule 1).

**Q. WHAT IS THE COMPANY'S CLAIM FOR LABOR EXPENSE?**

A. The Company's FPFTY claim in its filing for labor expense is \$32,917,256 (Columbia Exhibit No. 104, Schedule 1, p. 4 and SDR-GAS-RR-026, Attachment A).

**Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company started with its HTY labor expense for 664 employees and made budget adjustments and ratemaking adjustments for determining FTY and FPFTY labor expense (Columbia Statement No. 4, p. 9). The budget and ratemaking adjustments relate to budgeted merit pay increases, projected increases in payroll expense for additional employees, and annualization of merit pay increases in the FTY and FPFTY periods (Columbia Statement No. 10, pp. 8-9; Exhibit No. 104, Schedule 2, p. 1 and Schedule 10, pp. 1-2; and SDR-GAS-RR-026, Attachment A).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.



**Q. WHAT DO YOU RECOMMEND?**

A. I recommend an allowance of \$31,589,502 for labor expense, or a reduction of \$1,327,754 (\$32,917,256 - \$31,589,502) to the Company's claim. My recommendation is based on following three adjustments, which are discussed herein below:

1. Stock Awards;
2. Annualization Adjustment; and
3. Employee Vacancy Adjustment.

**Stock Awards:**

**Q. WHAT IS THE COMPANY'S CLAIM FOR ALLOCATED STOCK AWARDS?**

A. In response to I&E-RE-17-D (B) (2), the Company stated that the allocated stock awards expense of \$97,639 (I&E Exhibit No. 1, Schedule 2, p. 2) is included in the FPFTY labor expense claim of \$32,917,256 for its direct employees shown in Columbia Exhibit 104, Schedule 1, p. 4.

**Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The stock awards are determined by employees' eligibility and performance criteria laid out in NiSource Inc. - 2010 Omnibus Incentive Plan (Columbia SDR-GAS-RR-027, Attachment A).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.

**Q. WHAT DO YOU RECOMMEND?**

A. I recommend disallowance of the Company's entire claim of \$97,639 for the allocated stock awards expense that is included in the FPFTY labor expense claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. This type of benefit is typically tied to earnings targets and interests of the Company's stockholders and is unrelated to the provision of safe and reliable service. Ratepayers should not be responsible for paying a benefit available only to certain high-level executive-type positions that is based on earnings targets rather than goals that benefit ratepayers. Therefore, I recommend disallowance of this expense claimed under labor expense.

**Annualization Adjustment**

**Q. EXPLAIN THE ANNUALIZATION ADJUSTMENT.**

A. The Company's FPFTY labor expense claim includes a budgeted adjustment for merit pay increases to become effective in different months throughout the FPFTY, and it also includes a ratemaking annualization adjustment for including a full year's pay increase in the 12-month period.

**Q. WHAT IS THE COMPANY'S CLAIM FOR THE PAY INCREASE ANNUALIZATION?**

A. The Company claimed a ratemaking adjustment of \$446,256 for pay increase annualization in the FPFTY (Columbia Exhibit 104; Schedule 1, p. 4; and Schedule 2, p. 1). However, in its discovery response to I&E-RE-09-D (D), the Company stated that there was a calculation error in its adjustment amount, and the correct annualization adjustment amount is \$454,635 (I&E Exhibit No. 1, Schedule 3, pp. 2). However, the Company did not change or correct its total payroll expense claim in its revenue requirement calculation.

**Q. DO YOU AGREE WITH THE COMPANY'S AS-FILED OR THE UPDATED PAY INCREASE ANNUALIZATION ADJUSTMENT?**

A. No.

**Q. WHAT DO YOU RECOMMEND?**

A. I recommend disallowance of the Company's entire as-filed claim of \$446,256 for the pay increase annualization adjustment as included in the FPFTY labor expense claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. By annualizing pay increases, the Company is claiming the full labor expense that would occur if the variably occurring pay increases all occurred on day one of the FPFTY. A revenue requirement calculated on this basis would recover, dollar-for-dollar, an expense level for labor expense that will never be reached in the FPFTY. Thus, the pay increase annualization adjustment would result in an unfair and unreasonable burden on ratepayers by establishing an expense recovery in its revenue requirement that is not reflective of actual FPFTY expenses.

### **Employee Vacancy Adjustment**

**Q. WHAT IS THE EMPLOYEE VACANCY ADJUSTMENT?**

Normally, companies have a certain level of employee vacancies on a day-to-day operating basis due to retirements, resignations, transfers, layoffs, etc., that are unpredictable. Such vacancies will yield an annual savings in the Company's payroll and benefit costs that need to be reflected for ratemaking.

**Q. EXPLAIN HOW YOU CALCULATED THE NORMAL EMPLOYEE VACANCY RATE.**

A. My recommended payroll and benefits expense reduction is based on 28 employee vacancies at the average payroll and benefits cost per employee. I reviewed the Company's history of monthly vacant positions for the fiscal years 2015, 2016, and 2017 relative to the actual monthly employees' count for the fiscal years 2015,

2016, 2017, and 2018 provided in the Company's response to I&E-RE-11-D (A) and (C), Attachment A and B (I&E Exhibit No. 1, Schedule 4, pp. 3-4). For each month of the last three years, I calculated the vacancy rate (percentage) by dividing the actual employee vacancies by the employee count, which I then averaged to determine annual vacancy rates for the fiscal years 2015, 2016, and 2017. The average annual vacancy rate for each of those three years is calculated at 4.13%  $((4.64\% + 3.63\% + 4.11\%) \div 3)$  (I&E Exhibit No. 1, Schedule 4, p. 6), which was then applied to the FPFTY total budgeted positions of 682 as provided in the Company's filing, SDR-GAS-RR-26, Attachment A. The result yields average vacancies of 28 positions  $(682 \times 0.0413)$ . Multiplying the 28 vacancies times the average payroll and benefit costs produces my recommended adjustment.

**Q. WHAT IS THE BASIS FOR A VACANCY ADJUSTMENT?**

A. As stated in previous paragraph, a certain level of vacancies due to normal retirements, resignations, transfers, layoffs, etc., exists on a day-to-day operating basis. It is, therefore, unreasonable to assume that the Company will maintain 100% full staffing in the FPFTY. Based on its own historic vacancy records for fiscal years 2015 through 2017, the Company experienced an average monthly vacancy rate of 4.13%. There will always be search and placement time involved in filling employee vacancies as per the Company's vacancy-filling or hiring procedures described in the Company's response to I&E-RE-11-D (E), Attachment C (I&E Exhibit No. 1, Schedule 4, p. 5).



**Q. SUMMARIZE YOUR OVERALL RECOMMENDED ADJUSTMENT TO LABOR EXPENSE FOR STOCK AWARDS, PAYROLL ANNUALIZATIONS, AND YOUR VACANCY ADJUSTMENT.**

A. First, I subtracted stock awards and the pay increase annualization adjustment from the Company's FPFTY claimed labor expense of \$32,917,256 as discussed above to determine the adjusted labor expense as shown in the table below:

|                               |                     |
|-------------------------------|---------------------|
| FPFTY Labor Expense Claim     | \$32,917,256        |
| Less Stock Awards             | \$97,639            |
| Less Annualization Adjustment | <u>\$446,256</u>    |
| Adjusted FPFTY Labor Expense  | <u>\$32,373,361</u> |

Next, I used the adjusted FPFTY labor expense of \$32,373,361 to apply my recommended vacancy adjustment of 4.13%, which produced my recommended payroll expense reduction of \$1,327,754, shown in the Payroll and Benefits Adjustments table (I&E Exhibit No. 1, Schedule 5).

**OTHER EMPLOYEE BENEFITS**

**Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR OTHER EMPLOYEE BENEFITS?**

A. The Company's other employee benefits expense claim includes costs for benefits such as medical, dental, vision, life insurance, long term disability, 401K plan, and profit sharing benefits as per the breakdown provided in the Company's response

to I&E-RE-17-D, Attachment A (I&E Exhibit No. 1, Schedule 2, p. 4). The Company applied an O&M expense ratio of 57% to the total other employee benefits cost in the FPFTY.

