Columbia Exhibit No.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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

PREPARED REBUTTAL TESTIMONY OF
TAMALEH L. SHAEFFER
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.

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COLUMBIA GAS OF KENTUCKY, INC.

September 20, 2024

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Tamaleh (Tami) L. Shaeffer and my business address is 290 West Nationwide Boulevard, Columbus, Ohio 43215.

Q. Did you provide direct testimony in this proceeding?

A. Yes, my pre-filed direct testimony on behalf of the Company was submitted to the Kentucky Public Service Commission ("PSC", or "Commission") in this matter on May 16, 2024.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. I am providing rebuttal testimony in continuing support of the request for Columbia Gas of Kentucky, Inc. ("Columbia" or the "Company") to increase its rates, and provide a summary of changes to the Company's revenue requirement. Specifically, I will respond to the testimony of the Office of the Attorney General ("OAG") witness John Defever regarding cost of service adjustments to operating expenses and other adjustments, including rate base and rate of return further addressed in the Rebuttal Testimony of Columbia witnesses Gore and Rea, respectively, affecting the OAG's proposed increase.

Q. Has the Company made any updates for items that that have an impact the requested revenue requirement?

A. Yes. Columbia's recent issuance of debt has been updated in the overall cost of capital supported by Company Witness Rea to reflect the Company's recent actual June 2024 anticipated issuance of debt cited by OAG witnesses Baudino and Defever resulting in a revised revenue increase of $23,668,683 and a FTP revenue requirement of $174,026,361. This is a reduction of $104,336 from the original revenue increase request of $23,773,019, and FTP revenue requirement of $174,130,697. Please refer to Rebuttal Attachment TLS-1 for a updated revenue increase compared to the OAG's recommendation (Schedule A), and reconciliation of differences between OAG's recommended adjustments and the Company's recommended adjustments (Schedule A-1).

Q. Does the Company agree with all of OAG's proposed adjustments?

A. No. The Company accepts the proposed adjustment by OAG to reflect an update to the cost of long-term debt discussed in the Rebuttal Testimony of Company Witness Rea, but disagrees with others as discussed below and in the Rebuttal Testimony of Columbia Witnesses Gore, Bly, and Owens. Rebuttal Attachment TLS-1 incorporates the changes supported by the Company in its Rebuttal Testimony.

Below is a table showing a reconciliation between the OAG and the Company's rebuttal revenue requirement increase along with references to Company witnesses supporting the revised amounts. Amounts presented have been grossed-up for income taxes, uncollectible and PSC Fee expenses.

Reconciliation Between OAG's Recommended Revenue Increase and Columbia's Rebuttal Revenue Requirement Increase			
Columbia / OAG Revenues at Current Rates			$150,357,678
OAG's proposed Revenue Increase			**$ 11,189,342**
OAG Revenue Requirement at Proposed Rates			$161,547,020
Company Revised OAG Revenue Requirement:	**Company Witness**	**Att. Rebuttal TLS-1 Reference**	**Adjustment Amount**
OAG Return on Rate Base Errors:			
- Interest Synchronization	Shaeffer	SCH A-1s1 & A-1s2	$ 122,115
- Customer Deposits / Interest Synchronization	Shaeffer & Gore	SCH A-1s1	$ 178,796
- Cash Working Capital ADIT		SCH A-1s1	$ 316,918
OAG Operating Expense Errors:			
- Capitalized Payroll (Labor) applied to O&M	Shaeffer, Inscho & Bly	SCH A-1s1	$ 1,664,072
- Capitalized Benefits (Labor) applied to O&M		SCH A-1s1	$ 379,356
- Capitalized Payroll Tax (Labor) to Other Taxes		SCH A-1s1	$ 85,269
- NCSC Investor Relations-Items Removed x2	Shaeffer & Bly	SCH A-1s1& SCH Ds3	$ 26,256
OAG's proposed Revenue Increase - Revised			**$ 13,962,124**
OAG Rev. Req. at Proposed Rates - Revised			$164,319,802
Company Rebuttal Revenue Requirement Adjustments to OAG Revised:			
Return On Rate Base & Capital Structure:			
Return on Equity (Company's Proposed 10.80%)	Rea	SCH A-1s1	$ 4,448,718
Cash Working Capital	Johnson	SCH A-1s1 & SCH B-5.2.A	$ 536,652
Operations & Maintenance Expenses	Shaeffer, Inscho, Bly & Owens	SCH A-1s1 & SCH Ds1	$ 4,635,087
Taxes Other Than Income, Payroll Taxes			$ 86,102
Total Operations Expense Adjustments			$ 4,721,189
Columbia Rebuttal Revenue Increase			**$ 23,668,683**
Columbia Rebuttal Rev. Req. at Proposed Rates			$174,026,361

