

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

ELECTRONIC INVESTIGATION OF THE IM- )  
PACT OF THE TAX CUTS AND JOB ACT ON ) Case No. 2017-00481  
THE RATES OF ATMOS ENERGY CORPORA- )  
TION, DELTA NATURAL GAS COMPANY, )  
INC., COLUMBIA GAS OF KENTUCKY, INC., )  
KENTUCKY-AMERICAN WATER COMPA- )  
NY, AND WATER SERVICE CORPORATION )  
OF KENTUCKY )

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**PREPARED DIRECT TESTIMONY OF  
CHUN-YI LAI  
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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**January 26, 2018**

Attorney for  
**COLUMBIA GAS OF KENTUCKY, INC.**

**PREPARED DIRECT TESTIMONY OF CHUN-YI LAI**

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

2 A: My name is Chun-Yi Lai and my business address is 290 W. Nationwide  
3 Blvd., Columbus, Ohio 43215.

4 **Q: What is your current position and what are your responsibilities?**

5 A: I am a Regulatory Manager for NiSource Corporate Services Company  
6 (“NCSC”). As a Regulatory Manager for NCSC, my principal responsibili-  
7 ties include providing support for various informational and rate filings,  
8 general rate case preparation and other duties as assigned. NCSC provides,  
9 among other services, accounting and regulatory-related services for the  
10 NiSource gas distribution companies, including Columbia Gas of Kentucky,  
11 Inc. (“Columbia”).

12 **Q: What is your educational background?**

13 A: I graduated from the Ohio State University in June of 2006, with a  
14 Bachelor of Science Degree in Business Administration with a major in  
15 Finance.

16 **Q: What is your employment history?**

17 A: My career with NiSource began when I was hired as a Financial Analyst in  
18 the Accounting department with Columbia Gas Transmission in June  
19 2007, and I was later promoted to a Senior Financial Analyst in October,

1 2008. In May 2011, I accepted a position as Senior Regulatory Analyst in  
2 NCSC's Regulatory Strategy and Support Department and I was promot-  
3 ed to Lead Regulatory Analyst in October, 2014. I assumed my current po-  
4 sition in October 2017.

5 **Q: Have you previously testified before the Kentucky Public Service**  
6 **Commission ("Commission")?**

7 A: No. However, I have submitted direct testimony in matters before the  
8 Pennsylvania Public Utility Commission and the Virginia State Corpora-  
9 tion Commission.

10 **Q: What is the purpose of your testimony in this proceeding?**

11 A: The purpose of my testimony is to address the revenue requirement im-  
12 pact as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act") signed in-  
13 to law on December 22, 2017. More specifically, I will be addressing Co-  
14 lumbia's proposed tariff developed to reflect the tax rate reduction in Co-  
15 lumbia's rates. Within this testimony, I will also address the pass back of  
16 revenue to Columbia's customers as a result of the lower corporate federal  
17 income tax rate.

18 **Q: How does Columbia propose to reflect the tax rate reduction in its rates?**

19 A: Columbia proposes to establish a "Tax Act Adjustment Factor" to provide  
20 for the adjustment of its volumetric Delivery Charge to customers. The

1 change in the revenue requirements resulting from the Tax Act will be dis-  
2 tributed based on the revenue allocation authorized in Columbia's last  
3 base rate case<sup>1</sup> and its Accelerated Main Replacement Program<sup>2</sup>. The reve-  
4 nue allocation per rate class would then be divided by the expected vol-  
5 umes to determine the per Mcf amount for each rate schedule. The  
6 amount so determined is set forth on proposed Tariff Sheet No. 7a which  
7 is attached here to as Attachment CYL-3. New Tariff Sheet Nos. 7a, 5, 6, 7,  
8 12, 15, 22, 31 and 39 have been revised to reflect the Tax Act Adjustment  
9 Factor. The tariff pages are reflected in Attachment CYL-3.

10 **Q. Please explain the basis for determining the revenue requirement im-**  
11 **pact.**

12 A. The Commission's Order of December 27, 2017 requires the use of an his-  
13 torical 12-month period to determine the impact of the rate reduction. Ac-  
14 cordingly, Columbia utilizes its actual 2017 calendar year operating in-  
15 come as the basis to calculate the revenue requirement impact from the  
16 change in the federal income tax rate.

17 **Q. Please describe the calculation for the revenue requirement reduction.**

18 A. Columbia first calculated an effective tax rate based on actual total income

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<sup>1</sup> KY PSC Case No, PUE-2016-00162.

<sup>2</sup> KY PSC Case No. 2017-00413.

