

In the Matter of The East Ohio Gas)
Company d/b/a Dominion East Ohio for) Case No. 15-0362-GA-ALT
Approval of an Alternative Form of)
Regulation.)

I. INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC") submits these comments to the Public Utilities Commission of Ohio ("PUCO") to protect customers from funding what may be unjust and unreasonable costs associated with Dominion East Ohio's ("Dominion" or "the Utility") pipeline replacement program. Dominion seeks to increase customer funding for its pipeline investment to \$200 million by 2019, with additional three percent rate increases in spending during each of the remaining years of the program. The program is intended to accelerate the replacement of bare steel, cast iron and unprotected pipeline in the Utility's service territory. OCC files comments on behalf of all 1.1 million residential gas customers of Dominion.¹ OCC asks the PUCO to reject Dominion's Application because it does not meet the standards set forth in R.C. 4929.

The PUCO should not approve Dominion’s proposed Pipeline Infrastructure Replacement program (“PIR”) increase because it is unjust and unreasonable. According to R.C. 4929.02, one of the policies of Ohio is to promote the availability to consumers of

¹ See R.C. Chapter 4911, R.C. 4903.221 and Ohio Adm. Code 4901-1-11.

adequate, reliable, and reasonably priced natural gas services. Dominion's request to collect \$200 million per year from customers, plus three percent more in later years for inflation, is an unsubstantiated and excessive amount of money to ask customers to pay. Second, Dominion's records supporting the Application show that its current program has successfully decreased the number of leaks on its pipeline system. Based on this success, there has been no showing of a need to expand and accelerate the program. Third, Dominion provides no study or analysis to support or justify a need to increase and accelerate the PIR program. Fourth, although the Utility has the burden to demonstrate that its Application is reasonable and in this case, Dominion failed to do so. Fifth, though Dominion seeks to collect additional millions of dollars from its customers, it does not propose to flow through to customers any increased operation and maintenance ("O&M") cost savings associated with its program.

II. COMMENTS

A. The proposed rate increase will cost consumers millions of dollars and if approved violates R.C. 4929.02(A)(1), which requires that the price for natural gas service be reasonable.

Dominion requests PUCO approval to charge its consumers \$200 million by 2019, with three percent inflation increases annually from 2019 through 2021. The Utility proposes to increase its investment, which is currently \$160 million, by \$20 million in 2017 (to \$180 million). And in 2018 it seeks to increase its investment by another \$20 million. In total, the Utility seeks to have customers fund its annual capital investment of \$200 million.² Dominion proposes to collect \$1.75 monthly per residential customer beginning 2017. Starting in 2018, the monthly cost to customers will increase to \$1.82

² Application at 6.

per month. Then beginning 2019, the Utility proposes to increase the annual PIR collections from customers by an additional three percent per year. This additional three percent increase would result in an additional increase of \$0.01 per year beginning with 2019. The total charge collected from customers in 2019 would be \$1.83 per month. In 2020 and 2021, customers would be charged \$1.84 per month.³ These charges are “caps” on the amount that can be charged to customers. Customers will pay for the actual investment which may be lower than the caps.

Dominion requests these increases even though, in the most recent years of the program -- 2013 and 2014, the Utility failed to spend the entire amount that it was authorized to collect under the PIR. In other words, its spending did not reach the cap approved by the PUCO.⁴ To grant such a request is unreasonable.

Dominion’s request to increase the PIR program is problematic in light of the fact that the costs of the PIR program have increased significantly over the years. In Dominion’s 2008 case that initially proposed a 25-year PIR program, the Utility made assumptions based on an original cost range of \$75 to \$80 per foot or approximately \$396,000 to \$422,000 per mile for distribution pipelines.⁵ However, by 2014, the costs have almost doubled as Dominion spent up to \$150 per foot, which is a cost of up to \$792,000 per mile.⁶ This magnitude of cost increase far outpaces the inflation rate. Before considering this proposed increase, the PUCO should require Dominion to find ways to mitigate such huge increases in the costs of the PIR.

³ Application at 7.

⁴ Application, Vicki Friscie Direct Testimony at 5.

⁵ Application, Michael Reed Direct Testimony at 9.

⁶ Application, Michael Reed Direct Testimony at 9.

The PUCO should require Dominion to justify that its costs are just and reasonable. Obviously, with an approximate 200% increase in costs, there is no incentive in place for the Utility to control costs. The costs, having nearly doubled, are simply being passed on to customers. In order to approve the requested investment program, the PUCO must find that prices that consumers pay are reasonable. In light of the size of the increase over the last seven years, the PUCO cannot make a finding that gas prices for consumers will be reasonably priced under Dominion's Application.

