

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the matter of:)
)
APPLICATION OF COLUMBIA GAS) Case No. 2016-00162
OF KENTUCKY, INC. FOR AN AD-)
JUSTMENT OF RATES)

**PREPARED REBUTTAL TESTIMONY OF
BRIAN J. NOEL
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

Brooke E. Wancheck,
Assistant General Counsel
Stephen B. Seiple, Assistant General Counsel
Joseph M. Clark, Senior Counsel
290 W. Nationwide Blvd.
Columbus, Ohio 43216-0117
Telephone: (614) 460-5558
E-mail: bleslie@nisource.com
sseiple@nisource.com
josephclark@nisource.com

Richard S. Taylor
225 Capital Avenue
Frankfort, Kentucky 40601
Telephone: (502) 223-8967
Fax: (502) 226-6383
Email: attysmitty@aol.com

Lindsey W. Ingram III
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3982
Fax: (859): 246-3672
Email: l.ingram@skofirm.com

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Attorneys for Applicant
COLUMBIA GAS OF KENTUCKY, INC.

PREPARED REBUTTAL TESTIMONY OF BRIAN J. NOEL

1 **Q: Please state your name and business address.**

2 A: My name is Brian J. Noel and my business address is 290 W. Nationwide
3 Blvd., Columbus, Ohio 43215.

4

5 **Q: Did you file Direct Prepared Testimony in this proceeding?**

6 A: Yes, I did.

7

8 **Q: What is the purpose of your Rebuttal Testimony in this proceeding?**

9 A: The purpose of my rebuttal testimony is to address and describe the growth
10 in net NiSource Corporate Services Company ("NCSC") charges to Colum-
11 bia Gas of Kentucky ("Columbia") from 2012 through forecasted test year
12 2017 as referenced by Office of Attorney General ("AG") Witness Lane Kol-
13 len.

14

15 **Q: What is meant by "net growth" in NCSC charges to Columbia?**

16 A: Net growth refers to the gross NCSC charges less capitalized charges
17 (Gross minus Capital = Net). AG Witness Kollen describes the growth in
18 NCSC charges since 2012 as gross charges, but uses the net NCSC charges

1 included in the revenue requirement when making the recommended
2 adjustment.

3

4 **Q: Please describe the net growth in NCSC charges to Columbia between**
5 **2012 and forecasted test period 2017.**

6 A: The types of functions performed by NCSC have not changed since 2012.
7 However, the work performed within certain functions has changed, often
8 to address increased compliance activities or work requirements. NCSC
9 net charges to Columbia have grown in four primary areas which are 1)
10 labor and related costs (including labor, benefits, and payroll taxes), 2)
11 Other Outside Services, 3) Building Rent Expense, and 4) Consulting
12 Services. These four items account for over 90% of the total increase.

13

14 **Q: Please describe the growth in labor and related costs?**

15 A: The labor increase is made up partly by an annual merit increase each
16 year. Labor has also been an increase due to increases in headcount on
17 NCSC due to a combination of transfers in from the operating affiliates
18 and new hires to support additional requirements.

19

20 **Q: What areas have experienced increased headcount and why?**

1 **A:** The majority of transfers relate to the Columbia Distribution Companies
2 ("CDC") Integration Center employees shifting to NCSC to centralize
3 shared services and utilize existing service agreements and billing
4 functionalities. The Integration Center is the centralized center supporting
5 the CDC companies for emergency response activities. All field work, in
6 addition to the clerical functions supporting all CDC companies, is
7 managed at the Integration Center. The Integration Center, along with
8 field operations, ensures that customer appointments are met and
9 compliance work is completed on time. The Integration Center is a
10 24/7/365 operation.

11 The Integration Center was historically a part of Columbia Gas of
12 Ohio ("COH"), and COH would charge other CDC companies for the
13 portion of the work the Integration Center was performing on their behalf.
14 Due in part to the shared services tasks being performed, it was
15 determined that the Integration Center would be better aligned within the
16 organization as a NCSC function.

17 In addition, during 2013, the Integration Center services began to
18 include Columbia Gas of Massachusetts ("CMA"). Because there was not
19 an intercompany billing arrangement between COH and CMA, the
20 process could not continue.

1 Therefore, in December 2013/January 2014, the COH Integration
2 Center employees were moved from COH to NCSC. As such, the transfer
3 of employees to NCSC resulted in an increase in NCSC labor, but not an
4 overall increase in total NiSource labor costs, since CKY is now billed for
5 these charges by NCSC rather than COH.

6 Additional full time equivalents (“FTE's”) were added to the
7 Integration Center in response to increasing overtime spend and the
8 corresponding need to focus on the safety of Emergency Dispatch
9 employees working additional hours. The additions also aid in reducing
10 the number of field employees being supported per dispatcher with the
11 goal of increasing the quality and timeliness of Emergency Response to
12 customers.

