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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Eastern Natural Gas Company for Approval of an Alternative Rate Plan Proposing a Revenue Decoupling Mechanism	:	Case No. 08-940-GA-ALT

PREFILED DIRECT TESTIMONY
OF
BRIAN R. JONARD

Q1. Please state your name and business address.

A1. Brian R. Jonard., P.O. Box 430, Frazeysburg, Ohio 43822.

Q2. What is your position with Eastern Natural Gas Company?

A2. I am President of Eastern Natural Gas Company ("Eastern").

Q3. Please describe your educational background.

A3. I graduated from The Ohio State University with a Bachelor of Science degree in Business Administration with a major in accounting and a Master of Business Administration with an area of emphasis in finance. Additionally, I participated in an independent studies program with Dr. Edward Jennings regarding public utility rate of return studies.

Q4. Please describe your professional experience.

A4. I worked at National Gas and Oil Company and its subsidiaries from 1982 through 1991 in various administrative, operational, and financial roles. I was eventually appointed Controller with primarily financial responsibilities. I joined Clearfield Ohio Holdings,

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Inc. in 1991 as a Vice President and was appointed President of Eastern Natural Gas Company in 2000.

Q5. Would you describe the operations of Eastern Natural Gas Company?

A5. Eastern is a natural gas utility providing service to approximately 6,700 customers in the unincorporated areas of Ashtabula and Trumbull Counties. Eastern's current rates were established by the Commission's Opinion and Order of January 11, 2006 in Case No. 04-1779-GA-AIR. Those rates were based on a test year of calendar year 2004 and a date certain of October 31, 2004.

Pike, Eastern Natural Gas Company and Southeastern Natural Gas Company are wholly owned subsidiaries of COHI, an Ohio corporation. COHI is headquartered in Frazeysburg, Ohio, and is a privately held corporation. COHI's parent, Clearfield Energy, Inc., is headquartered in Radnor, Pennsylvania, and is also a privately held corporation. Clearfield Energy, Inc., an entity separate from COHI, provides management services to the COHI subsidiaries. The management services include activities in the areas of benefits administration (payroll, workers' compensation, medical insurance, human resources, pension plan, savings plan), financial reporting (property tax, gross receipts tax, intrastate gross earnings, PUCO and FERC annual reports, EIA-187, annual financial audits and records management), loan administration (monthly and quarterly reporting to financial institutions, cash management and reporting), insurance administration (general liability, property, auto), accounting consultation, general management and business consultation, services performed by general counsel, maintenance of the general ledger and fixed asset accounts and management of information systems (computer system operations, maintenance and programming).

Q6. What is the purpose of your testimony?

A6. My testimony is in support of the application filed in this docket. The past five years have created many difficulties for natural gas distribution companies. The significant price increases experienced since 2000 has caused all natural gas customers to conserve natural gas usage. During the twelve month period ending February 2009, which is the basis for this filing, Eastern's general service sales volumes have decreased 8% despite there being a nearly 5% increase in degree days as compared to the test period for the rates implemented in 2006.

Q7. What is the purpose of this application?

A7. This application is an attempt to stabilize our revenues and avoid the need for a costly traditional rate filing. Declining customer counts in addition to customer usage have reduced total revenues approximately 11%.

Q8. How does this application create the desired results?

A8. Through this application, some of the revenues generated via the throughput charge are shifted to the customer charge, reducing the impact weather, both warmer and colder, has on the total revenues of the Company. Most of the expenses of the Company are independent of the throughput of the Company. As throughput declined over the past 5 years, the level of expenses remained constant. A means of collecting the under-recovered revenue is needed in order to bring the Company's revenue requirement closer to the level recommended in the previous rate case.

Q9. To what extent have your revenues per customer declined?

A9. As stated previously, our sales declined 8% over the last five years even though our heating degree-days for the period of the twelve months ended February 2009 increased over 11%... Additionally, our number of customers has decreased 2% over the same period. On a basis of consumption per degree-day, usage has decreased 10%. Throughout the five-year period, Eastern's customers have steadily reduced their consumption, a trend that I expect to continue. This data has been provided in Second Amended Exhibit B of the Application.

