

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

In the matter of:	)	
	)	
THE ELECTRONIC APPLICATION OF	)	
COLUMBIA GAS OF KENTUCKY,	)	Case No. 2024-00328
INC. FOR: 1) APPROVAL OF AN	)	
AMENDMENT TO ITS SAFETY	)	
MODIFICATION AND	)	
REPLACEMENT TARIFF; AND 2)	)	
APPROVAL TO UPDATE SMRP	)	
RATES	)	

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**PREPARED DIRECT TESTIMONY OF  
VINCENT V. REA  
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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

October 15, 2024

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Vincent V. Rea. I currently serve as Managing Director of  
3 Regulatory Finance Associates, LLC, an independent financial and  
4 regulatory consulting firm. My business address is 80 Blake Boulevard,  
5 #4572, Pinehurst, NC 28374.

6 **Q. Please describe your professional experience.**

7 A. Prior to moving into my current position, I served as Director, Regulatory  
8 Finance and Economics for NiSource Corporate Services Company. In this  
9 position, I provided expert testimony and other regulatory support on  
10 behalf of NiSource's utility subsidiaries with regard to the cost of equity,  
11 overall fair rate of return, and ratemaking capital structure. Prior to serving  
12 as Director, Regulatory Finance and Economics, I served as Assistant  
13 Treasurer for both Columbia Gas of Kentucky, Inc. ("Columbia" or "the  
14 Company") and its ultimate parent company, NiSource. In the capacity of  
15 Assistant Treasurer, I was responsible for the external capital raising  
16 activities and banking activities for NiSource, for inter-company financing  
17 activities among all NiSource subsidiaries (including Columbia), and also  
18 provided regulatory support and testimony for utility rate proceedings and  
19 financing petitions.

20

1 **Q. Please describe your educational background.**

2 A. I hold an M.B.A. in Finance from Indiana University, Bloomington, Indiana,  
3 and a B.A. with honors distinction in Business Administration from Lake  
4 Forest College, Lake Forest, Illinois.

5 **Q. Do you hold any professional designations?**

6 A. Yes. I have been awarded the designation of Certified Rate of Return  
7 Analyst (“CRRA”) by the Society of Utility and Regulatory Financial  
8 Analysts (“SURFA”), and I am also a registered Certified Public Accountant  
9 (“CPA”) in the State of Illinois.

10 **Q: Have you previously testified before the Kentucky Public Service**  
11 **Commission?**

12 A: Yes, I have offered testimony in two of Columbia’s base rate proceedings  
13 (Case No. 2024-00092 and Case No. 2021-00183) regarding the Company’s  
14 cost of equity, overall fair rate of return and ratemaking capital structure.

15 **Q: What is the purpose of your testimony?**

16 A. The purpose of my testimony is to explain why Columbia’s proposed  
17 changes to its Safety Modernization and Replacement Program (“SMRP”)  
18 rider in its pending rate case<sup>1</sup> will no longer provide the Company with the

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<sup>1</sup> Case No. 2024-00092, *In the Matter of the Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; and Other Relief.*

1 same risk-reducing benefits previously associated with the SMRP rider, and  
2 also why, as a result of this change, Columbia’s authorized Return on  
3 Equity (“ROE”) for its SMRP investments should be the same as the  
4 Company’s authorized ROE for its base rates.

5 **Q. Are you sponsoring any attachments through your direct testimony?**

6 A. Yes, I am sponsoring Attachment VVR-1, which provides an overview of  
7 the regulatory mechanisms employed by the gas utility holding companies  
8 that I evaluated in Columbia’s recent base rate proceeding<sup>2</sup> (“the Rate  
9 Case”).

10 **Q. Why did Columbia change its proposed treatment of SMRP investments**  
11 **in the Rate Case?**

12 A. Columbia proposed changing its treatment of SMRP investments in  
13 accordance with its understanding of the Commission’s Order in the  
14 Company’s 2021 rate case<sup>3</sup>, which directed that Columbia’s SMRP  
15 investments should be maintained separately and not incorporated or  
16 “rolled-in” to base rates in future cases.

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<sup>2</sup> *Id.*

<sup>3</sup> Case No. 2021-00183, *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, Issuance of a Certificate of Public Convenience and Necessity and Other Relief*, Order at 40 (Ky PSC Dec. 28, 2021).

