

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke)
Energy Ohio, Inc. for Approval to Modify) Case No. 15-0050-GA-RDR
Rider FBS, Rider EFBS, and Rider FRAS.)

**DIRECT TESTIMONY
OF
BRUCE M. HAYES**

**On Behalf of
The Office of the Ohio Consumers' Counsel**
*10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485*

July 21, 2015

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ATTACHMENTS

Attachment BMH-A: Bruce M. Hayes - List of Cases in which Testimony was filed

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A1. My name is Bruce M. Hayes. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC") as a Principal Regulatory Analyst.

Q2. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A2. I graduated from the University of Kentucky in 1973 with a Bachelor of Science in Mechanical Engineering. I joined Aetna Life and Casualty in 1973 and held various positions related to Loss Control and Safety Engineering. In 1979, I joined Columbia Gas of Kentucky ("CKY") as an Industrial Sales Engineer. I transferred to Columbia Gas of Ohio ("Columbia") in 1986 and held a variety of positions in economic development, marketing and sales. During my time at the Columbia companies, I was actively involved in the development and implementation of the industrial and commercial gas transportation programs. In the early 1980s, I was involved in expanding CKY's transportation program from a single self-help customer to over fifty industrial and large commercial customers by initially establishing special contract interstate transportation programs like the Fuel Oil Displacement and Special Marketing Programs.

1 I was also involved in a customer issue regarding intrastate transportation and
2 valuation of gas. As a result of the issue's resolution, Columbia modified its
3 methodology for valuing gas from one based on volume to one based on British
4 Thermal Units. This led to changes in transportation policies and billing in all the
5 states in the Columbia Gas Distribution System.

6
7 In the 1990s, I managed the Columbia rate flexing or rate discounting program for
8 industrial customers. In that capacity, I arranged for long-term capacity release to
9 large customers and arranged discounts on Columbia Gas Transmission interstate
10 pipelines. I provided input to the transportation and gas supply departments on
11 issues such as transportation contracts, curtailment, enhanced banking
12 arrangements and electronic measurement for large volume customers.

13
14 In 2002, I joined OCC as a Senior Regulatory Analyst and was promoted to
15 Principal Regulatory Analyst in 2010. I represent OCC on the gas committee of
16 The National Association of State Utility Consumer Advocates and have served
17 as an Executive Committee member with the North American Energy Standards
18 Board. I have participated in various Ohio Gas Cost Recovery Proceedings and
19 Management/Performance Audits while at Columbia Gas of Ohio and as an
20 analyst for the OCC. I have been involved in a number of rate cases and
21 accelerated infrastructure replacement and recovery cases associated with the four
22 largest investor owned gas companies in Ohio. I have also participated in a
23 number of external working groups related to gas transportation programs and

1 external working groups related to gas distribution companies moving toward
2 exiting the merchant function or eliminating the standard offer.
3

4 ***Q3. WHAT ARE YOUR RESPONSIBILITIES AS A PRINCIPAL REGULATORY***
5 ***ANALYST?***

6 ***A3.*** My duties include research, investigation and analysis of gas and electric filings at
7 the state and federal levels, participation in special projects, and assisting in
8 policy development and implementation. I have also been the assigned leader of
9 the OCC gas team since June 1, 2008, and coordinate the activities of the
10 members of the agency's gas team.
11

12 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
13 ***BEFORE THIS COMMISSION?***

14 ***A4.*** Yes. I have submitted testimony or testified on behalf of OCC before the Public
15 Utilities Commission of Ohio ("PUCO") in a number of cases involving gas or
16 electric companies. A list of these cases is included in Attachment BMH-A.
17

1 **Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE ANY**
2 **OTHER STATE REGULATORY COMMISSION?**

3 **A5.** Yes. I submitted testimony on behalf of CKY, before the Kentucky Public Service
4 Commission in Rate Case No. 8281.¹ My testimony related to a long-term
5 decrease in the forecasted throughput for CKY.

6
7 **II. PURPOSE OF TESTIMONY**

8
9 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 **A6.** The purpose of my testimony is to recommend that the PUCO protect GCR
12 customers from paying gas cost recovery rates that are not fair just and
13 reasonable. GCR customers should have to pay the costs associated with
14 providing GCR service. GCR customers should not be responsible for costs
15 associated with providing service to non- GCR customers.