The continued decline in revenues per customer makes it imperative that we move from a rate structure that is primarily based upon volumetric sales to a more stable cost per customer basis.

Q10. What changes are you proposing to your current tariffs?

A10. We are proposing to decouple our current rates to move towards a straight fixed variable (SFV) rate design, thereby reducing our reliance on volumetric sales. The rates we have proposed are based upon the customers, sales, and revenues experienced during the twelvemonth period ending February 2009. The increases proposed in the customer charges for each rate class are correspondingly offset by a reduction in the usage or commodity portion of the rates. The proposed rates and the calculation of the proposed rates are presented on Second Amended Exhibit D.

Since we are only moving towards a SFV rate design, a portion of our future revenue recovery will still be reliant upon volumetric sales. Additionally, we expect declines in our customer base, which will continue to erode future revenue recovery.

Q11. Why have you proposed dividing the General Service rate into a residential and commercial component?

A11. Currently Eastern has a General Service rate, which covers both residential and commercial customers. In order for the change in the rate design to not unfairly affect one class of customer to the benefit of the other due to the substantially different average energy consumption of each class, we have split the General Service rate into two distinct classes.

Q12. Does Eastern currently have any customers served under the Industrial Service or Transportation Service rate schedules?

A12. No, it does not.

Q13. Are you proposing any additional changes to the rates?

A13. Yes, we are proposing to include in the revised customer charge for the residential and commercial rates $1.00 to help fund a proposed Demand Side Management program. It is my understanding that Section 4929.051, Revised Code, calls for the establishment, continuation, or expansion of an energy efficiency or energy conservation program. Eastern does not currently have such a program. As part of this application, we propose establish a program to expend $90,000 per year. The $1.00 addition would fund $80,000 of a demand side management program and Eastern would supply an additional $10,000. At this time no specific program has been designed for the expenditure of these funds. It would be our desire to focus the expenditures on high volume Percentage of Income Payment Plan (PIPP) customers. We believe that improving the energy efficiencies of this group of customers would provide a direct benefit to all customers through the eventual reduction of our PIPP rates.

Q14. Have you made any other additions?

A14. Yes, we have also added a new Main Line Replacement (MLR) Rider at a rate of $3.13 per month per customer. The MLR Rider is to fund construction costs for a program to replace bare steel mains in our service territory. Eastern desires to begin a systematic program to replace all bare steel pipes in its distribution system. The bare steel pipe in Eastern's system is of varying vintages, some dating nearly to the beginning of the last century. Safety and system reliability considerations dictate the replacement of the bare steel pipe over a reasonable period, accelerated to the extent economically and physically possible.

Due to Eastern's deteriorated financial condition, it is financially unable to maintain even its prior level of commitment to a replacement program or to establish a future systematic program. Eastern has been replacing bare steel pipe on an as required basis.

The MLR Rider at a rate of $3.13 would provide Eastern with $250,000 per year to fund this project. Due to our current financial conditions, the program cannot begin until funds are accumulated.

Q15. Is Eastern in compliance with Section 4929.05(A), Revised Code?

A15. Yes, Eastern is currently in compliance with Section 4929.05(A), Revised Code, and will continue to be in compliance after implementation of the alternative rate plan.

Q16. Does this conclude your prefiled direct testimony?

A16. Yes.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing document was served upon the following persons by electronic mail this 22nd day of June, 2009:

Joseph P. Serio
Office of Ohio Consumers' Counsel
10 W. Broad Street, Suite 1800
Columbus, Ohio 43215-3485
serio@occ.state.oh.us

Stephen A. Reilly
Vern Margard
Assistant Attorneys General
180 E. Broad Street, 9th Floor
Columbus, Ohio 43215-3796
Stephen.reilly@puco.state.oh.us
Werner.margard@puco.state.oh.us

Stephen M. Howard
Stephen M. Howard