**Q. WHAT IS THE COMPANY'S CLAIM FOR OTHER EMPLOYEE BENEFITS?**

A. The Company's claim for other employee benefits expense is \$6,951,000 (Columbia Exhibit No. 104, Schedule 1, p. 4).

**Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company has based its FPFTY claim on the budgeted benefits expense with adjustments for increases in medical expenditures and 401K costs commensurate with the anticipated merit increases and increases in employee headcount (Columbia Statement No. 10, p. 13).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.

**Q. WHAT DO YOU RECOMMEND?**

A. I recommend an allowance of \$6,678,770 for other employee benefits expense, or a reduction of \$272,230 (\$6,951,000 - \$6,678,770) to the Company's claim. My

recommendation is based on the following two adjustments, which are discussed herein below:

1. Profit Sharing; and
2. Vacancy Adjustment.

**Profit Sharing**

**Q. WHAT IS THE COMPANY’S CLAIM FOR PROFIT SHARING?**

A. In response to I&E-RE-17-D (B) (1), Attachment A, the Company provided a breakdown of claimed other employee benefits expense of \$6,951,000 that includes profit sharing expense of \$320,139 (I&E Exhibit No. 1, Schedule 2, p. 4).

**Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

A. The profit sharing claim is determined based on employees’ eligibility and performance criteria laid out in NiSource Inc. - 2010 Omnibus Incentive Plan (Columbia SDR-GAS-RR-027, Attachment A).

**Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

A. No.

**Q. WHAT DO YOU RECOMMEND?**

A. I recommend disallowance of the Company's entire claim of \$320,139 for profit sharing expense that is included in the FPFTY other employee benefits expense claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. This type of benefit is typically tied to earnings targets and interests of the Company's stockholders and is unrelated to the provision of safe and reliable service. Ratepayers should not be responsible for paying a benefit available only to certain high-level executive-type positions that is based on earnings targets rather than goals that benefit ratepayers. Therefore, I recommend disallowance of this claim.

**Vacancy Adjustment**

**Q. DOES YOUR VACANCY ADJUSTMENT OF 28 EMPLOYEES AS RECOMMENDED FOR LABOR EXPENSE ALSO APPLY TO OTHER EMPLOYEE BENEFITS EXPENSE?**

A. Yes. The rationale for my employee vacancy adjustment is discussed above when explaining my labor expense adjustments and that rationale applies equally to other employee benefits due to the reduction in employees eligible for benefits.

**Q. SUMMARIZE YOUR OVERALL RECOMMENDED ADJUSTMENT TO OTHER EMPLOYEE BENEFITS EXPENSE FOR PROFIT SHARING AND YOUR VACANCY ADJUSTMENT.**

A. First, I subtracted profit sharing from the Company's FPFTY claimed other employee benefits expense of \$6,951,000 as discussed above. The adjusted other employee benefits expense is shown in the table below:

|   |             |
|---|-------------|
| FPFTY Other Employee Benefits Expense Claim | \$6,951,000 |
| Less Profit Sharing                         | \$320,139   |
| Adjusted FPFTY Employee Benefits Expense    | \$6,630,861 |

Then, I used the FPFTY adjusted other employee benefits expense of \$6,630,861 to apply my recommended employee vacancy adjustment for 28 employees (4.13% vacancy rate) which produced by recommended other employee benefits expense reduction of \$272,230, which is shown in the Payroll and Benefits Adjustment table (I&E Exhibit No. 1, Schedule 5, p. 1).

### **INCENTIVE COMPENSATION**

**Q. WHAT IS INCENTIVE COMPENSATION?**

A. Incentive compensation consists of payments made to eligible employees that are in addition to the employees' base salaries and wages. An incentive compensation payout is generally based on the attainment of key performance indicators established by the Company or affiliated/parent company.

**Q. WHAT IS THE COMPANY'S CLAIM?**

A. The Company's incentive compensation claim is \$2,214,000 (Columbia Exhibit 104, Schedule 1, p. 4).

**Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

A. The estimate for incentive compensation is based on the specific salary and incentive potential for each position approved in the budget on the assumption that the position will be filled by the year end (Columbia Statement No. 10, p. 13). The payment of cash-based incentive compensation is based on achievement of performance targets/triggers during the performance period viz. financial (net operating earning per share (NOEPS), customer care, and safety measures as detailed in the parent company’s incentive plan, “NiSource Inc. - 2010 Omnibus Incentive Plan” (Columbia SDR-GAS-027, Attachment A).

**Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

A. No.

**Q. WHAT IS YOUR RECOMMENDATION?**

A. I recommend an allowance of \$1,897,675 for incentive compensation, or a reduction of \$316,325 (\$2,214,000 - \$1,897,675) to the Company’s claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. My recommendation is based on a three-year average of incentive compensation payouts. In the HTY ended November 30, 2017, the Company’s normalized incentive compensation was \$1,889,215 (Columbia Exhibit 104, Schedule 1, p. 3).

Per the Company's response to I&E-RE-13-D (B), the incentive compensation amounts for the 12-months ended November 30, 2015, and November 30, 2016 were \$2,017,163 and \$1,786,646, respectively (I&E Exhibit No. 1, Schedule 6, p. 2). Considering the variability in incentive payouts over the last three years, I utilized an average of incentive compensation in my recommendation, which will even out historic highs and lows. Accordingly, I recommend an allowance of \$1,897,675  $((\$2,017,163 + \$1,786,646 + \$1,889,215) \div 3)$ .

Based on the Company's response to I&E-RE-13-D (A) that there is no specific number of eligible employees or base payroll for determining incentive payments (I&E Exhibit No. 1, Sch. 6, p. 1) and its response to I&E-RE-14-D (D) that the performance triggers must be met before any incentive compensation is funded and no cash awards will be paid under financial, customer care or safety measures unless the corporation's NOEPS for the performance period meets or exceeds the trigger level of performance (I&E Exhibit No. 1, Schedule 7, p. 2), utilizing a three-year historic average is justified in anticipating future results.

Additionally, as the determination of incentive compensation relies heavily on the NOEPS trigger with a weighting of 75%/85% (I&E Exhibit No. 1, Schedule 7, pp. 4-5 and pp. 11-12), and as the Company makes it very clear in its response to I&E-RE-14-D (E) that no incentive compensation will be paid, including the customer care and safety measures, if financial goals are not met (I&E Exhibit No. 1, Schedule 7, p. 2), there is little discernable benefit to ratepayers in the

Company's incentive compensation program. Accordingly, allowing a three-year normalized amount is more than reasonable.

## **FICA TAXES**

### **Q. WHAT IS FICA TAX EXPENSE?**

A. The Federal Insurance Contributions Act (FICA) tax is a payroll tax imposed on both employers and employees to fund the social security and Medicare programs that provide benefits to retirees, the disabled, and survivors of deceased workers. The employers' portion of the 2018 social security tax rate is 6.2%, and the corresponding Medicare tax rate is 1.45%. The social security tax has a wage limit in 2018 of \$128,400.<sup>1</sup>

### **Q. WHAT IS THE COMPANY'S CLAIM?**

A. The Company's FICA tax expense claim is \$2,598,027 (Columbia Exhibit 106, Schedule 2, p. 2).

### **Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?**

A. The Company's claim is based on HTY FICA experienced rate of 7.3952% for the employers' share of FICA taxes (Columbia Exhibit 106, Schedule 2, p. 3).

---

<sup>1</sup><https://www.irs.gov/taxtopics/tc751>.

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No. It is necessary to make an adjustment to the Company's FICA tax expense claim that corresponds to my labor recommendation as discussed above.

**Q. WHAT IS YOUR RECOMMENDATION FOR FICA TAXES?**

A. I recommend a FICA tax expense allowance of \$2,476,444 or a reduction of \$121,583 (\$2,598,027 - \$2,476,444) to the Company's claim.

**Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

A. My recommended adjustments to labor expense and incentive compensation necessitated a corresponding reduction to the Company's FICA tax expense. In determining my recommended adjustment, I applied the Company's HTY FICA experienced rate of 7.3952% (Columbia Exhibit No. 106, Schedule 2, p. 3).