13 With regard to the new hires, the increase in incremental headcount
14 for CDC Operations was due to an increased focus on environmental
15 safety and training. Environmental Health & Safety positions were added
16 to support corporate wide health and safety programs, sustainability
17 initiatives, and the increase in environmental permitting; implementation
18 of the records management initiative, increased emphasis from FERC on
19 corporate and ethical compliance, increased regulatory support, and
20 support of legal pipeline compliance initiatives. Additional FTE’s were

1 added in support of a growing and more complex Operator Qualifications
2 (OO) program and to support the move to centralized integrated training
3 facilities. Additional FTE's were added to develop curriculum in support
4 of advanced workforce training.

5 The Pipeline Safety & Compliance segment underwent a
6 departmental realignment, resulting in additional FTE's at the leadership
7 level to oversee and manage the new team structure. There has also been
8 an increased focus on Damage Prevention and GIS, Pipeline Asset
9 Integrity, Technical Services, and Compliance and Safety. The additional
10 focus has resulted in a steady decline in the number of excavator damages
11 per 1,000 underground pipeline locate requests.

12 CDC Operations also increased staffing to support the increased
13 CDC capital program and customer focused activities. The increase in the
14 capital program created an increased need for additional instrumentation
15 technical support and training related to protocols, compliance, and safety
16 standards.

17 Staffing levels in the Finance area increased due to the
18 implementation and support of new financial information systems and a
19 need for centralized, business application support with the new
20 functionality and security requirements. Finance staffing levels also

1 increased due to a greater emphasis on the IT budget and planning
2 process as a result of IT contract renegotiations. In addition, headcount
3 has increased due to the accounting and financial analysis required to
4 support the increased capital program related to infrastructure
5 modernization.

6 Staffing levels in the Performance Transformation and Corporate
7 Services area increased as a result of Supply Chain functions associated
8 with NiSource's expanding infrastructure initiatives, growing fleet
9 management needs, and realignment of procurement functions. FTE's
10 were added in the Performance Transformation group to measure and
11 optimize performance and build and execute continuous improvement
12 capabilities throughout the organization. Staffing levels also increased in
13 the Facilities and Real Estate area to support the relocation and renovation
14 of facilities due to growth, workforce needs, modernization and
15 technology needs. Information Technology headcount increased due to
16 transformation of financial systems, software management and contract
17 oversight related to IT outsource agreements, along with various
18 information technology projects.

1 Staffing levels have increased in Human Resources as a result of
2 NiSource initiatives to build and develop organizational talent and HR
3 compliance activities.

4

5 **Q: Please describe the increase in other outside services.**

6 A: Increases in other outside services primarily includes software licenses
7 and maintenance, which contains the Microsoft Lease Agreement and
8 Oracle Lease Agreement. Outside security services have also increased
9 due to a larger focus on safety and security.

10

11 **Q: Please describe the increase in rent expense.**

12 A: Building rent expense has increased as a result of NCSC being billed rent
13 based on its proportionate share of the costs associated with leasing and
14 maintaining the facility. Incremental headcount has led to a greater
15 portion of lease and maintenance charges billed to Columbia since 2012.
16 The allocation of these charges is determined by the subsidiary supported
17 by each NCSC department occupying space in the various buildings.

18

19 **Q: Please describe the increase in outside consulting services.**

1 A: Outside consulting services have increased primarily related to IT project
2 work to replace the employee reimbursement system utilized by all
3 affiliates and replace the procurement system utilized by NCSC.
4 Customer Programs and Billing and Customer Contact Centers have also
5 experienced increased consulting services as a result of NiSource-wide
6 customer experience improvements and growth initiatives.

7

8 **Q: Please describe the remaining variance drivers.**

9 A: The remaining variance includes increased depreciation expense related to
10 IT assets placed in service and capital leased software depreciation related
11 to the Microsoft Lease Agreement and Oracle Lease Agreement. An
12 increase in income taxes was due to credits received in 2012 related to a
13 Deloitte Meals and Entertainment audit. Stock compensation expense
14 related to restricted, contingent, and merger related costs have increased.
15 IBM outsourcing costs have decreased as a result of amendments to the
16 contract, which includes the removal of certain IT devices from the
17 contract, which are capitalized and are partially offset by an increase in
18 the IBM outsourced Call Center functions.

19

20 **Q: Are the costs just and reasonable?**

1 A: The sample of the increased services required of NCSC, all of which are
2 necessary to provide safe and reliable service to Columbia's customers,
3 provides a solid foundation for determining that NCSC's costs are
4 reasonable and legitimate.

5 The shared services arrangement allows Columbia to secure the
6 services of an organization with a broad breadth and depth of expertise in
7 every facet of the operations of a natural gas distribution company
8 without the need to support the full cost of maintaining individuals to
9 provide those services on a full-time, stand-alone basis or through the
10 retention of third-party contractors.

11

12 **Q: Do you agree with Witness Kollen using inflation for his recommended**
13 **adjustment?**

14 A: No, I do not. Inflation is not a reasonable indicator of NCSC growth in
15 costs between 2012 and 2017 especially since the transfer of the CDC Inte-
16 gration Center resulted in a transfer of headcount from one affiliate (COH)
17 to NCSC with no impact to NiSource as a whole. Also, inflation does not
18 account for increased mandated safety and compliance requirements.

19

20 **Q: Does this complete your Prepared Rebuttal Testimony?**

1 A: Yes, it does.