1 **Q: Please provide a brief overview of Columbia’s proposed changes to the**  
2 **treatment of its SMRP investments from the Rate Case.**

3 A: Columbia is no longer requesting to include SMRP invested capital through  
4 the forecasted test year in base rates. These proposed changes were further  
5 elucidated in the direct testimony of Jeffery T. Gore in the Rate Case, where  
6 Mr. Gore stated the following:

7 Columbia is **not** requesting that the 2023, 2024, and 2025 SMRP  
8 capital investments be moved into the base rates. Rather, the SMRP  
9 rider will continue to provide the mechanism for recovery of SMRP  
10 related capital investments from 2023 forward as follows:

11

- 12 • 2025 SMRP filing made in October 2024 for rates effective  
13 January 2025 will include the prior investments for 2023, 2024  
14 and the forecasted 2025,
- 15 • 2026 SMRP filing made in October 2025 for rates effective  
16 January 2026 will include the prior investments for 2023, 2024,  
17 2025 and the forecasted 2026.

18

19 Therefore, the majority of capital investments included within the  
20 2025 and 2026 SMRP riders will be historical investments that  
21 previously would have been included in base rates.<sup>4</sup>

22

23

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<sup>4</sup> Case No. 2024-00092, *In the Matter of the Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; and Other Relief*, Direct Testimony of Jeffery T. Gore, Case No. 2024-00092 (May 16, 2024), at 7-8

1 **Q: How will these changes alter the risk profile of the SMRP rider going**  
2 **forward?**

3 A: The SMRP rider will no longer be a mechanism solely devoted to the  
4 accelerated recovery of infrastructure investments between rate cases, but  
5 will increasingly include historical investments in a manner similar to base  
6 rates. The Commission has previously opined that from a historical  
7 perspective, riders may have theoretically reflected a lower risk profile as  
8 compared to those investments residing in rate base.<sup>5</sup> However, the  
9 Company's proposed changes to the SMRP rider mechanism will  
10 significantly reduce the differentiating effects or benefits that were  
11 previously provided through the accelerated cost recovery feature of the  
12 SMRP rider. In fact, the Company's proposed changes significantly alter  
13 the nature of cost recovery through the SMRP rider, bringing the risk profile  
14 of the SMRP mechanism in line with that of base rate recovery.

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<sup>5</sup> Case No. 2020-00174, *In the Matter of Electronic Application of Kentucky Power Company for (1) a General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief*, Order (Ky. PSC Jan. 13, 2021) at 66-67.

1 **Q: Do the changes to the SMRP rider justify an authorized ROE that is equal**  
2 **to the authorized ROE that is applied to base rates?**

3 A: Yes. A substantial portion of the SMRP rider revenue requirement balance  
4 will now encompass historic investments that would have previously been  
5 rolled-in to Columbia's traditional rate base. Therefore, from a cost recovery  
6 timing standpoint, this portion of the Company's SMRP rider revenue  
7 requirement will now reflect similar characteristics as Columbia's  
8 traditional cost recovery through base rates and will not receive any benefit  
9 from accelerated cost recovery. Stated alternatively, Columbia's historic  
10 investments that will now be included in the SMRP rider will not benefit from  
11 the reduction of regulatory lag, which has historically been the case for SMRP  
12 investments.

13  
14 In Columbia's recent past rate proceedings, the downward adjustment to the  
15 authorized ROE for the Company's SMRP rider was to a significant extent  
16 attributable to the risk-reducing effects of the elimination of regulatory lag  
17 between rate cases, which resulted in more timely cost recovery for the  
18 Company's SMRP investments. It is therefore important to recognize that for  
19 the historic investments that will remain in the SMRP rider going forward,  
20 the benefits associated with reduced regulatory lag will no longer be  
21 applicable. Furthermore, SMRP investments had previously been valued at

1 a terminal year-end rate base rather than a 13-month average rate base that  
2 the Commission now requires. Therefore, in the absence of these benefits,  
3 the authorized ROE applied to the SMRP rider should be no less than the  
4 authorized ROE for base rates.

5 **Q. Recently, in the Rate Case, you reviewed the public filings and investor**  
6 **presentations of the gas proxy group<sup>6</sup> companies to determine the extent to**  
7 **which these companies also utilize infrastructure tracking mechanisms that**  
8 **are similar in form to Columbia’s SMRP rider.<sup>7</sup> What conclusions did you**  
9 **arrive at after conducting this review?**

10 A. After conducting this review, I concluded that the majority of the companies  
11 comprising the Gas Local Distribution Company (“LDC”) Group also employ  
12 infrastructure cost recovery mechanisms that are similar in form to  
13 Columbia’s SMRP rider. For this reason, the market data of these proxy  
14 group companies, including their stock prices and implicit cost of equity, will  
15 already reflect any theoretical or actual risk-reducing effects of these cost  
16 recovery mechanisms. Accordingly, any further reductions to Columbia's  
17 authorized ROE for its SMRP rider would essentially constitute a *double-*

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<sup>6</sup> In the Rate Case, I referred to this gas proxy group as the “Gas LDC Group”.

