BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation.	)))	 Case No. 16-2422-GA-ALT

OHIO PARTNERS FOR AFFORDABLE ENERGY'S REPLY BRIEF

I. Introduction

Ohio Partners for Affordable Energy ("OPAE") herein submits to the Public Utilities Commission of Ohio ("Commission") this reply brief in the proceeding to consider the application of Columbia Gas of Ohio, Inc. ("Columbia") for approval of an alternative form of regulation for its Infrastructure Replacement Program ("IRP"). Herein, OPAE replies to the initial brief filed by the Office of the Ohio Consumers' Counsel ("OCC").

OCC argues that the Commission should reject the Stipulation and Recommendation filed in this case. Among the arguments made by OCC are that the IRP Rider rate caps should be lower, that the Hazardous Customer Service Line Replacement ("HCSL") program should be eliminated, that the amount of Operations and Maintenance (O&M") savings should be higher, and that the Rate of Return on investment for the IRP should be reduced.

II. The Stipulated IRP Rate Caps Are Reasonable.

First, with regard to the IRP Rider rate caps, under the Stipulation, the annual IRP Rider rate caps for residential consumers will increase to $11.35, $12.50, $13.70, $14.95, and $16.20 each year from 2018 to 2022, respectively. OCC argues that gas utility construction and labor costs in the United States and in Ohio have decreased in the recent past and should continue to stay lower than in the 2013 to 2016 period on which Columbia based its Rider IRP cost cap projections. OCC also argues that the pace of oil and gas exploration in the Midwest (and elsewhere), as defined by rig counts, has declined and that fewer rigs result in less work available, which results in a less contested job market and lower labor costs. Thus, according to OCC, pipeline labor costs will most likely continue to be less expensive in the near future. OCC also argues that the Federal Reserve Bank has stated that the current rate of inflation is approximately only two percent, not the higher rates used by Columbia.

However, as the Staff notes in its brief, Columbia has experienced and expects to continue to experience significant annual cost increases for replacing mains and service lines under its IRP. Staff Brief at 10. These historical cost increases will require additional capital investments and increases to the annual IRP Rider caps. Id. In addition, Columbia's current contracts with contractors will expire at the end of 2020 and be renegotiated for new prices to take effect in 2021. Id. at 11. Thus, the increasing trend in pipeline replacement costs and new construction contract costs will continue to drive IRP costs upward during the period 2018-2022.

OCC also argues that IRP costs are inflated because Columbia includes too many miles of "non-priority" pipe in its IRP, which unjustly increases the costs. In addition, according to OCC, the Hazardous Customer Service Line Replacement ("HCSL") program also unjustly increases the costs of the program.

However, as the Staff points out, in the course of replacing priority pipe, Columbia encounters interspersed segments of plastic lines that in many instances are more economical to replace with new plastic pipe instead of stopping to mate the new pipe to the interspersed plastic segments. Staff Brief at 12. In addition, local governments may request Columbia to relocate facilities involving both priority and non-priority pipe in order to accommodate governmental projects such as road-widening. Id. at 13. While the primary focus of the IRP is to replace priority pipe, non-priority pipe replacement has been approved under conditions where replacements are economical and practical. The replacement of non-priority pipe under certain conditions has also been approved in the other IRP programs of other gas utilities. Id.

With regard to the HCSL, OCC relies on the Commission's decision denying Duke Energy Ohio's ("Duke") application for authority to replace non-leaking customer service lines over a ten-year period in Duke's application in Case No. 14-1622-GA-ALT. However, as the Staff points out, Columbia's HCSL program is distinguishable from Duke's rejected application. After Duke had completed its main line replacement program, Duke asked for systematic and accelerated replacement of non-leaking metallic customer service lines. The Duke application was unreasonable and correctly denied. In contrast to Duke, Columbia replaces leaking and non-leaking metallic service lines tied to main lines that it replaces under its main-line IRP, which is still in progress. Staff Brief at 14. Columbia also replaces customer service lines under its

HCSL when they leak, the same process that the Commission has approved for other gas utilities in their IRPs. Id.

Finally, in complaining about the IRP rate caps, OCC notes that Columbia has never reached or exceeded its rate caps under any year of the IRP. The current rate for 2016 is $8.96, a number below the 2016 rate cap. OCC Brief at 46. At the same time, OCC complains of “rate shock” from the new rate caps even though, if OCC is correct about declining costs, the new rate caps, like the old rate caps, will never be reached or exceeded. Id. The fact that Columbia has never reached or exceeded its rate caps should be a positive sign for OCC that Columbia is not spending imprudently. It should also be clear that the caps are only caps, not the actual amount of the costs to be recovered under the rider or the actual amount that ratepayers will pay. Thus, OPAE agrees with the Staff that the stipulated IRP rate caps are reasonable. Staff Brief at 11.

III. The Stipulated O&M Savings Are Reasonable.

Second, with regard to the O&M savings, OCC argues that the O&M savings methodology should be changed because the current methodology does not produce higher results and that the minimum O&M savings amount should be increased. OCC complains that the Settlement only increases the O&M savings to $2.0 million in 2018 and $2.5 million by 2022.

However, the minimum O&M savings recommended by the Stipulation are a reasonable compromise of the O&M savings issue. Staff Brief at 11. The Staff Report had recommended a formal review to ascertain why Columbia’s actual O&M savings were below the minimum savings levels and lagged behind the savings reported by other gas utilities in their IRPs. In the Stipulation, in lieu of a formal review, the minimum O&M savings increases from the current $1.25 million per year to $2 million in the first two years, $2.25 million in the third year, and $2.5 million in the final two years. In addition, the O&M savings that will be passed back to customers is the greater of the stipulated minimum levels or the actual O&M savings. If actual O&M savings are greater than the minimum, the actual savings will be passed back. This is a reasonable compromise that benefits ratepayers and the public interest.

IV. The Stipulated Rate of Return Comports with Commission precedent.

Third, with regard to the Rate of Return on IRP investments, OCC argues that the Stipulation should not be approved because the 10.95 percent pre-tax rate of return ("ROR") on rate base for IRP investment is outdated, excessive, unreasonable, and unjustified.   OCC argues that the ROR and return on equity that have been authorized for regulated gas utilities around the country have declined significantly in recent years.

However, as the Staff points out, the proper place to set a utility's ROR is during a base rate case when all factors that influence the proper ROR are reviewed simultaneously. Staff Brief at 15. According to the Staff, it is unwise and unwieldy for a utility to have a different ROR for each of its individual programs. Staff also notes that in other gas utilities' accelerated infrastructure replacement programs, the Commission has kept the utility's ROR as approved in its most recent base rate case. Id. at 15-16. Thus, the stipulated provision for the ROR is reasonable and in keeping with past Commission precedent.

V. Conclusion

Therefore, the Stipulation is a fair and reasonable compromise of the interests of the parties and benefits ratepayers and the public interest. The Stipulation violates no important regulatory principle or practice. The Stipulation meets the Commission's criteria for the reasonableness of settlements and the Commission should issue an order approving the Stipulation in its entirety.

Respectfully submitted,

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CERTIFICATE OF SERVICE

A copy of the foregoing Reply Brief of Ohio Partners for Affordable Energy will be served on this 7th day of November 2017 by the Commission's e-filing system to these parties who have electronically subscribed to this case.

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