**Q. HOW DID YOU COMPUTE THE RECOMMENDED ADJUSTMENT TO FICA TAXES?**

A. I multiplied my recommended total reduction to labor expense and incentive compensation of \$1,644,079 (\$1,327,754 + \$316,325) by the Company's HTY FICA experienced rate of 7.3952% to determine my recommended reduction of \$121,583 ( $\$1,644,079 \times 0.073952$ ) to FICA tax expense.

## **NCSC - SHARED SERVICES**

### **Q. WHAT IS INCLUDED IN NCSC - SHARED SERVICES?**

A. NCSC - Shared Services consist of services provided by NiSource Corporate Services Company (NCSC), an affiliate of the Company and a subsidiary of NiSource, Inc. NCSC Shared Services provides accounting, finance, legal, information technology, human resources, and executive services to the Company (Columbia Statement No. 4, p. 18).

### **Q. WHAT IS THE COMPANY'S CLAIM FOR NCSC - SHARED SERVICES?**

A. The Company's claim for NCSC – Shared Services is \$39,380,343 (Columbia Exhibit No. 104, Schedule 1, p. 4).

### **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company started with the HTY normalized amount of \$39,552,116 and made a budget adjustment for a projected decrease in expenses of \$351,116 and made a ratemaking adjustment for an increase of \$40,947 to determine the FTY amount. Similarly, the Company made a budget adjustment for a projected increase of \$124,053 and a ratemaking adjustment for an increase of \$14,343 to the FTY number that ultimately resulted in the FPFTY claim of \$39,380,343 (Columbia Exhibit No. 104, Schedule 1, p. 4; Schedule 2, pp. 12-14; and Schedule 12, pp. 1-2).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM FOR NCSC - SHARED SERVICES?**

A. No.

**Q. WHAT DO YOU RECOMMEND FOR NCSC - SHARED SERVICES?**

A. I recommend an allowance of \$37,663,567 for NCSC - Shared Services, or a reduction of \$1,716,776 (\$39,380,343 - \$37,663,567) to the Company's claim.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. My recommendation consists of three parts: (1) a disallowance of \$230,858 for allocated profit sharing expense; (2) a disallowance of \$1,675,403 for allocated stock rewards expense; and (3) the allowance of an additional amount of \$189,485 for allocated incentive compensation expense.

**Profit Sharing and Stock Rewards:**

**Q. PLEASE EXPLAIN THE BASIS FOR YOUR RECOMMENDED ADJUSTMENTS TO ALLOCATED PROFIT SHARING AND STOCK REWARDS.**

A. Per the Company's response to I&E-RE-17-D(B)(3) (I&E Exhibit No. 1, Schedule 2, p. 4), Columbia has included the allocated costs of profit sharing and stock rewards from NiSource, the parent company, in NCSC-Shared Services expense. The Company is claiming NiSource-allocated profit sharing expense

of \$230,858 and stock rewards expense of \$1,675,403 (I&E Exhibit No. 1, Schedule 2, p. 2). The profit sharing benefit is based on NiSource meeting its NOEPS goal and this payout appears to be made independent of quality of service, efficiency, or safety goals of Columbia. Furthermore, the stock rewards are granted to eligible top-level employees to be determined by the designated committee at its full discretion (Columbia GAS-RR-027, Attachment A, p. 10). Ratepayers should not be obligated to pay for an expense that is based only on corporate earnings goals and is unrelated to the provision of safe and reliable service.

**Incentive Compensation:**

**Q. PLEASE EXPLAIN THE BASIS FOR RECOMMENDED ADJUSTMENT TO THE ALLOCATED SHARE OF INCENTIVE COMPENSATION EXPENSE.**

A. Per the Company's response to I&E-RE-13-D (C), the FPFTY NCSC Shared Services claim includes an allocated incentive compensation expense amount of \$1,747,000 (I&E Exhibit No. 1, Schedule 6, p. 2). The Company's incentive compensation expense amounts for the 12-month periods ended November 30, 2015, November 30, 2016, and November 30, 2017 were \$1,697,427, \$1,556,765, and \$2,555,264 respectively (I&E Exhibit No. 1, Schedule 6, p. 2). Considering the variations in payouts over last three years, my recommendation averages those

years, which evens out historic highs and lows. Accordingly, I recommend an allowance of \$1,936,485  $((\$1,697,427 + \$1,556,765 + \$2,555,264) \div 3)$  for the FPFTY expense, which is a recommended increase of \$189,485 to the Company's claim.

**Summary of NCSC – Shared Services Recommendation:**

**Q. SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS TO NCSC - SHARED SERVICES EXPENSE FOR PROFIT SHARING, STOCK REWARDS, AND INCENTIVE COMPENSATION.**

A. I started with Company's FPFTY claim for NCSC-Shared Services expense of \$39,380,343 and adjusted for the removal of profit sharing and stock awards and the increased allowance for incentive compensation as discussed above. My recommended allowance for NCSC-Shared Services expense is shown in the table below:

|  |                            |
|--|----------------------------|
| FPFTY NCSC-Shared Services Expense Claim   | \$39,380,343               |
| Less Profit Sharing                        | \$230,858                  |
| Less Stock Rewards                         | \$1,675,403                |
| Add Incentive Compensation                 | <u>\$189,485</u>           |
| Allowance for NCSC-Shared Services Expense | <b><u>\$37,663,567</u></b> |

## **NCSC - SHARED OPERATIONS**

### **Q. WHAT IS INCLUDED IN NCSC - SHARED OPERATIONS?**

A. The NCSC Shared Operations Group provides services such as capital execution, safety, customer services, new business, supply chain, facilities, and energy supply and optimization (Columbia Statement No. 4, p. 18).

### **Q. WHAT IS THE COMPANY'S CLAIM FOR NCSC – SHARED OPERATIONS?**

A. The Company's claim for NCSC – Shared Operations is \$27,311,762 (Columbia Exhibit No. 104, Schedule 1, p. 4).

### **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company started with the HTY normalized amount of \$26,362,508 and made a budget adjustment for the projected increase in expense of \$676,492 and made a ratemaking adjustment for a decrease of \$569,617 to determine the FTY amount. Similarly, a budget adjustment for a projected increase of \$1,449,617 and a ratemaking adjustment for a decrease of \$607,238 were made to the FTY amount that ultimately resulted in the FPFTY claim of \$27,311,762 (Columbia Exhibit No. 104; Schedule 1, p. 4; Schedule 2, pp. 15-17; and Schedule 13, pp. 1-2).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM FOR NCSC - SHARED OPERATIONS?**

A. No.

**Q. WHAT DO YOU RECOMMEND FOR NCSC - SHARED OPERATIONS?**

A. I recommend an allowance of \$27,234,202 or a reduction of \$77,560 (\$27,311,762 - \$27,234,202) to the Company's claim for NCSC - Shared Operations.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. Per the Company's response to I&E-RE-13-D (C), it included an allocated incentive compensation charge of \$1,470,000 in the FPFTY claim (I&E Exhibit No. 1, Schedule 6, p. 2). The Company's incentive compensation amounts for the 12-month periods ended November 30, 2015, November 30, 2016, and November 30, 2017 were \$1,166,692, \$1,030,188, and \$1,980,439 respectively ((I&E Exhibit No. 1, Schedule 6, pp. 1-2). Considering the variations in payouts over last three years, I incorporated an average of incentive compensation in my recommendation, which evens out historic highs and lows. Accordingly, I recommend an allowance of \$1,392,440  $((\$1,166,692 + \$1,030,188 + \$1,980,439) \div 3)$  for the FPFTY allocated incentive compensation expense, which is a reduction of \$77,560 to the Company's claim.

