Columbia Exhibit No. __

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:	)	
	)	
ELECTRONIC APPLICATION OF	)	Case No. 2024-00092
COLUMBIA GAS OF KENTUCKY, INC.	)	
FOR AN ADJUSTMENT OF RATES;	)	
APPROVAL OF DEPRECIATION STUDY;	)	
APPROVAL OF TARIFF REVISIONS; AND	)	
OTHER RELIEF	)	

PREPARED REBUTTAL TESTIMONY OF NICHOLAS R. BLY ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.

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PREPARED REBUTTAL TESTIMONY OF NICHOLAS R. BLY

Q: Please state your name and business address.

A: Nick Bly, 290 West Nationwide Blvd., Columbus, Ohio 43215.

Q: Did you provide Direct Testimony in this proceeding?

A: Yes

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

A: The purpose of my testimony is to respond to portions of the direct testimony filed by Witness Defever on behalf of the Attorney General ("AG"). Specifically, the recommended disallowances for Corporate Aircraft Expense, Directors and Officers Liability Insurance Expense, Investor Relations Expense, and the NCSC allocated portion of Operations and Maintenance ("O&M") Expense for Payroll (labor), and correlating adjustments to Benefits Expense and Payroll Tax Expense.

Q: Please summarize Witness Defever's proposed adjustment to Corporate Aircraft Expense.

A: Witness Defever is recommending a full disallowance on the basis that:

(1) Columbia provided insufficient support for the benefit of corporate aviation costs;

(2) Columbia does not compare costs of commercial flights to the costs of utilizing the corporate jet;

(3) Colorado and Connecticut prohibits the recovery of corporate aviation costs for the transportation of Board of Directors members and Corporate officers; and

(4) because they are allocated costs they warrant increased scrutiny.

Q: Do you agree with Witness Defever's recommendation? If not, why not?

A: No. Responding to each point he makes individually:

(1) Witness Defever states that Columbia did not provide sufficient justification for the inclusion of corporate aviation expenses in the revenue requirement. While focusing on the point related to comparing commercial flight prices below, Witness Defever restated, but ignored the reasons why corporate aviation costs are just and reasonable. The use of this form of travel cuts down on time waiting for flights in commercial airports, provides a secure environment for discussion of sensitive business matters, and allows a reliable and secured source of internet access to perform job functions while in transit. The aviation expense included for recovery in this case provides travel efficiencies and time savings for company personnel, which benefits Columbia and its customers.

(2) Columbia does not compare costs of commercial flights to the costs of utilizing the corporate jet because the corporate jet is an existing asset

available for use and not using it would result in incremental unnecessary cost. Other points made in our initial response include the safe, reliable, and efficient transport of high value passengers as the loss of their life, time, or productivity would have a high cost to the organization that is not quantifiable.

(3) Witness Defever cites to two laws from other jurisdictions that are not controlling in Kentucky to support the contention that aviation costs should be removed from the revenue requirement. Mr. Defever has ignored the fact that this Commission has previously permitted the recovery of these costs.[1] Further, if Witness Defever's referenced out-of-state laws were adopted in Kentucky, they would not necessarily prohibit Columbia's corporate aviation costs. The first, the Colorado law prohibits the recovery of aircraft costs "for the utilities board of directors and officers."[2] Use of the Company's aircraft is not limited to its Board of Directors, nor corporate offices. This is shown in the logs provided in Columbia's Confidential Attachment B to its Response to

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[1] See Case No. 2017-00179, *In the Matter of Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) an Order Approving its 2017 Environmental Compliance Plan; (3) an Order Approving its Tariffs and Riders; (4) an Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) an Order Granting all Other Required Approvals and Relief*, Order (Ky. PSC Jan. 18, 2018) at 17.

[2] See CRS 40-3-114(2)(k).

the Attorney General's First Request for Information, No. 64. The referenced Connecticut law[3] is also similarly limited.

(4) The claim that allocated costs warrant increased scrutiny is unrelated to the matter at hand and should be disregarded as an argument for disallowance of these costs. Additionally, there should be no misunderstanding that Columbia benefits from the ability to utilize resources from a shared services company.

Q: Please summarize Witness Defever's proposed adjustment to Director and Officers Liability Insurance Expense ("D&O").

A: Witness Defever proposed a 75% disallowance of D&O because it protects Company directors from lawsuits that arise from their own actions which primarily benefits the Company and its directors. He cited precedent in Connecticut for limiting recovery to 25%.

Q: Does Witness Defever make a compelling argument for a partial disallowance of D&O?

A: No. D&O is common insurance coverage. D&O is to leadership what Worker's Compensation insurance is to field workers. Said another way, using Mr. Defever's logic, Columbia be disallowed recovery of Worker's

[3] Conn. Gen. Stat. § 16-243gg(d).

Compensation insurance because the beneficiary is the field workers? Additionally, the Company's bylaws contain customary provisions for similarly situated companies that require the indemnity of directors and officers of the company when acting in their official capacity. Because of this,D&O coverage benefits customers by properly insuring the risk associated with costs to defend directors and officers. Further, one or more of the Company's financing agreements require D&O coverage. The absence of this insurance would increase the cost of debt, and therefore increase borrowing costs passed to Columbia's customers.

Q: Please summarize Witness Defever's proposed adjustment to Investor Relations expense.

A: Witness Defever proposed a 75% disallowance of Investor Relations expense because these costs primarily benefit shareholders, a conclusion he draws in part by citing a portion of our discovery request.[4] Additionally, he cites precedent in one state, Connecticut, for full disallowance.

Q: Do you agree with Witness Defever's classification of Investor Relations costs as primarily benefiting shareholders?