<sup>7</sup> Case No. 2024-00092, *In the Matter of the Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; and Other Relief*, Direct Testimony of Vincent V. Rea, (May 16, 2024), at 47-52.



1           *counting* of these risk-reducing effects, since these effects would already be  
2 reflected in the Company's cost of equity and its authorized ROE for base  
3 rates.

4   **Q. Can you offer any additional evidence that the authorized ROEs decided in**  
5 **utility rate proceedings already incorporate the risk-reducing effects of**  
6 **infrastructure cost recovery mechanisms such as the SMRP rider?**

7   A. Yes. As noted earlier and as discussed in my direct testimony in the Rate  
8 Case, I conducted a comprehensive review in that proceeding to determine  
9 the extent to which the gas proxy group companies utilize infrastructure cost  
10 recovery mechanisms that are similar in form to Columbia's SMRP rider. In  
11 conducting my review, I employed the same approach that investors typically  
12 employ in conducting their relative risk assessments among various  
13 investment alternatives. That is, I reviewed each company's SEC public  
14 filings (i.e. 10-Ks and 10-Qs) and investor conference presentations. This is an  
15 appropriate approach since investors will generally form their risk  
16 perceptions with respect to the impacts of infrastructure cost recovery  
17 mechanisms largely on the basis of the information contained within a  
18 company's public filings and/or other publicly-disseminated information  
19 such as investor conference presentations. The results of my review of the  
20 infrastructure tracking mechanisms employed by the Gas LDC Group

1 companies, which I also presented in the Rate Case, can be found in  
2 Attachment VVR-1 to my direct testimony in the instant proceeding.

3  
4 Based on my review, I determined that the market-based data of the Gas LDC  
5 Group companies would already capture any risk-reducing effects resulting  
6 from these cost recovery mechanisms. More specifically, the cost of equity  
7 estimates produced by analyzing the market and financial data of the Gas  
8 LDC Group companies, which provided the underlying basis for my cost of  
9 equity recommendations for Columbia in the Rate Case, already incorporate  
10 any risk-reducing effects of infrastructure tracking mechanisms, as these  
11 mechanisms are widely-utilized by the companies comprising the Gas LDC  
12 Group. It would therefore be inappropriate to apply a downward adjustment  
13 to the authorized ROE for Columbia's SMRP rider, since again, any such  
14 adjustment would be redundant to the effects that would already be  
15 incorporated into the Company's authorized ROE for base rates as  
16 determined in the Rate Case.

17 **Q: Does this conclude your Direct Testimony?**

18 A: Yes.

Regulatory Mechanisms by Jurisdiction  
Atmos Energy Corp.

Jurisdiction	Rate / Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
CO	-	System Safety and Integrity Rider (SSIR)
KS	Weather Normalization (WNA)	Gas System Reliability Surcharge (GSRs) and System Integrity Program (SIP)
KY	Weather Normalization (WNA)	Pipeline Replacement Program (PRP)
LA	WNA and Rate Stabilization Clause (RSC)	Safety and Reliability Deferral Mechanism (SIIP)
MS	WNA and Stable Rate Filing (SRF)	System Integrity Rider (SIR)
TN	WNA and Annual Rate Mechanism (ARM)	Infrastructure Deferral Mechanism
TX (Mid)	WNA and Rate Review Mechanism	Rule 8.209 System Safety and Reliability Capital Deferral Mechanism and Gas Reliability Infrastructure Program (GRIP)
TX (West)	WNA and Rate Review Mechanism	Rule 8.209 System Safety and Reliability Capital Deferral Mechanism and Gas Reliability Infrastructure Program (GRIP)
VA	Weather Normalization (WNA)	Steps to Advance Virginia Energy (SAVE)

Regulatory Mechanisms by Jurisdiction  
New Jersey Resources Corp.