Q. Does the Company's acceptance of certain of OAG's proposed adjustments mean that the Company agrees with all methods employed by OAG to arrive at their adjustments?

A. No. The Company's acceptance of any of OAG adjustments should not be interpreted as the Company's endorsement of any particular method of determining those adjustments.

<u>**Company Revised OAG Revenue Requirement - Introduction**</u>

Q. Did you identify any errors in the OAG's recommended revenue requirement calculation? If yes, please explain.

A. Yes. As shown in the table above, the Company identified errors in the OAG's adjustments relating to the Rate of Return on Rate Base and Operating Expenses, specifically Operations and Maintenance ("O&M") Expenses and payroll taxes included in Taxes Other Than Income ("TOTI").

The Return on Rate Base adjustment calculation errors include omittance of interest synchronization, or alignment, of the OAG's recommended changes to (1) the weighted-cost of long-term debt, (2) the adjustment to Rate Base for Customer Deposits, and (3) the adjustment to Rate Base for Cash Working Capital totaling $122,115. Treatment of

Customer Deposits in Rate Base impacting the revenue requirement in the amount of $178,796, and omittance of a corresponding adjustment for Accumulated Deferred Income Tax ("ADIT") associated Cash Working Capital ("CWC") when recommending inclusion of CWC in Rate Base for $316,918 as further discussed in the Rebuttal Testimony of Columbia Witness Gore.

The O&M and TOTI errors include (1) improper application of capitalized costs in the OAG's adjustment to O&M and TOTI payroll (labor), and associated adjustments to benefits and payroll tax expenses, and (2) duplication of the OAG's adjustment to NiSource Corporate Services Company ("NCSC") for allocated Investor Relations expenses to Columbia for a cumulative operating expense total of $2,154,953.

In summary, the OAG's errors identified by Columbia total $2,772,782, resulting in a Columbia revised OAG revenue increase of $13,962,124.

<u>Company Revised OAG Revenue Requirement – Return On Rate Base Items</u>

Q. Can you explain the term and concept of interest synchronization?

A. In utility ratemaking, interest synchronization is a concept that ensures the interest expense used in calculating income tax expense matches the interest expense allowed in the revenue requirement. In other words, that the income tax expense is aligned with the allowed revenue requirement to ensure that a utility does not over- or under-recover its costs from customers.

Q. Please describe how and where the Company included synchronization of interest / income tax expense in its filing Application?

A. The Required Operating Income presented in Columbia's Application in Tab 79, FR 807 KAR 5:001 Section 16(8)(a), Page 2, Schedule A, Line 5, is calculated as Rate Base multiplied by the Allowed Rate of Return (or Weighted-Average Cost of Capital ("WACC")), which includes an allowed level of interest expense. The allowed amount of interest expense is based on the weighted-average cost of debt included in the utility's WACC. This same calculated interest expense is utilized in the calculation of the FTP income tax expense[1] and thereby adjusted (synchronized) to match the allowed interest expense in the revenue requirement as shown in Tab 83, FR 807 KAR 5:001 Section 16(8)(e), Page 2, Schedule E-1.1, Sheet 1 of 3, Lines 1 through 3, and in the interest expense / charges in Footnote 1 calculated in Lines 53 through 55. The tax effect of the difference in

[1] Calculated as Operating Income before Income Taxes, less Interest Expense = Taxable Income before Income Tax and Credits.

interest expense is the adjustment for interest synchronization. The effect of this adjustment is to ensure that the revenue requirement reflects the tax savings generated by the interest component of revenue requirement.