**Q. SUMMARIZE YOUR RECOMMENDATION FOR NCSC - SHARED OPERATIONS EXPENSE THAT REFLECTS AN INCENTIVE COMPENSATION ADJUSTMENT.**

A. I started with Company's FPFTY claim for NCSC-Shared Operations expense of \$27,311,762 and adjusted it for a decreased allowance for incentive compensation as discussed above. My recommended allowance for NCSC-Shared Operations expense is shown in the table below:

|  |                            |
|--|----------------------------|
| FPFTY NCSC-Shared Operations Expense Claim   | \$27,311,762               |
| Less: Incentive Compensation Adjustment      | <u>\$77,560</u>            |
| Allowance for NCSC-Shared Operations Expense | <u><b>\$27,234,202</b></u> |

**INJURIES AND DAMAGES**

**Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR INJURIES AND DAMAGES EXPENSE?**

A. The Company's claim for injuries and damages expense includes auto liability, general liability, workers' compensation, and other related payments (I&E Exhibit No. 1, Schedule 8, pp. 1-3).

**Q. WHAT IS THE COMPANY'S CLAIM FOR INJURIES AND DAMAGES EXPENSE?**

A. The Company's claim for injuries and damages expense is \$352,959 (Columbia Exhibit No. 104, Schedule 1, p. 4).

**Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company started with a normalized HTY expense of \$337,888 and made a budget adjustment of \$62,112 and ratemaking adjustment of (\$54,887) for the FTY amount of \$345,113. Similarly, a budget adjustment of \$54,887 and ratemaking adjustment of (\$47,041) were made to the FTY amount of \$345,113, which produced the FPFTY claim of \$352,959. In determining the incremental budget adjustments, the Company applied a 2018 average inflation index of 2.1383% in the FTY and 2.2735% in the FPFTY (Columbia Exhibit No. 104, Schedule 2, p. 8).

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.

**Q. WHAT DO YOU RECOMMEND FOR INJURIES AND DAMAGES EXPENSE?**

A. I recommend an allowance of \$327,797 for injuries and damages expense, or a reduction of \$25,162 (\$352,959 - \$327,797) to the Company's claim.

**Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

A. I disagree with the Company's incremental adjustments by applying the 2018 average inflation index of 2.1383% and the 2019 average inflation index of 2.2735% to calculate its FPFTY claim as shown in Columbia Exhibit No. 104, Schedule 2, p. 8.

In the Company's response to I&E-RE-27-D, Attachment B, it provided historic information about payments made for injuries and damages for the last five years, 2013 through 2017 (I&E Exhibit No. 1, Schedule 8, pp. 1-3). To determine an appropriate allowance for the FPFTY injuries and damages expense, I calculated an average of last five years' payments which resulted in my recommended allowance of \$327,797  $[(\$362,842 + \$261,045 + \$340,940 + \$390,604 + \$283,553) \div 5]$  to even out historic highs and lows of actual payments.

**CORPORATE INSURANCE**

**Q. WHAT IS INCLUDED IN THE COMPANY'S CORPORATE INSURANCE EXPENSE CLAIM?**

A. The Company's properties and other liabilities are insured by NiSource, Inc., the parent Company, under corporate group insurance coverages. For most of the insurance, the coverage period is July through June (12 months) and insurance premiums are allocated based on defined allocation percentages. The insurance expense claim is made up of different categories, mainly: property, primary

liability, excess liability, D&O liability, fiduciary liability, commercial crime, automobiles, professional, cyber, travel, and surety bonds.

**Q. WHAT IS THE COMPANY'S CLAIM FOR CORPORATE INSURANCE EXPENSE?**

A. Per Columbia's filing, the FPFTY claim for corporate insurance expense is \$3,614,000 (Columbia Exhibit No. 104, Schedule 1, p. 4).

**Q. DID THE COMPANY PROVIDE ADDITIONAL INFORMATION REGARDING ITS CLAIM DURING THE DISCOVERY PROCESS?**

A. Yes. After the initial filing, the Company provided updated information in response to I&E-RE-24-D and I&E-RE-25-D, with a revised amount for the HTY corporate insurance expense claim of \$3,008,571 (I&E Exhibit No. 1, Schedule 9, pp. 1-6). The revision in HTY claim was due to additional information available to the Company after budgeting process, that resulted in downward revision in budgeted increases for the FTY and FPFTY insurance expenses and corresponding downward revision in the FPFTY expense claim from \$3,614,000 to \$3,494,000.

**Q. DO YOU ACCEPT THE COMPANY'S REVISION?**

A. Yes.

**Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

A. I recommend acceptance of the Company's updated claim of \$3,494,000, or a reduction of \$120,000 (\$3,614,000 - \$3,494,000) to the Company's claim.

**Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

A. As stated above, the Company provided updated information in response to I&E-RE-24-D and I&E-RE-25-D that included a revised GAS-RR-022, Attachment A for the FTY, which reflects the revised calculation (I&E Exhibit No. 1, Schedule 9, pp. 1-6). The revision to the premium expense calculation affects three categories of insurance coverage: property insurance, excess liability insurance, and medical stop loss insurance.

**PUC, OCA, OSBA FEES**

**Q. WHAT IS THE COMPANY'S CLAIM FOR PUC, OCA, OSBA FEES?**

A. Per Columbia's filing, the FPFTY claim for PUC, OCA and OSBA assessment fees is \$2,420,000 (Columbia Exhibit No. 104, Schedule 1, p. 4).

**Q. DID THE COMPANY PROVIDE ADDITIONAL INFORMATION REGARDING ITS CLAIM DURING THE DISCOVERY PROCESS?**

A. Yes. After the initial filing, the Company provided updated information in response to I&E-RE-39-D with a revised amount for the FPFTY claim for PUC,

OCA and OSBA assessment fees of \$2,248,344 (I&E Exhibit No. 1, Schedule 10, pp. 1-3). The revised claim was due to the correction of an error in a monthly expense calculation based on the 2017-18 general assessment bill. The correction lead to a revised calculation of the budgeted increases in the FTY and FPFTY assessment fees and a corresponding downward revision to the FPFTY expense claim from \$2,420,000 to \$2,248,344, or a reduction of \$171,656 (\$2,420,000 - \$2,248,344) to the Company's claim.

**Q. DO YOU ACCEPT THE COMPANY'S REVISION?**

A. Yes.

**PENSION DEFERRAL AMORTIZATION**

**Q. EXPLAIN THE COMPANY'S CLAIM FOR PENSION DEFERRAL AMORTIZATION.**

A. The Company's pension deferral amortization claim relates to its voluntary prepayment of allocated pension contributions of \$14,824,162 to the NiSource Inc. Pension Plan (parent Company's combined pension plan). This contribution was made in September 2017 as a one-time prepayment toward the Company's future pension liability (Columbia Statement No. 10, p. 16). As of December 31, 2016, the NiSource pension plans were 82% funded, and the Company opted to pay ten years of pension contributions in advance to reduce future cash contributions

and minimize underfunding of the pension trust (Columbia Statement No. 10, pp. 18-19). The Company is now seeking in this rate case proceeding an approval to amortize and recover the O&M portion of a pension deferral amount of \$8,449,772 over a period of three years beginning with the FPFTY (Columbia Statement No. 10, p. 17).

**Q. WHAT IS THE COMPANY'S FPFTY CLAIM FOR PENSION DEFERRAL AMORTIZATION?**

A. The Company's FPFTY claim for pension deferral amortization is \$2,816,591 (Columbia Exhibit No. 104, Schedule 1, p. 4).

**Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

A. The Company is requesting deferral treatment of the total nonrecurring prepayment amount of \$8,449,772 by amortizing the amount over three years, which results in an annual expense amount of \$2,816,591 ( $\$8,449,772 \div 3$  years) (Columbia Exhibit No. 104, Schedule 1, p. 4 and Schedule 2, p. 4). The Company opines that this is appropriate, because as discussed above, it minimizes future cash pension contributions, reduces the underfunded status, and decreases the Pension Benefit Guaranty Corporation (PBGC) premiums associated with an underfunded Pension Trust (Columbia Statement No. 10, p. 19).

**Q. WHAT IS THE SEQUENCE OF EVENTS OR PROCEDURES FOLLOWED BY THE COMPANY BEFORE REQUESTING DEFERRAL TREATMENT OF ITS PENSION PREPAYMENT?**

A. On September 15, 2017, the Company made a voluntary prepayment of an allocated share of pension contribution of \$14,824,162 to the NiSource Inc. Pension Plan (Columbia petition for pension deferral at Docket No. P-2018-2641257, p. 4).