Dominion stated that one of the reasons for the increase in costs of the PIR program is due to the large increase in Utica shale investment and implementation of infrastructure replacement programs by other local distribution utilities in Ohio.⁷ Dominion's witness Reed attributes the upward trend of bid prices to the increased demand for contractor resources and the limited workforce availability in the state. With this escalating demand, further increasing the PIR will only result in putting additional pressure on the finite resources and will result in even greater per-foot costs.

Dominion also proposes that for the years 2019 through 2021, the Utility add three percent to customers' monthly bills in order to account for inflation and other unidentified cost pressures.⁸ Dominion's own information indicates that historic inflation rates based on Ohio gross state product are as follows: 2011 – 2.3%, 2012 – 2.5%, 2013 – 1.3%, and 2014 – 1.6%.⁹ Over the most recent four years, inflation has never reached three percent. Instead, it has averaged only 1.9% but the Utility requests an automatic

⁷ Application, Michael Reed Direct Testimony at 20.

⁸ Application at 2, Vicki Friscic Direct Testimony at 8 (the 3% capital increase per year in 2019 through 2021 is needed in order to maintain this pace in those years, due to both inflation and continued cost pressures).

⁹ Dominion response to OCC Interrogatory No. 23, Attached.

three percent increase per year. Thus, Dominion asks for an inflation adjustment that is greater than the actual inflation rate Ohioans have experienced. Such a request is not reasonable. The request for an automatic increase based upon inflation, which is clearly less than the requested three percent and “other cost pressures” is completely unsupported. The Utility makes no effort to justify the three percent automatic increase beyond the statement that the three percent assists in “coping with inflationary impacts and other cost pressures experienced to date and anticipated over the remainder of the long-term program.”¹⁰

The PUCO is a creature of statute and as such must operate within the laws governing its authority. R.C. 4903.09 requires that the PUCO’s decisions set forth the reasons prompting the decision arrived at, based upon said findings of fact. Case law interpreting this statute requires that a “commission order must provide in sufficient detail the facts in the record upon which the order is based and the reasoning followed by the commission in reaching its conclusion.”¹¹ The Utility failed to provide any support for its three percent automatic increase. The PUCO cannot approve rate increases with no justification in the record.

Another argument that the Utility relies upon in promoting its PIR program is that because gas commodity rates are low, it is a good time to increase costs for Dominion’s 1.1 million residential customers. Dominion employee Ms. Friscic stated in her testimony that , “on a total annual bill basis, DEO customers’ cost of gas service has declined significantly since the Company’s last rate case, and that total bills are expected to remain low primarily due to forecasted low commodity costs through the proposed

¹⁰ Application, Alt. Rate Plan Ex. at 2.

¹¹ *Migden-Ostrander v. PUC of Ohio*, 102 Ohio St.3d 451, 812 N.E.2d 955 (2004).

reauthorization period and beyond. Therefore, making the changes proposed by DEO to the PIR program and PIR Cost Recovery Charge mechanism will not unreasonably impact customers. In fact, even if the annual cap were doubled, residential customers' bills would still be much lower than they were when the PIR program was initially approved.”¹² It is inappropriate for the Utility to believe that because certain charges in other areas of the Dominion bill have declined in the short term, that the Utility should be able to fill the void with additional long-term PIR charges.

Dominion's argument ignores the fact that although commodity rates have declined, the Utility's base rate charges and Riders have increased. In 2007, the monthly basic service charge was \$5.70, plus \$9.89 (based upon average monthly usage of 8 Mcf per month) for a total of \$15.59;¹³ however, today, the basic monthly service charge for a residential consumer is \$17.58, plus a fixed AMR charge of \$0.55, plus the current PIR charge of \$6.70, for a total fixed monthly charge of \$24.83.¹⁴ Despite the fact that the price for gas as a commodity is low, other parts of a customer's bill have multiplied. Dominion made no guarantees in the Application that natural gas commodity rates will remain at the current levels for the next five years, let alone the next 25 years. Furthermore, Dominion included no contingencies to cut back the expanded PIR program if natural gas commodity rates increase and negate the alleged benefit that, according to Dominion, makes expansion of the PIR program reasonable and affordable. The PUCO should reject the Application as being unreasonable.

¹² Application, Vicki Friscic Direct Testimony at 2.