16
17 Specifically, I recommend if the PUCO approves any modifications to rates or
18 terms of service under Duke Energy Ohio, Inc.'s ("Duke") Firm Banking Service
19 ("FBS") and Enhanced Firm Balancing Service ("EFBS"), such modifications
20 should place the costs on the cost causers -- the Suppliers.

21

¹ *In the Matter of An Adjustment of Rates of Columbia Gas of Kentucky, Inc.*, Case No. 8281, Order (December 30, 1981).

III. DISCUSSION AND RECOMMENDATION

Q7. PLEASE PROVIDE AN OVERVIEW OF DUKE'S RIDER FBS AND RIDER EFBS TARIFFS.

A7. Duke has been providing FBS since 1997. Suppliers served under the FBS are required to deliver a daily set amount of natural gas (known as the Target Supply Quantity) on a daily basis. The Target Supply Quantity is based on customer needs and forecasted weather. Since the actual weather may be different than the forecasted weather, customer usage seldom matches the projected usage or Target Supply Quantity. The difference between what is supplied to customers and the target supply quantity is either withdrawn or injected into storage.

GCR customers pay for storage. Rider FBS is designed to collect the portion of storage costs for daily balancing the injections and withdrawals of Suppliers. The costs collected under Rider FBS are credited to the GCR, thus lowering the storage costs that are paid by GCR customers and insuring that GCR customers do not pay for costs associated with service to non-GCR customers.²

In 2007, Duke, through collaborative meetings including OCC, Staff and Suppliers, created the EFBS as an alternative to FBS. Rider EFBS provides Suppliers more flexibility than Rider FBS. It does so by allowing the Supplier to deliver more or less than the Target Supply Quantity on a daily basis and to

² Application at 2 (January 15, 2015).

1 manage a bank on Duke's distribution system similar to pipeline storage. It is my
2 understanding that a Backcast Supply Quantity, is based on actual temperature
3 that day and is calculated and compared to the supplier's delivered volume and
4 the difference is held in a Duke bank. Suppliers using EFBS pay the full
5 equivalent storage cost that Duke pays its Pipelines.³ The intent was to provide a
6 service for Suppliers with options while holding the GCR customers harmless. In
7 other words GCR customers would not have to pay costs that are not associated
8 with providing service to non GCR customers.

9

10 ***Q8. WHAT CHANGES HAVE HAPPENED THAT HAVE CAUSED DUKE TO***
11 ***SEEK MODIFICATIONS TO ITS RIDERS FBS AND EFBS?***

12 ***A8.*** Duke has experienced a growth in Choice participation since EFBS was
13 established and the number of Suppliers electing to use EFBS has declined.⁴

14

15 ***Q9. WHAT IS THE EFFECT OF THESE CHANGES ON MANAGING***
16 ***STORAGE BALANCES?***

17 ***A9.*** Duke has experienced difficulty in in managing the storage balances within their
18 pipeline tariff requirements.⁵ With the loss of EFBS suppliers, Duke has to rely
19 more on its pipeline storage.⁶ If Duke cannot handle the daily balancing through
20 storage due to pipeline tariff storage limitations, then Duke may have to purchase

³ Application at 3 (January 15, 2015).

⁴ Application at 4 (January 15, 2015).

⁵ Application at 4 (January 15, 2015).

⁶ Application at 4 (January 15, 2015).

1 additional gas on the spot market during peak price cold periods. These spot
2 market purchases could take place when the price of gas is comparatively high, or
3 sell gas in warmer weather, when gas prices are depressed prices.⁷ In such
4 circumstances the result could be additional costs being charged to the GCR, and
5 potentially flowed through to GCR customers.

6
7 ***Q10. WHO WOULD PAY THE ADDITIONAL COSTS FOR SPOT MARKET***
8 ***PRICED GAS AND WHO WOULD BE AT RISK OF TAKING A LOSS ON***
9 ***FORCED SALES OF GAS AT DEPRESSED PRICES?***

10 ***A10.*** The additional costs for these spot purchases or any losses on forced sales would
11 be charged to the GCR and then could be potentially flowed through to GCR
12 customers.⁸ Such a result would not result in fair, just, and reasonable gas cost
13 recovery rates to Duke's GCR customers.

14
15 ***Q11. DO THESE ADDITIONAL COSTS RESULT IN GCR CUSTOMERS PAYING***
16 ***FOR COSTS CAUSED BY SUPPLIERS?***

17 ***A11.*** Yes. The additional cost of balancing the system by having to make spot
18 purchases and forced sales by Duke could have the effect of increasing the costs
19 that could flow to t GCR customers. Thus potentially increasing the GCR rate
20 could cause an inappropriate cost shift from the Choice program Suppliers (who

⁷ Application at 5 (January 15, 2015).