Q. Can you describe how Mr. Defever's calculations did not capture the synchronization of interest / income tax expense?

A. Mr. Defever's calculations did not capture the synchronization of interest expense in two respects: (1) in the adjustment to state and federal income tax expense in deriving the OAG's recommended revenue requirement (Exhibit JD-1), and (2) in table on Page 4 of Mr. Defever's testimony calculation of the Rate of Return Impact and Rate Base Adjustments to the OAG's recommended revenue requirement.

First, in the OAG's revenue requirement adjustment to income tax expense presented in Exhibit JD-1, Schedule C-13, Mr. Defever captured recommended adjustments to the Company's operating income (for O&M and TOIT) however neglected to account for the change in interest expense from OAG recommended changes to Rate Base and the Weighted-Average Cost of Debt in deriving the change to taxable income. This created a higher adjustment to income tax expense, resulting in a lower adjusted net operating income upon which the OAG's recommended revenue deficiency (increase) was determined.

In the Rate of Return Impact calculation in the table on Page 4 of Mr. Defever's testimony presenting a line-item summary of the OAG's proposed adjustments to the Company's requested revenue increase, Mr. Defever calculated this amount by utilizing the difference in the OAG versus Company recommended WACC (an After-Tax Rate of Return inclusive of debt and equity) applied to the Company's requested Rate Base. This was further multiplied by the Gross Revenue Conversion Factor ("GRCF"). As explained in my Direct Testimony, the GRCF provides for additional revenue to address a revenue deficiency as a direct result of the rate increase in taxable income, uncollectible expense, and PSC fees. In relation to the change in the debt component of the WACC, as explained above, interest expense is a reduction to taxable operating income in the calculation of the revenue requirement. By utilizing the overall difference in OAG versus Company WACC (inclusive of debt, or interest) and multiplying the resulting difference by the GRCF (inclusive of an income tax gross-up), Mr. Defever did not perform a synchronization of interest expense resulting in a greater (over) reduction to the recommended weighted-cost of long-term debt of $34,687. This is demonstrated in the Company's reconciliation of the OAG's recommended revenue increase provided in Rebuttal Attachment TLS-1, Schedule A-1, Sheet 1, Adjustment 2 – Return On Rate Base–Long-Term Debt (Lines 9 through 12). This same method was used by Mr. Defever in determining the revenue increase adjustments to Rate Base for CWC and Customer Deposits also resulting in a greater (over) reduction of the OAG's recommended adjustments of $72,287 and $15,141, respectively, as shown in the supporting reconciling calculations in Rebuttal Attachment TLS-1, Schedule A-1, Sheet 1, Adjustment 3 – Return On Rate Base–Customer Deposits and Adjustment 4 – Return On Rate Base–CWC (Lines 13 through 20).

In summary, the OAG's error in properly synchronizing interest expense in the calculation of income tax expense and corresponding adjusted operating income, and in the summary calculation of the OAG's Rate Base adjustments in the table on Page 4 of Mr. Defever's testimony, resulted in an over-reduction to the OAG's recommended revenue requirement of $122,115 as listed in the table above.

Q. Did Mr. Defever provide an explanation or support for why the OAG's did not make an adjustment for interest synchronization?

A. No, Mr. Defever did not provide any support for why interest expense was not synchronized in the computation of the recommended adjustment to the income tax expense and adjusted operating income, nor in determining the Rate of Return Impact and Rate Base Adjustments to the OAG's proposed revenue increase in testimony, however in response Columbia's First Request to the OAG, Item 1, the OAG stated "it is appropriate to calculate the impact on income taxes for interest synchronization. As an oversight, I did not include this calculation in my revenue requirement schedules. However, I will include the interest synchronization adjustment in an errata filing."

Q. Regarding the OAG's adjustments to Rate Base for Customer Deposits and CWC-ADIT, can you provide an explanation of why the Company has identified these adjustments as errors made in the OAG's recommendation?