On January 5, 2018, the Company filed a petition with the Commission, seeking permission to defer for accounting and financial reporting purposes the one-time prepayment of pension expense of \$8,449,772 (Docket No. P-2018-2641257).

On January 25, 2018, I&E filed its answer with the Commission in response to the above petition recommending denial of the relief requested.

On April 4, 2018, the Company filed a motion with the Commission to consolidate the petition of the Company requesting authorization to defer, for accounting purposes, certain costs associated with a prepayment to the NiSource, Inc. Pension Trust at Docket No. P-2018-2641257 with the current pending base rate case filed at Docket No. R-2018-2647577.

**Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

A. No.

**Q. WHAT IS YOUR RECOMMENDATION?**

A. I recommend disallowance of FPFTY pension deferral amortization claim of \$2,816,591.

**Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION TO DENY THE COMPANY'S CLAIM FOR PENSION DEFERRAL AMORTIZATION?**

A. There are five reasons influencing my recommendation that are summarized below:

1. The Commission allows recovery of fair and reasonable recurring operating and maintenance expenses in rates from the ratepayers that are required for providing safe and reliable services. Company witness Kelly K. Miller in Columbia Statement No. 4, p. 35, ln. 10-12 states that the Company is claiming recovery of the 2017 non-recurring pension prepayment based on a 3-year amortization period. Additionally, the Company provides no supporting basis for using a three-year amortization period, despite the fact that it is prepaid for 10 years. The pension expense is an *ordinary* and routine business expense, a part of the cost of doing business. Historically, the Company has claimed pension expenses based on projected annual cash contributions required pursuant to actuarial valuation. Accordingly, the Company has not projected or claimed annual pension expense in the FTY and FPFTY. This prepayment was not an extraordinary and unanticipated event like major storm damage costs that have typically been allowed accounting deferral for financial statement purposes. Even

when those types of extraordinary and unanticipated costs have been approved for deferred accounting, the affected companies have been required to begin amortization at the first available opportunity and have not been guaranteed recovery from ratepayers.

2. The Company made a *voluntary* prepayment of \$14,824,162 (covering projected contributions of ten years into the future) (Columbia Statement No. 10, p. 18) towards its allocated share of the NiSource Pension Plan to address the *projected* underfunded balance of \$381 million that may reduce the future annual pension expense burden. Consequently, the Company is claiming an O&M portion of the prepayment as pension deferral amortization of \$2,816,591 in the FPFTY. This prepayment of pension expense was voluntary, elective, and an ordinary expense.

3. The Company's claim to recover the O&M portion of the requested pension deferral amortization in the FPFTY as a part of regulatory asset created in the HTY is lacking prior approval/authority from the Commission for deferral treatment of this expense. Further, the pension deferral amortization proposed in this rate proceeding does not align with historic allowances for deferred accounting that have been permitted for extraordinary, unanticipated, non-recurring, and substantial events.

4. In neither the Company's current filing nor the pension deferral petition was there any indication that NiSource was required to make a lumpsum prepayment to address underfunding of its pension plans in 2017.

5. The Company stated in its response to I&E-RE-64-D (C) that the pension expense is based on actuarial studies and financial market conditions, so the pension expense remains volatile year-over-year (I&E Exhibit No. 1, Schedule 11, pp. 1-2). In the fiscal years 2015 and 2016, the Company was not required to make any cash contributions for the pension expense. Historically, the Company's claimed pension expense was based on two-years' average actual cash contributions; and, therefore, no cash contributions are anticipated in the FTY and FPFTY (I&E Exhibit No 1, Schedule 11, pp. 1-2). This trend of volatility in pension expense establishes that the prepayment of pension expense in the HTY was not supported, required, reasonable, or justified.

**Q. DO YOU HAVE ANY OTHER BASIS TO SUPPORT YOUR RECOMMENDATION?**

A. Yes. The Company is aggressively making capital investments in its pipeline replacement program and has a plan to continue through the end of 2019. The Company states that the main objective of this base rate case is to have a reasonable opportunity to recover its investment in distribution plant and its O&M expenditures (Columbia Statement No. 1, p. 6). The Company's ratepayers have experienced significant increases in rates as the Company has regularly filed base rate cases since 2009, which have resulted in a 72.1% increase in base rates since 2010 (I&E Statement No. 3, p. 23). In the current proceeding's 12.22%

(\$45,207,748/\$369,910,411) requested increase to base rates, the Company makes a claim for a three-year amortization of a *voluntary prepayment* for pension expense resulting in an additional \$2,816,591 annual expense in base rates, further impacting the rates of all ratepayers if approved.

**Q. DO YOU HAVE ANY SUGGESTIONS IF THE COMMISSION DECIDES TO ALLOW THIS DEFERRAL CLAIM FOR RATEMAKING?**

A. While I am opposed to the Company deferring and amortizing this voluntary, routine operating cost, if the Commission decides to allow recovery of this 2017 prepayment then I recommend that it be amortized over ten years (not three years), and that amortization be assumed to have begun at the first available opportunity, 2017. This recommendation is typical of the method by which deferrals are generally permitted, and it is consistent with the number of years the Company has prepaid per actuarial future estimates.

**HARDSHIP FUND**

**Q. EXPLAIN THE COMPANY'S HARDSHIP FUND PROGRAM.**

A. The Hardship Fund is a Company-sponsored (voluntary) fuel fund that provides financial assistance through grants to low-income (0-200% of Federal Poverty Level), payment troubled residential customers, which is administered by the Dollar Energy Fund. Columbia's Hardship Fund program is a fund of last resort providing cash assistance to eligible customers to reduce bill arrears, reconnect services, or stay a service termination (Columbia Statement No. 14, p. 2). Per the Commission's 2016 Report on Universal Service Programs & Collections Performance, p. 4, Hardship Funds are programs that make cash grants available to qualifying households to assist in the payment of outstanding debt owed to the

utility company and they are funded through contributions made by the public that are matched by the Company and paid directly to the utility.

**Q. HOW DOES THE COMPANY FUND ITS HARDSHIP FUND PROGRAM?**

A. Columbia contributes one dollar of shareholder money for every dollar contributed by its customers. Annually it raises between \$125,000 to \$150,000 in customers' voluntary contributions through fundraising activities and sponsorships. The total amount contributed by shareholders and ratepayers is approximately \$300,000. Additionally, in the 2016 base rate case joint settlement at Docket No. R-2016-2529660, Columbia was permitted to use the residential portion of pipeline penalty credits and supplier refunds received through February 28, 2018 toward funding the Hardship Fund. Accordingly, as of January 2018, the Company has applied a total amount of \$750,000 with an annual amount of \$375,000 of penalty credit and refunds to fund the Hardship Fund for the program years 2016/2017 and 2017/2018 (Columbia Statement No. 14, p. 11).

**Q. WHAT ARE PIPELINE PENALTY CREDITS AND SUPPLIER REFUNDS?**

A. Pipeline penalty credits and supplier refunds are a result of the Company's interaction with energy transmission companies. Pipeline penalty credits are a result of a transmission company charging a penalty to a third party for violating

the terms of the interstate pipeline tariff. The transmission company cannot keep penalty revenue but instead passes it on to other non-penalized NGDCs.

A supplier refund is the result of the way the Federal Energy Regulatory Commission (FERC) sets rates. When a transmission company applies to increase its rates with FERC, it increases the rate at the time of the request and, if FERC concludes that the rate should be lower than the request, the difference between what was charged to ratepayers and the FERC-approved rate is refunded to customers, such as Columbia. Columbia ratepayers are eligible to receive the difference between the request and the FERC-approved rate in the form of a supplier refund since they were the customers who paid the higher rate.