¹³ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service*, Application at Volume 2, Section E-2, page 7 (Aug. 30, 2007).

¹⁴ DEO Sales and Transportation Rates – Residential, effective June 12, 2015 through July 13, 2015.

B. Dominion's current PIR program is successful in reducing leaks on the distribution system.

One of the stated goals of the PIR program is to reduce leak rates on Dominion's distribution pipeline system. The current program has significantly decreased leaks. In 2009 there were 18,965 leak indications and in 2014 there were 10,874.¹⁵ The Utility's current leak prevention efforts are working and effective. Dominion includes no evidence, or studies in its Application to support its conclusion that there is a public safety issue that requires an acceleration of the current program. Dominion has provided no cost benefit analysis to determine if spending millions of additional dollars per year will result in any -- let alone comparable cost savings from a reduced leak rate.

Dominion has a statutory obligation under R.C. 4905.22 to maintain a safe and reliable system. If pipeline needs to be replaced, the Utility has an obligation to do so. If any such investment requires more cost recovery than is available under the PIR program, then Dominion has the obligation to make the necessary investment. Dominion can make the investment and use its statutory right to file a distribution base rate case to collect the prudently incurred costs associated with such action. It does not need accelerated collection.

C. Because customers are asked to provide more funds to invest in the PIR program, they should benefit from additional savings.

When Dominion began the PIR program, it cited the \$8.5 million in O&M that Duke Energy of Ohio ("Duke") customers had realized through the first five years of its

¹⁵ Application, Michael Reed Direct Testimony at 25.

accelerated mains replacement program.¹⁶ And Dominion stated that it anticipated significant benefits from a reduced incidence of leak repair expenses.¹⁷ Yet, there is no mention of any additional or modified O&M cost savings mechanism contained in the Utility's Application or testimony in the present case. In the first five years (2002-2006) Duke's program savings were \$8.5 million, whereas Dominion's savings in the first five years of its pipeline program were only \$6,485,837.¹⁸ Dominion has approximately three times more customers than Duke. It stands to reason that the increased PIR investment across its much larger territory would produce larger savings, but that was not the case. In fact, Dominion only achieved \$6.5 million in savings. As part of the current case, Dominion plans to continue using the current saving mechanism that is in place. If customers provide additional millions of dollars in investment for Dominion's PIR program, then customers should reap the benefit of increased O&M cost savings that one would expect with the greater investment spending.

An important factor that contributes to greater savings is the decreased number of leaks. Dominion has experienced a significant drop in leaks, from 18,965 leak indications

¹⁶ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment*, Case No. 08-169 Application at 3.

¹⁷ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment*, Case No. 08-169 Application at 3.

¹⁸ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Pipeline Infrastructure Replacement Program Cost Recovery Charge and Related Matters*, Case No. 09-458-GA-RDR, Opinion and Order at 11 (Dec. 16, 2009), Case No. 10-733-GA-RDR, Opinion and Order at 4 (Nov. 3, 2010), Case No. 11-3238-GA-RDR, Opinion and Order at 4 (Oct. 26, 2011), Case No. 12-812-GA-RDR, Opinion and Order 4 (April 25, 2012, Case No. 12-3125-GA-RDR, Opinion and Order at 4 (April 24, 2013), Case No.13-2320-GA-RDR, Comments of the Staff at 6 (March 27, 2013). The savings from Case 13-2320 were divided in half in order to capture only six months of the year to calculate the five year total.

in 2009 to 10,874 in 2014.¹⁹ Yet the actual O&M cost savings have paled when compared to the decrease in the number of leak repairs. Dominion's Application fails to explain why a reduction in the number of leak repairs -- by almost 42%²⁰ -- has not produced a similar decrease in O&M costs -- savings that should flow through to customers. With the request to increase and accelerate pipeline work, there should also be increased O&M cost savings. The customers should be entitled to receive a credit for the increased savings.

III. CONCLUSION

Under 4929.02 the PUCO must deny an alternative rate plan if it does not promote reasonably priced natural gas service to consumers. If Dominion received approval and implements the increased PIR program, consumers could be exposed to a over \$200 million in rate increases over the life of the program. An increase such as this would amount to an unreasonable price for natural gas service and violation R.C. 4929.02.

¹⁹ Application, Michael Reed Direct Testimony at 25.

²⁰ Application, Michael Reed Direct Testimony at 25

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Comments have been served on the persons stated below *via* electronic transmission, this 13th day of July 2015.

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