A. Yes. Columbia Witness Gore's rebuttal testimony provides an explanation of how Customer Deposits were treated in the revenue requirement filed in this proceeding, as well as an explanation of the need to include an adjustment for CWC-ADIT that should occur in correlation to the inclusion of CWC in Rate Base. Please refer to the table above, also included in Rebuttal Attachment TLS-1, for the calculated impact and Company adjustment to the OAG's recommended revenue requirement for these changes of $178,796 and $316,918, respectively, which have been grossed-up for uncollectible and PSC fee expense.

Q. Did the OAG propose any other adjustments to the Company's CWC recommendation?

A. Yes, Mr. Defever recommended inclusion of CWC in Rate Base in the amount of ($9,402,090). This was derived by leveraging the Company's Lead Lag study and applying the OAG's recommended adjustments to O&M and TOTI.

Q. Does the Company agree with the OAG's CWC recommendation in determining Rate Base?

A. No, the Company does not agree with the OAG's recommended calculation of CWC. In review of the Mr. Defever's CWC calculation, Columbia observed that the OAG did not recognize certain O&M and TOTI adjustments in the proper operating expense categories, nor did the OAG incorporate adjustments for interest or income taxes despite recommended changes to the Company's Rate Base, long-term debt, and operating income. In response to Columbia's First Request to the Attorney General, Item 4, the OAG replied, "I did not adjust the Company's interest and income tax synchronization in the cash working capital calculation.

As stated in my response to Question 1, I will add an interest synchronization adjustment to my schedules in an errata filing."

<u>Company Revised OAG Revenue Requirement – O&M and TOTI Items</u>

<u>Labor, Benefits and Payroll Taxes</u>

Q. OAG Witness Defever recommends a reduction to the Company's payroll (labor) and associated benefits and payroll tax operating expenses as described in Pages 23 and 34 of his testimony. Mr. Defever calculated the adjustment by utilizing a comparison of the Company's budgeted versus actual payroll for the historical three-year period 2021 to 2023. Does the Company agree with this adjustment?

A. No, the Company does not agree with the OAG's approach in adjusting labor and labor-related expenses for the following reasons:

(1) Mr. Defever's adjustments disregard the 2024 and 2025 union wage / merit increases (supported by the Direct Testimony of Columbia Witness Owens), and

(2) the recommended adjustment utilizes gross payroll (inclusive of capitalized costs) which is not comparable to the labor O&M expense recognized on Columbia's general ledger, or to the Company's labor O&M expense budget. Note, it should be mentioned that a reconciliation

is not possible with these two data sets (gross payroll and actual general ledger / budgeted labor) as they are two different data points.

As shown in the table below, and provided in Rebuttal Attachment TLS-1, Schedule D, Sheet 2 of 3, the Company FTP labor O&M expense budget is an increase over the most recent calendar year (2023) actual labor O&M expense of 7.1% as per information supplied in Columbia's response to Attorney General First Request, Item 99. This increase is largely supported by the 2024 and 2025 union wage / merit increases of 4.0% and 3.0%, respectively, included in the Company's response to Kentucky Commission Staff First Request, Item 38, as explained in the Direct Testimony of Columbia Witness Owens.

Labor O&M	DR Reference	2023	Base Period	Forecasted Test Period	FTP (2025) vs. 2023	% Increase
Columbia	AG DR 1-99	$11,365,703	$11,497,037	$11,529,946		
NCSC Allocated	AG DR 1-99	$6,702,522	$7,498,811	$7,828,724		
		$18,068,225	$18,995,848	$19,358,670	$1,290,445	7.1%
2024 Merit	Staff DR 1-38					4.0%
2025 Merit	Staff DR 1-38					3.0%
Difference						0.1%

As mentioned, the historical budget versus actual analysis performed by OAG Witness Defever utilized the Company's total gross payroll, which is inclusive of payroll (labor) recognized on Columbia's books as capital and O&M, in developing a ratio that was applied to the

FTP O&M expense for labor, and corresponding adjustments to benefits, and payroll tax. This was confirmed by the OAG in response to Columbia First Request, Item 6, "For the table on page 25 of my direct testimony, I relied on the Company's response to Attorney General's Second Request, Item 63, which in part referred to the Commission Staff First Request for Information, Item 38, Attachment A;" and in further explained in response to Item 7, "The Company's responses to Staff's First Request, Item 38 and Attorney General's Second Request, Item 63 did not provide a breakout between capital and O&M. As such, the ratio used in my calculation […] is inclusive of capital and O&M expense." Mr. Defever's adjustment to FTP O&M for labor, benefits, and payroll tax is an improper application to reduce gross payroll costs recognized (charged to) capital to the Company's O&M and TOTI.