**Q. HOW MUCH HAS COLUMBIA HISTORICALLY RECEIVED IN PIPELINE REFUNDS AND PENALTY CREDITS?**

A. In response to I&E-RE-69-D, the Company provided information about penalty credits and supplier refunds received during last three years as shown below (I&E Exhibit No. 1, Schedule 12, p. 2):

| <b>12-months ended</b> | <b>Penalty Credits</b> | <b>Supplier Refunds</b> | <b>Total</b> |
|------------------------|------------------------|-------------------------|--------------|
| November 30, 2015      | \$1,334,201            | \$0                     | \$1,334,201  |
| November 30, 2016      | \$788,798              | \$0                     | \$788,798    |
| November 30, 2017      | \$37,836               | \$455,917               | \$493,753    |

**Q. HOW DOES THE COMPANY PROPOSE TO FUND THE HARDSHIP FUND?**

A. The Company has a remaining available pipeline credits and refunds balance of \$1,172,235. It proposes to disburse \$375,000 annually during program years 2018/2019, 2019/2020, 2020/2021, and the balance of approximately \$47,000 in 2021/2022 (Columbia Statement No. 14, p. 11).

The Company proposes to continue to use pipeline penalty credits and supplier/pipeline refunds annually, as available, beyond 2020/2021 in addition to its on-going efforts to raise voluntary contributions as a source of funding no more than \$375,000 per year for the Hardship Fund (Columbia Statement No. 14, p. 12 and 21).

**Q. WHAT WAS THE STIPULATION IN JOINT SETTLEMENT AGREEMENT IN THE LAST BASE RATE CASE WITH REGARD TO HARDSHIP FUND?**

A. In the Company's last base rate case, at Docket No. R-2016-2529660, the settling parties agreed that:

Columbia may use the residential portion of pipeline penalty credits and refunds received through February 28, 2018 as a funding source for Hardship Fund. Prior to February 28, 2018, Columbia may file a request with the Commission to continue to use the residential portion of pipeline penalty credits and refunds to fund the Hardship Fund. Columbia agrees to continue to develop plans, in consultation with its Universal Service Advisory Council to seek out additional funding from voluntary sources.

(Joint Settlement Agreement of Base Rate Case at Docket No. R-2016-2529660, paragraph 41, Commission Order Entered October 27, 2016)

**Q. DOES THE COMPANY ADDRESS OTHER TOPICS RELATED TO THE HARDSHIP FUND PROGRAM?**

Yes. The Company proposes to collect the application processing administrative fee associated with pipeline penalty credits or refunds through its USP Rider.

Based on the current administrative costs, this would equate to \$37,500 or 10% of the total contribution of the above proposal if approved. This would allow for all credits and refunds to be used for grant disbursement. Currently, costs associated with pipeline refunds and penalty credits are taken out of refunds and credits prior to grant distribution (Columbia Statement No. 14, p. 23-24).

**Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO CONTINUE USING PIPELINE PENALTY CREDITS AND SUPPLIER REFUNDS AS A SOURCE OF FUNDING FOR THE HARDSHIP FUND WHILE IT CONTINUES TO SEEK OUT FUNDING FROM VOLUNTARY SOURCES?**

A. No.

**Q. WHAT ARE YOUR RECOMMENDATIONS FOR THE COMPANY'S HARDSHIP FUND?**

A. I have four recommendations summarized herein.

1. I recommend that Columbia fund its Hardship Fund entirely through voluntary and shareholder (Company) contributions as it indicates is being done on its website and cease utilizing funds for the Hardship Fund that occur through pipeline refunds and penalty credits received or to be received effective March 1, 2018.

2. Columbia will use the remaining available balance in pipeline credits and refunds of \$1,172,235 for use towards Hardship Fund to disburse annually \$375,000 during program years 2018/2019, 2019/2020, 2020/2021 and balance of about \$47,000 in 2021/2022 as proposed in the filing; however, the Company should match pipeline credits and refunds dollar-for-dollar with shareholder funds in each year that the volunteered customer funds are utilized in the Hardship Fund as promised on its website. Effective with the program year 2021/2022, the Company will fund the Hardship Fund entirely from voluntary and shareholder contributions or propose an alternate funding methodology.

3. In view of my recommendations in the above two paragraphs, the penalty credits and supplier refunds received or to be received effective March 1, 2018 should be refunded or passed back to the residential customers through rates filed in the quarterly PGC filing similar to the current practice of refunding/passing back of the non-residential portion of pipeline refunds and credits to non-residential customers.

4. Columbia's current practice of adjusting administrative costs associated with pipeline refunds and penalty credits should be continued and it should not be recovered through the USP rider as proposed by the Company in its filing.

**Q. WHAT IS THE BASIS FOR YOUR FIRST RECOMMENDATION?**

A. Regarding my first recommendation, supplier refunds and penalty credits should not be a source of funding for the Hardship Fund since they are funds originally paid by ratepayers, and more specifically, just default gas ratepayers. The Hardship Fund program is a voluntary fund not tied with recovery in rates from customers via rider and is aimed to support/help low income customers in addition to other mandated programs under the USP. The Dollar Energy Fund (Columbia's Hardship Fund), is designed to be fully funded through voluntary customer contributions that are matched dollar-for-dollar by Company shareholders. Utilizing funds that belong to Columbia's purchased gas cost (PGC) customers is not voluntary, nor is it equally applied to all customers as these funds do not belong to shopping residential gas customers. Further, these customer funds are not dollar-for-dollar matched by Company shareholders as the Dollar Energy Fund is intended to be funded. The use of pipeline refunds, just like funds collected through rider USP, would cause the Hardship Fund to continue to be funded involuntarily by PGC customers while still asking all residential customers to sustain their current level of voluntary funding. In addition, other than restricting

itself to using \$375,000 per year, the Company has presented no definite end date for its blanket request to use pipeline refunds and penalty credits and has made no offer to match these “volunteered” PGC customer funds on a dollar-for-dollar basis from its shareholders.

The Commission in its Order at Docket No. R-2015-2468056, p. 51 (Order entered December 3, 2015) in Columbia’s base rate case clarified that the Commission simply intended to instruct the Company to devise a plan by which it will transition toward funding its Hardship Fund *entirely through voluntary means* and to instruct the Parties to consider ways for Columbia to raise additional voluntary funding. The Company’s proposal does not address the Commission’s instruction that Columbia present a plan to transition to voluntary funding within a definite time period.

Lastly, in the 2008 Federal Energy Regulatory Commission (FERC) approved a settlement where Columbia received approximately \$770,000 of pipeline penalty credits, FERC indicated that it expected all state regulatory commissions to have local distribution companies (LDCs) pass the amount to ratepayers (Docket Nos. IN09-3-000 and PA03-16-000, Order Approving Stipulation and Consent Agreement, paragraph 13, Order Issued November 6, 2008). Although indicated in the order that FERC expected this to be passed back to ratepayers, the Company obtained permission from the Commission to use \$572,862 of the settlement proceeds to fund the Hardship Fund (Commission

Order entered on March 18, 2009 at Docket No. P-2009-2083915). Pipeline Penalty Credits and Supplier Refunds are routinely refunded to PGC customers via the E-Factor in the subsequent PGC year as those refunds and credits reduce the NGDC's historic gas costs.

**Q. WHAT IS THE BASIS FOR YOUR SECOND RECOMMENDATION?**

A. Regarding my second recommendation, the currently accumulated pipeline penalty credits and supplier refunds were received by the Company during that period of time in which the Company was authorized via the PGC settlement agreement to utilize these funds for its Hardship Fund. Allowing the Company to continue to utilize the current accumulated funds will provide the Company sufficient time between now and 2021/2022 to explore and implement additional avenues to increase voluntary contributions for fully funding the Hardship Fund from voluntary contributions. As recommended, the Company should match any PGC customer funds transferred to the Hardship Fund dollar-for-dollar. If the Company wishes to propose a different usage rate and ending year based on this recommendation, I&E would be amenable to an alteration of its proposal.

**Q. WHAT IS THE BASIS FOR YOUR THIRD RECOMMENDATION?**

A. Regarding my third recommendation, pipeline refunds are funds originally paid by Columbia's PGC customers; and, therefore, they are entitled to flowback or refund

in 1307(f) gas cost rates. Utilizing these refunds for another purpose outside of the gas commodity creates inaccuracy in the price-to-compare as these refunds should be reducing PGC customers' gas costs.