1 tax expense divided by taxable income for 2017. The effective tax rate was  
2 then decreased by the change in statutory tax rate as result of the Tax Act  
3 to develop a revised effective tax rate. The revised effective tax rate was  
4 applied to actual total income to compute an implied income tax expense  
5 for 2017 that reflects the lower federal income tax rate. The difference be-  
6 tween the actual and implied income tax expense is multiplied by a gross  
7 revenue conversion factor of 1.3617825<sup>3</sup> to get to a revenue requirement  
8 reduction of \$2,749,234 which reflects the change due to the reduction in  
9 tax expense. Please see Attachment CYL-1 for the calculation.

10 **Q. How will Columbia adjust its rates to reflect the impact of the Tax Act**  
11 **on accumulated deferred income taxes?**

12 A. As explained in Columbia witness Garber's testimony, the receipt of the  
13 Issue Resolution Agreement from the IRS is germane to Columbia's exact  
14 determination of its excess deferred income taxes. Columbia will then uti-  
15 lize the same methodology as proposed for the revenue requirement  
16 change resulting from the income tax expense impact and revise its Tax  
17 Act Adjustment Factor.

18 **Q. When will Columbia implement the proposed Tax Act Adjustment Fac-**  
19 **tors as a result of the change in income tax expense?**

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<sup>3</sup> The gross revenue conversion factor from Case No. 2016-00162 was updated to reflect the corporate fed-

1 A. Columbia proposes to implement the Factors reflecting the tax expense  
2 change as shown on Attachment CYL-2 for services rendered on May 1,  
3 2018. The proposed date will allow Columbia sufficient administrative  
4 time to build the necessary changes in its billing systems to implement the  
5 proposed change.

6 **Q. Since the proposed Tax Act Adjustment Factors will be implemented**  
7 **prospectively, will Columbia record a regulatory liability beginning**  
8 **with January 2018 business?**

9 A. Yes, Columbia will establish a regulatory liability beginning with the close  
10 of January 2018 business for the amount to be returned to customers billed  
11 for services rendered on or after January 1, 2018 until the new rates are  
12 implemented (“interim period”) as directed in the order in this case.

13 **Q. Please discuss how Columbia proposes to determine the amount to be**  
14 **recorded as regulatory liability for the interim period.**

15 A. The Tax Act Adjustment Factors will be multiplied by the current month’s  
16 normalized billed volumes to develop the amount to be recorded as regu-  
17 latory liability. The current month’s volumes will reflect billed volumes  
18 for residential and small commercial customers, with estimated volumes  
19 used for the large commercial and industrial accounts that are billed on a

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eral income tax of 21%.

1 one-month lag. The current month's amount will be trued up in the fol-  
2 lowing month when the estimated volumes are replaced with billed data.  
3 Columbia will repeat these steps on a monthly basis and adjust the factors  
4 as needed as information becomes available during this proceeding.

5 **Q. How long will Columbia record this regulatory liability?**

6 A. Columbia will continue to record this regulatory liability on a monthly ba-  
7 sis until the Tax Act Adjustment Factors are in effect and the liability  
8 amount reflects all actual billing data.

9 **Q. How does Columbia propose to return such amounts from the interim**  
10 **period to its customers?**

11 A. Columbia proposes to return the amounts from the interim period to its  
12 customers through adjusted Tax Act Adjustment Factors beginning with  
13 services rendered on the first billing unit of October 2018 over a period to  
14 be determined.

15 **Q. You have described the revenue requirement impact due to the change**  
16 **in the income tax expense. Will you be addressing the revenue require-**  
17 **ment impact as a result of excess deferred incomes taxes?**

18 A. Witness Garber discusses the specifics of the excess deferred income taxes  
19 timeline in her testimony.

1 **Q. Does Columbia propose to pass back the excess deferred income taxes**  
2 **to its customers?**

3 A. Yes, Columbia proposes to pass back the excess deferred through revised  
4 Tax Act Adjustment Factors. The Factors will include an amortization of  
5 the excess deferred income taxes for services rendered on the first billing  
6 unit of October 2018.

7 **Q. When will Columbia provide the adjusted Factors effective with first**  
8 **billing unit of October 2018?**

9 A. The adjusted Factors effective with first billing unit of October 2018 will be  
10 provided in a separate filing at a later time in this docket once Columbia  
11 receives the Issue Resolution Agreement as referenced in Witness Garber's  
12 testimony. The adjusted Factors will include the excess deferred income  
13 taxes and the regulatory liability amount from the interim period.

14 **Q. Does the Tax Act impact any of Columbia's tracker mechanisms?**

15 A. The reduced corporate federal income tax rate impacts Columbia's reve-  
16 nue requirement in its infrastructure tracker, the Accelerated Main Re-  
17 placement Program ("AMRP Rider). The AMRP Rider mechanism has  
18 embedded procedural provisions that will provide Columbia the oppor-  
19 tunity to recognize the impact of the reduced federal income tax rate in  
20 the regularly filed balancing adjustment on a schedule previously ap-



1           proved by this Commission.

2   **Q.   Does this complete your Prepared Direct testimony?**

3   **A:**   Yes, however, I reserve the right to file rebuttal testimony if necessary.