Further, data from the Company's payroll system provided in Columbia's responses to Staff's First Request, Item 38 and the Attorney General's Second Request, Item 63 is reflective of gross salaries, overtime, and premium pay for each period end from the NiSource Payroll Department. Employees' gross salaries (payroll) are not representative of the labor costs recognized on the Company's general ledger or budget, which is based upon pay period reporting and accounting accruals.

Q. Did Mr. Defever provide explanation or support for why the Company's O&M and TOTI expenses were adjusted for capitalized costs, or why union wage / merit increases were not considered?

A. No, OAG did not provide support for why gross payroll (inclusive of capitalized costs) were applied in an adjustment to the Company's O&M and TOTI for labor, and associated benefits and payroll taxes; additionally, Mr. Defever did not give mention or consideration to the Company's annual merit / wage increases in his analysis or testimony; however, the OAG did recognize inclusion of annual merit / wage increases in the Company's FTP budget in response to Columbia First Request, Item 9, stating "the Company's forecasted test period amounts (…) presumably include projected merit / union wage increases."

Q. Did OAG Witness Defever provide any further reasoning for his recommended adjustment to the Company's labor and associated benefits and payroll tax operating expenses?

A. Yes. In Pages 23 to 24 of Mr. Defever's testimony he presents a comparison of the historical budgeted versus actual headcount for Columbia Gas of Kentucky and NiSource Corporate Services Company for the period 2021 through April 2024 concluding that "the Company has consistently had vacancy issues."

Q. Does the Company agree with Mr. Defever's position on headcount vacancies?

A. No, Columbia does not agree. Please see the Direct and Rebuttal Testimony of Columbia Witness Bly for explanation of how the Company accounted for vacancies in the development of the FTP budget.

Q. Does OAG Witness Defever's recommended payroll (labor) adjustment provide recovery of the Company's most recent actual labor O&M expense for calendar year 2023?

A. No, it does not. The OAG's recommended payroll adjustment lowers Columbia's FTP labor O&M expense to a proforma total of $17,729,828 which is $338,397 lower than Columbia's 2023 actual labor expense experienced as shown in the table below, in particular for Columbia Direct O&M labor expense.

Labor O&M	DR Reference	Forecasted Test Period (2025)	OAG Adjustment	OAG Adjusted FTP	2023 Actual	Difference
Columbia	AG DR 1-99	$11,529,946	($1,245,234)	$10,284,712	$11,365,703	($1,080,991)
NCSC Allocated	AG DR 1-99	$7,828,724	($383,608)	$7,445,116	$6,702,522	$742,594
		$19,358,670	($1,628,842)	$17,729,828	$18,068,225	($338,397)

Q. Does the Company agree with Mr. Defever's corresponding labor adjustments to benefits and payroll tax expense? If no, please explain.

A. No, Columbia does not agree with the OAG's corresponding labor adjustments to benefits or payroll taxes for the reasons stated above. Mr. Defever's calculation of benefits expense and payroll tax expense ratios utilized data provided in Columbia's Application, specifically amounts included in Tab 85, FR 807 KAR 5:001, Section 16(8)(g), Schedule G-1, thereby (1) duplicating a reduction in recovery of costs removed via other OAG recommended adjustments, and (2) misapplying Columbia Direct benefits and payroll tax ratios to NCSC allocated expenses.

When Columbia inquired if Mr. Defever adjusted the Schedule G-1 FTP benefits expense amount for profit sharing, 401k (including defined benefits plan expense), and pension SERP, or if the OAG considered that short- and long-term incentive compensation expenses were included in the labor expense, these items being the numerator and denominator of the benefits expense ratio, Mr. Defever replied in response to Columbia's First Request, Item 10, stating "No. My benefit expense adjustment is a high-level placeholder (…)." Further, when questioned if Mr. Defever considered that Schedule G-1 is Columbia Direct labor, benefits and payroll tax expense and not representative of NCSC labor, benefits expense allocated to Columbia his response again in Columbia's First Request, Item 12, was "No. My benefit expense adjustment is a high-level placeholder (…)."