**Q. WHAT IS THE BASIS FOR YOUR FOURTH RECOMMENDATION?**

A. Regarding my fourth recommendation, the Company's proposal to use its USP rider for recovering administrative costs for application processing for its Hardship Fund is not justified. The Hardship Fund is not part of the mandated USP programs and is intended to be funded voluntarily. Collecting administrative costs on a non-voluntary basis from all residential ratepayers does not align with the all-voluntary nature of the Dollar Energy Fund. Regardless of whether the source of the funding is ratepayer and shareholder voluntary contributions or incorrectly applied PGC funds, administrative costs for the Hardship Fund should not be allowed to be recovered from all residential ratepayers through the mandated USP rider.

**FEDERAL INCOME TAXES**

**Q. WHAT ISSUES WILL YOU ADDRESS RELATED TO THE ENACTMENT OF THE TAX CUTS AND JOBS ACT (TCJA)?**

A. I will address the Company's over-recovery of 2018 federal income taxes and how that recovery should be refunded to ratepayers and the recognition of excess accumulated deferred income taxes (ADIT) as a reduction to rate base.

**FTY Federal Income Tax Over-Recovery**

**Q. BRIEFLY SUMMARIZE THE COMMISSION'S RECENT ORDER ON THE TCJA AT DOCKET NO. M-2018-2641242.**

A. In its order adopted on May 17, 2018 at Docket No. M-2018-2641242, the Commission ruled separately for utilities with pending base rate cases, utilities without pending base rate cases, and utilities with no federal tax liabilities. Since Columbia has a presently pending base rate case, it is not required file a reconcilable negative surcharge adjustment mechanism pursuant to Section 1307(a) for refunding the FTY excess income tax collection that is to be made effective July 1, 2018 as directed for utilities without pending base rate cases. However, the Commission expects that such utilities and parties currently in pending base rate case proceedings (such as Columbia) to address the effect of federal tax reductions on the justness and reasonableness of consumer rates during the term of suspension period, and whether a retroactive surcharge or other measure is necessary to account for tax rate changes that became effective on January 1, 2018. Pursuant to the Commission Order at Docket No. M-2018-2641242, the temporary rates proceeding for Columbia at Docket No. R-2018-3000606 has been consolidated with its pending Section 1308(d) rate proceeding at Docket No. R-2018-2647577.

Therefore, the parties to this base rate case are required to address the federal tax issues consequent to the passage of the TCJA in the context of an overall review of Columbia's rates and rate structure.

**Q. DID THE COMPANY PROPOSE A REFUND OF 2018 EXCESS INCOME TAX RECOVERY CONSEQUENT TO TCJA?**

A. In the base rate case filing, the Company provided tax calculations based on the federal income tax rate of 21% that is in effect from January 1, 2018 for the FTY and FPFTY but did not propose returning any excess income tax collected to ratepayers. Subsequently, Company witness Nancy J. D. Krajovic filed supplemental direct testimony providing a calculation for the effect of the TCJA on Columbia's 2018 tax liability and the Company's proposal to return/refund to ratepayers an amount equal to the net excess estimated income tax recovery of \$23,828,540 attributable to the FTY. The Company also revised its FPFTY revenue requirement consequent to its tax refund proposal (Columbia Statement No. 10-Supp).

**Q. HOW DID THE COMPANY CALCULATE ITS FTY FEDERAL INCOME TAX OVER-RECOVERY?**

A. First, the Company restated the revenue requirement calculation of its last base rate case (at Docket No. R-2016-2529660) based on settlement numbers and applied a new income tax rate of 21% to calculate the estimated FTY income tax saving. This recalculation results in an estimated reduction in the revenue requirement of \$23,882,681 for the FTY (Columbia Statement No. 10-Supp, pp. 2-3, Exhibit NJDK-S1 and -S2).

**Q. HOW HAS THE COMPANY PROPOSED TO FLOWBACK THIS EXCESS 2018 INCOME TAX TO RATEPAYERS?**

A. Columbia has proposed to begin income tax saving flowback no later than three years after calendar year 2018 (Columbia Statement No. 10-Supp, p. 3). The Company opines that delaying the refund will allow NiSource (its parent Company) adequate time to plan for and execute financing strategies to sustain its current credit ratings (Columbia Statement No. 10-Supp, p. 7). Therefore, the Company proposes to hold the amount of \$23,882,681 in reserve on its balance sheet and for ratemaking purposes include this balance, net of tax effect, as a credit/reduction to the rate base in this proceeding (Columbia Statement No. 10-Supp, p. 7 and Exhibit NJDK-S4). This change in accounting for FTY tax saving results in a reduction to the FPFTY revenue requirement. The Company, therefore, filed a revised Statement of Income at present and proposed rates (Columbia Exhibit 102, Schedule 3, p. 3) showing a revised revenue requirement of \$45,207,748, a reduction of \$1,729,499 to the originally filed revenue requirement of \$46,937,247, which results from the above-mentioned rate base reduction (Columbia Statement No. 10-Supp, p. 7 and Exhibit NJDK-S3).

**Q. WHAT AMOUNT DOES THE COMPANY PROPOSE TO REFUND TO RATEPAYERS AS AN ADJUSTMENT FOR 2018 FEDERAL INCOME TAX OVER-RECOVERY?**

A. The Company has proposed an adjustment to refund the estimated amount of \$23,828,540, equivalent to the net excess income tax recovery for the FTY at present rates, related to the changes resulting from the TCJA (Columbia Statement No. 10-Supp, p. 3).

**Q. WHEN DOES THE COMPANY PROPOSE TO REFUND THE 2018 EXCESS INCOME TAX RECOVERY TO RATEPAYERS?**

A. The Company proposes to begin the refund period no later than three years after the calendar year ending December 31, 2018 (Columbia Statement No. 10-Supp, p. 3).

**Q. WHAT IS THE COMPANY'S BASIS FOR DELAYING THE 2018 EXCESS INCOME TAX REFUND TO RATEPAYERS?**

A. The Company's primary reason for wanting to temporarily retain the 2018 income tax savings is that it would support the Company's ability to avoid a potential credit rating downgrade and an associated increase in the cost of debt of NiSource, Inc. (Columbia Statement No. 10-Supp, p. 6).

**Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED REFUND PERIOD?**

A. No.

**Q. WHAT IS YOUR RECOMMENDATION FOR THE REFUND?**

A. I recommend that the FTY estimated total excess recovery of federal income tax of \$23,828,540 should be accounted for as deferred regulatory liability and the entire amount of this deferred regulatory liability account be refunded with accrued interest at the residential mortgage lending rate (discussed below) over a one-year (12-month) period commencing with the date new rates become effective, with a final federal tax adjustment credit (FTAC) adjustment in the thirteenth month to ensure that the balance is eliminated. Further, I recommend that a final reconciliation statement be filed with the Commission within 30 days after the final over/under balance has been eliminated and the FTAC revenues and reconciliation will be subject to audit by the Commission's Bureau of Audits.

**Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

A. I disagree with the Company's proposal to refund the 2018 excess income tax over a 12-month period that commences up to three years after the calendar year ending December 31, 2018 because the saving in income tax was not built in FTY current rates, as the rates charged are calculated based on the then income tax rate of 35%.

Thus, the Company is and will be over recovering an income tax amount from the ratepayers in the FTY. This amount belongs to ratepayers, and, therefore, the ratepayer-funded amount should be refunded immediately after the calendar year ending December 31, 2018 with accrued interest thereon.

Further, the Commission, in its TCJA Order for utilities without pending base rate cases, directed the affected companies to file a negative surcharge adjustment mechanism (subject to reconciliation) on customer bills rendered on July 1, 2018 and thereafter based upon the net tax savings due to TCJA. This establishes the Commission's intention and direction to utilities to refund/pass back federal tax saving starting on July 1, 2018. The Commission also ruled out the utilities' intention to retain TCJA tax savings due to perceived risk of possible negative outlooks from credit rating firms and utilities' cash flow concern, which Columbia has also expressed in support of its proposal to refund tax saving over three-year period.