Jurisdiction	Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
NJ	Revenue Decoupling (Conservation Incentive Program (CIP), including WNA)	Safety Acceleration and Facility Enhancement Program (SAFE), Reinvestment in System Enhancement (RISE) Program, Resiliency and Reliability Invest. (IIP)

- (1) Rate/revenue stabilization mechanisms include the following four rate design approaches: (a) revenue decoupling mechanisms (incl. lost revenues adjustment); (b) weather normalization adjustment (WNA) clauses; (c) straight-fixed variable (SFV) or modified fixed-variable (MFV) rate design; and (d) rate stabilization tariffs.

Regulatory Mechanisms by Jurisdiction  
NiSource Inc.

Jurisdiction	Rate / Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
IN	Fixed Customer Charge (Gas)	Transmission, Distribution and Storage System Improvement Charge (TDSIC) (Gas and Electric)
KY	Weather Normalization Adjustment (WNA) and Fixed Customer Charge	Safety Modernization and Repl. Program (SMRP)
MD	Weather Normalization Adjustment (WNA) and Revenue Normalization Adjustment (RNA)	Strategic Infrastructure Development and Enhancement (STRIDE)
OH	Straight-Fixed Variable Rate Design	Capital Expenditure Program (CEP) and Infrastructure Replacement Program (IRP)
PA	Weather Normalization Adjustment (WNA) and Fixed Customer Charge	Distribution and Storage System Impr. Charge (DSIC)
VA	Weather Normalization Adjustment (WNA) and Revenue Normalization Adjustment (RNA)	Steps to Advance Virginia's Energy Plan (SAVE)

Regulatory Mechanisms by Jurisdiction  
Northwest Natural Gas Co.

Jurisdiction	Rate / Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
OR	Revenue Decoupling & WNA (WARM)	Forward Test Year
WA	-	Forward Test Tear (Multiyear)

- (1) Rate/revenue stabilization mechanisms include the following four rate design approaches: (a) revenue decoupling mechanisms (incl. lost revenues adjustment); (b) weather normalization adjustment (WNA) clauses; (c) straight-fixed variable (SFV) or modified fixed-variable (MFV) rate design; and (d) rate stabilization tariffs.

Source of Data: Company 10-K reports and investor conference presentations.

Regulatory Mechanisms by Jurisdiction  
ONE Gas, Inc.

Jurisdiction	Rate / Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
KS	Weather Normalization Adjustment (WNA)	Gas System Reliability Surcharge (GSRS)
OK	WNA (Temperature Adjustment Clause)	PBRC - Incremental Capital Investment
TX	Weather Normalization Adjustment (WNA)	Gas Reliability Infrastructure Program (GRIP) and Cost of Service Adjustment (COSA)

Regulatory Mechanisms by Jurisdiction  
Spire Inc.

Jurisdiction	Rate / Revenue Stabilization Mechanisms (1)	Infrastructure Replacement Cost Recovery Mechanisms
AL	WNA (Temperature Adjustment Rider) and Rate Stabilization & Equalization (RSE)	-
MO	Weather Normalization (WNA)	Infrastructure System Replacement Surcharge (ISRS)
MS	WNA and Rate Stabilization Adjustment (RSA)	Supplemental Growth Rider (SG)

(1) Rate/revenue stabilization mechanisms include the following four rate design approaches: (a) revenue decoupling mechanisms (incl. lost revenues adjustment); (b) weather normalization adjustment (WNA) clauses; (c) straight-fixed variable (SFV) or modified fixed-variable (MFV) rate design; and (d) rate stabilization tariffs.

Source of Data: Company 10-K reports and investor conference presentations.

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THE ELECTRONIC APPLICATION OF COLUMBIA )  
GAS OF KENTUCKY, INC. FOR: 1) APPROVAL OF ) Case No. 2024-00328  
AN AMENDMENT TO ITS SAFETY )  
MODIFICATION AND REPLACEMENT TARIFF; )  
AND 2) APPROVAL TO UPDATE SMRP RATES )

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**VERIFICATION OF VINCENT V. REA**

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STATE OF NORTH CAROLINA )  
)  
COUNTY OF MOORE )

Vincent V. Rea, CRRA, Managing Director, Regulatory Finance Associates, LLC, consultant for Columbia Gas of Kentucky, Inc., being duly sworn, states that he has supervised the preparation of testimony in the above-referenced case and that the matters and things set forth therein are true and accurate to the best of his knowledge, information and belief, formed after reasonable inquiry.

  
\_\_\_\_\_  
Vincent V. Rea

The foregoing Verification was signed, acknowledged and sworn to before me this 15 day of October, 2024, by Vincent Rea.

  
\_\_\_\_\_

Notary Commission No.  
201829900061

Commission expiration:  
10-26-28