⁸ Application at 5 (January 15, 2015).

1 are causing the costs) to GCR customers (who would be asked to pay for these
2 costs).⁹

3

4 ***Q12. SHOULD GCR CUSTOMERS BE RESPONSIBLE FOR THESE COSTS***
5 ***CAUSED BY CHOICE PROGRAM SUPPLIERS?***

6 ***A12.*** No. Such a cost shift would result in gas cost recovery rates that are not fair, just,
7 and reasonable to Duke's GCR customers.

8

9 ***Q13. HAS DUKE PROPOSED A SOLUTION TO EFFICIENTLY MANAGE***
10 ***STORAGE AND ENSURE THAT CUSTOMERS ARE NOT PAYING MORE***
11 ***THAN IS FAIR, JUST AND REASONABLE?***

12 ***A13.*** Yes. Duke has proposed in this case to change the tariff such that suppliers with a
13 MDQ above 20,000 dth/day would be required to take service under the EFBS
14 tariff.¹⁰

15

16 ***Q14. IS DUKE'S SOLUTION A REASONABLE MECHANISM AVAILABLE TO***
17 ***THE UTILITY TO CORRECT THE PROBLEMS CREATED BY NOT***
18 ***ENOUGH SUPPLIERS TAKING EFBS TARIFF SERVICE?***

19 ***A14.*** Yes. Duke's proposal is a reasonable mechanism that addresses the problem and
20 also insures that GCR customers would not have to pay costs associated with
21 providing service to non-GCR customers.

⁹ Application at 5 (January 15, 2015).

¹⁰ Direct Testimony of Jeff L. Kern at 10 (July 14, 2015).

1 **IV. CONCLUSION**

2

3 ***Q15. WHAT IS YOUR RECOMMENDATION?***

4 ***A15.*** I recommend that if the PUCO approves any modifications to rates or terms of
5 service under Duke's FBS and EFBS, such modifications should not result in
6 GCR customers being responsible for paying charges caused by the Suppliers
7 who are taking these gas storage balancing services from Duke.

8

9 ***Q16. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

10 ***A16.*** Yes it does. However, I reserve the right to incorporate new information that may
11 subsequently become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Direct Testimony of Bruce M. Hayes, on behalf of the Office of the Ohio Consumers' Counsel*, was served on the persons stated below via electronic service this 21st day of July, 2015.

/s/ Joseph P. Serio

Joseph P. Serio

Deputy Consumers' Counsel

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Bruce M. Hayes**List of Cases in which Testimony was submitted on Public Utility Regulation**

As an employee of the Office of the Ohio Consumers' Counsel (OCC):

<u>Company</u>	<u>Docket No.</u>	<u>Date</u>
Dominion East Ohio Gas Company	05-219-GA-GCR	2006
Columbia Gas of Ohio, Inc.	04-221-GA-GCR	2006
Columbia Gas of Ohio, Inc.	05-221-GA-GCR	2006
Columbia Gas of Ohio, Inc.	07-478-GA-UNC	2007
Duke Energy Ohio, Inc.	07-589-GA-AIR et al.	2008
Vectren Energy Delivery of Ohio, Inc.	07-1285-GA-EXM	2010
Dominion East Ohio Gas Company	11-2401-GA-ALT	2011
Dominion East Ohio Gas Company	08-169-GA-ALT	2011
Columbia Gas of Ohio, Inc.	08-1344-GA-EXM	2011
Dominion East Ohio Gas Company	12-1842-GA-EXM	2012
Columbia Gas of Ohio, Inc.	12-2637-GA-EXM	2012
Duke Energy Ohio, Inc.	12-1682-EL-AIR et al.	2013
Duke Energy Ohio, Inc.	12-1685-GA-AIR et al.	2013
Vectren Energy Delivery of Ohio, Inc.	13-1571-GA-ALT	2014

As an employee of Columbia Gas of Kentucky, Inc.:

<u>Company</u>	<u>Docket No.</u>	<u>Date</u>
Columbia Gas of Kentucky, Inc.:	8281	1981

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Case No(s). 15-0050-GA-RDR

Summary: Testimony Direct Testimony of Bruce M. Hayes on Behalf of the Office of the Ohio Consumers' Counsel