**Q. DOES THE COMPANY PROPOSE A MECHANISM TO APPLY A REFUND IN RATES?**

A. Yes. The Company proposed an FTAC that will represent the pass back of 2018 excess federal income tax consequent to TCJA to ratepayers (Columbia Statement No 10-Supp, Exhibit NJDK-S5).

**Q. DO YOU GENERALLY AGREE WITH THE COMPANY'S REFUND MECHANISM?**

A. Conceptually, yes.

**Q. DO YOU HAVE ANY RECOMMENDED CHANGES TO COLUMBIA'S PROPOSED FTAC TARIFF LANGUAGE?**

A. Yes. Columbia's proposed the interest language which uses the prime rate of interest for commercial banking, not to exceed the legal rate of interest, in effect on the last day of the month that an over or under collection occurs as reported in the Wall Street Journal (Columbia Statement No 10-Supp, Exhibit NJDK-S5). This language is consistent with what is required for over and under collection of purchased gas costs for small gas companies and 1307(f) filers (natural gas distributors with gross intrastate annual operating revenues in excess of \$40 million).<sup>2</sup> However, with respect to refunding the 2018 excess federal income tax recovery related to the passage of the TCJA, the Commission is requiring all utilities not currently in for base rate filings to "...accrue interest at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41. P.S. §§ 101, et seq.)." Thus, it is appropriate for all utilities to be consistent, and, therefore, I recommend that Columbia modify its proposed tariff language in the FTAC to reflect use of the residential mortgage lending rate as quoted above.

---

<sup>2</sup> 52 Pa. Code § 53.66(d) and 66 Pa. C.S. §1307(f)(5)(3).

**Q. ARE THERE ANY OTHER SITUATIONS WHERE THE RESIDENTIAL MORTGAGE LENDING RATE IS UTILIZED?**

A. Yes. As stated in the Final Implementation Order regarding Act 11 of 2012, the Commission stated that the residential mortgage lending rate should be utilized when Distribution System Improvement Charge (DSIC) revenues exceed DSIC-eligible costs.<sup>3</sup>

**Excess Accumulated Deferred Income Taxes (ADIT)**

**Q. WHAT CAUSED THE NEED FOR COMPANIES TO IDENTIFY AND RECLASSIFY A PORTION OF EXCESS ADIT?**

A. Due to the changes made by the TCJA, as of January 1, 2018, regulated utilities hold an amount of ADIT that was calculated based on the prior federal income tax rate of 35%. Since the tax rate is now reduced to 21%, the attributable dollar amount needs to be reclassified to a deferred liability account. This deferred liability account is necessary to track the remaining balances of excess taxes recorded in prior years due to the higher federal income tax rate of 35% that was in effect before January 1, 2018. This excess ADIT needs to be flowed back to ratepayers over a period of time equal to the remaining life of the affected assets per IRS regulation. Each year, the balance in the excess ADIT account will ratably be reduced until the entire amount is flow back/refunded to the ratepayers.

---

<sup>3</sup> Final Implementation Order at Docket No. M-2012-2293611, p. 56, Order Entered August 2, 2012.

**Q. HAS THE COMPANY IDENTIFIED ITS COMPONENTS OF EXCESS ADIT?**

A. Yes. The Company identified and provided a calculation of its excess ADIT balance in two components: (1) the property excess ADIT liability of \$178,083,190; and (2) the non-property excess ADIT asset of \$30,268,143 in its response to I&E-RE-87-D and OCA 2-081 (I&E Exhibit No. 1, Schedule 13, pp. 1-12). The net result is an excess ADIT liability of \$147,815,047 as of January 1, 2018 to be flowed back/refunded to ratepayers.

**Q. WHAT IS THE MECHANISM THE COMPANY PROPOSES TO REFUND EXCESS ADIT?**

A. In response to I&E-RE-87-D the Company provided a calculation and proposed treatment of the excess ADIT balance. The Company recorded a regulatory liability of \$147,815,047 on its books and proposed an amortization of this balance beginning with the FTY applying the IRS average rate assumption method (ARAM) for property related excess ADIT and 10/42-year amortization period for non-property related excess ADIT. Accordingly, the Company adjusted the income tax expense by \$1,747,266 being the amortized amount of the excess ADIT balance in the FTY and FPFTY calculation of taxes under line item 33 titled “Flow back of excess deferred taxes” in determining the revenue requirement (Columbia Exhibit No. 107, p. 16).

**Q. DO YOU AGREE WITH THIS MECHANISM FOR FLOW BACK OF EXCESS ADIT?**

A. Yes.

**Q. DID THE COMPANY MAKE THE APPROPRIATE REDUCTION TO RATE BASE FOR THE UNAMORTIZED REGULATORY LIABILITY (EXCESS ADIT) BALANCE?**

A. Yes. In response to I&E-RE-92 (B), the Company stated that the unamortized balance of excess accumulated deferred income tax as shown on the Company's response to I&E-RE-87-D, p. 4 is claimed as a reduction to its FPPTY rate base amount, which is already reflected in the calculation of deferred tax balances on Columbia Exhibit 107, p. 5 (I&E Exhibit No. 1, Schedule 13, pp. 9-10).

**Q. DO YOU HAVE ANY RECOMMENDATIONS WITH RESPECT TO THE FLOWBACK OF EXCESS ADIT OVER FUTURE YEARS?**

A. Yes. The Company should continue to amortize this amount each year and provide updates and an accounting of the remaining balance in each future rate case until the full amount is refunded to ratepayers. In each subsequent rate case the Company should be required to continue reducing rate base by the remaining excess ADIT balance until the amount is fully refunded.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.

**D. C. Patel**  
**Professional and Educational Background**

---

**EXPERIENCE:**

- **Pennsylvania Public Utility Commission**, Harrisburg, Pennsylvania  
June 2015 to present  
Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement
- **Pennsylvania Insurance Department**, Harrisburg, Pennsylvania  
March 2013 - June 2015  
Insurance Company Financial Analyst, Bureau of Company Licensing & Financial Analysis
- **Pennsylvania Department of Revenue**, Harrisburg, Pennsylvania  
November 2010 - March 2013  
Accounting Assistant, Bureau of Corporation Taxes (Accounting)
- **Hersha Hospitality Management**, Harrisburg, Pennsylvania  
June 2007 - November 2010  
Staff Accountant (Taxes), Accounting Department
- **Corporate Experience-India**  
February 1987 – April 2007  
Worked as Company Secretary for three different companies during this period that were publicly held companies and whose stocks were listed on the Stock Exchanges.

**EDUCATION/CERTIFICATION:**

- Gujarat State University, Ahmedabad, India:  
June 1980 - April 1983  
Bachelor of Commerce (Major concentration: Accounting with 38 credits)

**D. C. Patel**  
**Professional and Educational Background**

---

**EDUCATION/CERTIFICATION (continued):**

June 1983 - December 1988  
Bachelor of Law

- The Institute of Company Secretaries of India, New Delhi, India:

June 1983 - December 1985  
Post Graduate Professional Degree: Company Secretary

**RATE CASE TRAINING:**

- Attended 37<sup>th</sup> Western NARUC Utility Rate School in May 2016

**WORKED ON THE FOLLOWING CASES (Testimony not required):**

- R-2018-3000253 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- A-2017-2629534 - PPL Electric Utilities (Restructuring Plan)
- R-2017-2631441 - Reynolds Water Co.
- R-2017-2602611 - PECO Energy Co. - Gas Operations (1307(f))
- R-2016-2567893 - Andreassi Gas Co.
- R-2016-2525128 - The Columbia Water Co. - Marietta Division
- R-2015-2479962 - Corner Water Supply and Service Corporation
- R-2015-2479955 - Allied Utility Services, Inc.
- R-2015-2493905 - Sands, Inc.

**SUBMITTED TESTIMONY IN THE FOLLOWING CASES:**

- R-2017-2595853 - Pennsylvania American Water Co.
- P-2016-2526627 - PPL Electric Utilities Corp. (DSP IV)
- R-2016-2529660 - Columbia Gas of Pennsylvania, Inc.
- R-2016-2554150 - City of DuBois - Bureau of Water
- R-2016-2580030 - UGI Penn Natural Gas, Inc.