A: No. Witness Defever cited the portion of a discovery response[5] that

[4] See Columbia's Response to the Attorney General's Second Request for Information, No. 65.
[5] *Id.*

generically explains the responsibilities of Investor Relations but disregarded the benefits provided by them to the customer, which was:

> Investor Relations is one of several functions responsible for ensuring NiSource can access capital markets to issue debt or equity at the best and lowest cost. If NiSource did not have an Investor Relations department, investors would be less comfortable making an investment in NiSource; said differently, investors would have a higher level of uncertainty about investments in NiSource. In financial markets, uncertainty equates to risk which requires a higher level of return to compensate the investor for taking on that higher level of risk. For Columbia, this would translate into a higher cost of debt and higher cost of equity.

To put this in context, Columbia's 2023 net revenue was ~$123 million,[6] of which ~9% (~$11M) relates to recovery of Interest Expense alone (i.e. cost of debt). If we roughly approximate the cost of equity as equal to the cost of debt, then nearly $1 out of every $5 our customers pay is for the cost of capital. It is critical for the Company to manage the cost of capital as part of customer affordability and Investor Relations is a key contributor to

[6] Please refer to Columbia's Response to the Requirement Contained in 807 KAR 5:001, Section 16(7)(k) as well as FERC Form 2.

those efforts.

Q: Please summarize Witness Defever's proposed adjustment to NCSC allocated Payroll Expense, and associated adjustments to Benefits and Payroll Tax.

A: Witness Defever proposed a 4.9% reduction to NCSC allocated payroll expense which equates to a $383,607 disallowance, and an associated adjustment to benefits and payroll tax expense of $88,853[7] and $26,124, for a total NCSC allocated O&M expense payroll disallowance of $498,584.

Q: Do you agree with Witness Defever's adjustment to NCSC allocated Payroll and associated Benefits and Payroll Tax Expense? If not, why not?

A: No. Witness Defever casts doubt on NCSC's ability to plan payroll expense because the Company, like other employers, has historically carried some vacancies. He presents a table showing as much titled, "Allocated Vacancies".

Q: What is your contention with that argument?

A: My overall contention with that and other arguments is that Witness Defever is missing the forest for the trees and cherry-picking data to

[7] Calculated by multiplying the $383,607 by Witness Defever's benefits expense ratio of 23.16 as found in Exhibit JD-1 Schedule C-10, Line 6.

support disallowances that are not warranted when the entire weight of the evidence is considered. Namely, (1) my testimony and Columbia's Response to the Attorney General's First Request for Information, No. 63 explain and show that our planning methodologies ***already include*** offsets to adjust for vacancies; and (2) that Total O&M allocated from NCSC to Columbia in the FTP is reasonable by any comparison point. To elaborate on each point below:

(1) My testimony explains, "The NiSource O&M expense budgeting methodology is a "top down" approach. . . The starting point for labor costs is the current organizational chart". To elaborate, final budgets are set in total at the functional level. The functional leaders have the discretion for how to best utilize their limited budget. The most common approach is to plan headcount as-if they'll be fully staffed, then make a dollar adjustment to account for vacancies. If they still exceed their total budget allotment, then an overall adjustment is made to an Other Miscellaneous budget category. Refer to Attachment A to Columbia's Response to the Attorney General's First Request for Information, No. 63 to see each adjustment within the lines Payroll Expense – Labor Vacancy Offset and Other, negative value is the product of "Flat" O&M Targets. To illustrate budgeting with a very

simple example, imagine you have $10 in your pocket and need three things from the store that cost $12. The shopping list in your pocket is for $12, which means you need to find a way to save $2 and still get what you need. The store may have a lower cost alternative, you may have a coupon, or you may get lucky because one item is on sale but you won't know until you get to the store. A budget owner has the same dilemma. They need the full shopping list but can only spend the money in their pocket.

(2) NCSC costs allocated to Columbia are reasonable by several measures:

a. 2021 actual NCSC costs allocated to Columbia were $20,098,308 which is higher than the $19,868,316 in the 2025 FTP

b. The prior case 2022 FTP of 2022 was $19,320,924 which is within 3% of the 2025 FTP and inflation over the same time period has been much higher than 3%

c. 2022 Actuals were $19,342,590 which is almost exactly the amount within the prior case 2022 FTP of $19,320,924.

Q: Do you also disagree with Witness Defever's labor adjustments applied to Columbia's direct payroll expense?

A: Yes. Witness Defever proposed a 10.8% reduction to Columbia direct payroll expense which equates to a $1,245,234 disallowance. Similar to the arguments related to NCSC payroll expense, Columbia's direct payroll expense is lower than what would have resulted from applying the Company's actual employee merit increases over the last few years to 2021 actual payroll expense. Based on this calculation, Columbia would have a resulting 2025 expected payroll expense of $13,621,492. However, in the Forecasted Test Period ("FTP") in the current proceeding, Columbia is requesting $11,529,946 in payroll expense, a decrease of (15.4%) when compared to the expected 2025 payroll. As another data point, when comparing to 2021 actual payroll expense, the 2025 FTP is a decrease of ($456,203), or (3.8%). This is shown in the table below:

2021 Actual Direct Payroll O&M	$ 11,986,149	Per AG 1-150
Actual Merit Increases		
2022	3.0%	
2023	3.0%	
2024	4.0%	
2025	3.0%	
Cumulative Merit Increase	13.6%	
Expected 2025 Payroll	$ 13,621,492	
Budgeted 2025 Payroll	$ 11,529,946	Per AG 1-150
Over/(Under) Expectation	$ (2,091,546)	
Percentage Over/(Under) Expectation	-15.4%	
Budgeted 2025 Increase/(Decrease) to 2021 Actual	$ (456,203)	
Percentage Increase/(Decrease) to 2021 Actual	-3.8%	

Q: Does this conclude your rebuttal testimony?

A: Yes.