As a result, not only did Mr. Defever apply a labor ratio inclusive of capitalized costs to labor and benefits O&M expenses, and payroll taxes, but the benefits and payroll tax ratios calculated and utilized in correlating labor-related adjustments double counted removal of O&M expenses via other adjustments recommended (for example, short- and long-term incentive compensation) as well as misapplied a Columbia Direct benefits and payroll tax expense ratio to a recommended NCSC allocated labor adjustment.

<u>NiSource Corporate Services Company Allocated Investor Relations Expense</u>

Q. OAG Witness Defever recommends a reduction to the Company's allocated O&M expenses from NCSC for the Investor Relations Department based on data provided in the Company's response to the Attorney General's First Request, Item 104. Does the Company agree with this adjustment?

A. No. As explained by Mr. Defever in his testimony on Page 18, this adjustment includes O&M expenses allocated to Columbia by NCSC for the Investor Relations Department inclusive of salaries (payroll, or labor), office supplies, employee expenses, employee pension / benefits, non-service pension / OPEB and miscellaneous expenses. As explained above, a portion of these expenses were adjusted in other ratemaking adjustments either by the Company via reductions for non-recoverable items, or by Mr. Defever in his recommended adjustments to payroll, benefits and payroll taxes.

In the OAG's removal of the entire FTP budget for Columbia's allocated Investor Relations Department O&M expense from NCSC, Mr. Defever has double counted removal of certain expenses in his Investor Relations adjustment. When asked if Mr. Defever considered that the adjustment to Investor Relations expense should have been adjusted to reflect expenses adjusted in other OAG recommended adjustments, his reply to Columbia's First Request, Item 14, stated "Although there may be some overlap with other adjustments, as the forecasted test period amount of investor relations expense was not broken out by account (e.g. labor, benefits, etc.), the amount of overlap was not clear. If the Company believes any overlap exists with my investor relations and payroll adjustments then it can identify the same in its rebuttal testimony."

In Columbia's review of the calendar year 2023 Investor Relations Department expenses provided in Attorney General's First Request, Item 104, the Company determined that approximately 43% of the most recent calendar year basis was adjusted by Mr. Defever in other adjustments recommended the OAG resulting in a correction to the OAG's recommended revenue requirement of $26,256, grossed-up for uncollectible and PSC Fees as presented in Rebuttal Attachment TLS-1, Schedule D, Sheet 3.

Q. Did Mr. Defever provide explanation or support for why the Company's NCSC allocated Investor Relations expenses were adjusted for items also adjusted in the Company's ratemaking adjustments or in other adjustment recommendations by the OAG?

A. No, OAG did not provide any support for why the OAG adjustments to labor and benefits, short-term incentive, profit sharing, or the Company's non-recoverable O&M expense exclusions were not factored in the OAG's recommended adjustment to NCSC allocated Investor Relations expenses, and further stated in Columbia's First Request, Item 14, "the amount of overlap was not clear," however Columbia's response to the Attorney General's First Request, Item 104, did provide actual Investor Relations expenses, by account, and by expense cost type (i.e. labor, incentive, benefits, etc.) for calendar years 2021 through 2023, and the actual Base Period.

<u>Company Rebuttal Revenue Requirement</u>

Q. Can you provide explanation of the Capital Structure utilized by the Company it deriving its Rebuttal Revenue Requirement supported in Rebuttal Attachment TLS-1, Schedule J-1.1 / J-1.2?

A. Yes. As mentioned, Columbia's revised revenue increase request is $23,668,683. This is a reduction of $104,336 from the original revenue increase request of $23,773,019. The Rebuttal Testimony of Witness Rea supports the change to the long-term debt and interest rate used in the forecasted test year capital structure. Refer to the table above, also included in Rebuttal Attachment TLS-1, for the calculated impact to the revenue requirement for this change.

Q. Does this conclude your Rebuttal Testimony?

A: Yes.