BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Northeast Ohio Natural Gas Corp. for an Increase in Gas Distribution Rates	)))	Case No. 18-1720-GA-AIR
	)	
In the Matter of the Application of Northeast Ohio Natural Gas Corp. for Tariff Approval	))	Case No. 18-1721-GA-ATA
	)	
In the Matter of the Application of Northeast Ohio Natural Gas Corp. for Approval of Alternative Regulation	)))	Case No. 18-1722-GA-ALT

DIRECT TESTIMONY
OF
STEPHANIE A. PATTON

ON BEHALF OF
NORTHEAST OHIO NATURAL GAS CORP.

____ Management Policies, Practices, and Organization

____ Operating Income

____ Rate Base

____ Allocations

____ Rate of Return

__X__ Rates and Tariffs

__X__ Other

January 11, 2019

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I. INTRODUCTION, BACKGROUND, AND EXPERIENCE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephanie A. Patton. My business address is 5640 Lancaster-Newark Road, Pleasantville, Ohio 43148.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Northeast Ohio Natural Gas Corporation ("NEO" or "Company") as Chief Administrative Officer. As the Chief Administrative Officer, my responsibilities include regional office management, accounting, customer service, billing, cash application, collections, inventory and purchasing, gas volume management and procurement, managing gas transportation customers, operating budget and capital budget preparation, projections and forecasting schedules, and preparing and submitting federal and state regulatory filings for corporate and regional offices.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND DESCRIBE YOUR PROFESSIONAL TRAINING AND EXPERIENCE.

A. I received a Bachelor of Arts degree in Accounting and Business Administration, graduating *cum laude*, from Otterbein University in 1994. In June of 1994, I started my career with NEO. My current role is Chief Administrative Officer. I am also a member of the Ohio Gas Association, a natural gas trade organization that represents over thirty local distribution companies and cooperatives in Ohio.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of NEO.

Q. DO YOU HAVE ANY EXPERIENCE TESTIFYING AT THE PUBLIC UTILITIES COMMISSION OF OHIO ("COMMISSION")?

A. Yes. I previously testified on behalf of NEO in Case No. 10-209-GA-GCR.

II. PURPOSE OF TESTIMONY, SPONSORSHIP OF APPLICATION, & SUMMARY OF CONCLUSIONS

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. First, my testimony describes why NEO must modify its existing tariff. Second, my testimony identifies and explains proposed changes to certain terms and conditions in the Company's tariff, including its policy on main, service line, and meter responsibility. Third, my testimony discusses proposed changes to and the elimination of certain miscellaneous charges, as well as proposed changes to the Company's existing riders and the introduction of new riders. Finally, my testimony describes the robust competitive landscape in which the Company currently operates.

Q. WHAT SECTIONS OF THE COMPANY'S APPLICATION ARE YOU SPONSORING IN THIS PROCEEDING?

A. I am sponsoring portions of Section E (Rates and Tariffs) of the Application as set forth in the Commission's Standard Filing Requirements ("SFRs") for Small Utilities.

Q. PLEASE BRIEFLY SUMMARIZE THE CONCLUSIONS REACHED IN YOUR TESTIMONY.

A. I conclude that the Company's existing tariff should be substantially revised and replaced with an updated version that more efficiently and effectively structures and organizes rates, charges, and other relevant items and categories. Specifically, this updated version of the tariff proposed by the Company more accurately describes the services the Company currently is able to offer customers, especially gas transportation customers, and describes the extent to which NEO can offer these services to its customers in the future. I also conclude that proposed changes to certain terms and conditions, including the Company's policy on main, service line, and meter responsibility, will ensure consistency, enhance customer convenience, increase safety, and safeguard the integrity of NEO's distribution system. Finally, given that the Company currently faces stiff competition from various natural gas, propane, and electric providers, I conclude that the new tariff proposed by the Company should be approved for the benefit of NEO and its customers.

III. THE PROPOSED OVERHAUL OF THE COMPANY'S EXISTING TARIFF

Q. WHAT IS THE STATUS OF NEO'S TARIFF FILING IN CASE NO. 18-1485-GA-ATA?

A. On September 28, 2018, the Company filed a verified joint application of Brainard Gas Corp. ("Brainard"), Orwell Natural Gas Company ("Orwell"), Spelman Pipeline Holdings, LLC ("Spelman"), and NEO seeking approval to merge Brainard, Orwell, and Spelman into NEO as the sole, surviving entity.[1] As explained in the verified joint application, the tariff of the proposed merged entity (i.e., NEO) is intended to be effective post-merger and will stay in effect until the Commission approves a new tariff in this case. Thus, the new tariff proposed by the Company in this case is designed to replace the tariff proposed in Case No. 18-1485-GA-ATA, which received Commission approval on January 3, 2019.

Q. HOW DID NEO REACH THE CONCLUSION THAT ITS TARIFF NEEDED REPLACEMENT?

A. With significant parts of the existing tariff dating back to the 1990s and the early 2000s, the Company has been reviewing the current substance, structure, and format of its tariff

[1] Although the merger has not closed as of the date of the filing of this testimony, for purposes of this testimony, "NEO" or "Company" will refer to the proposed consolidated entity comprised of Brainard, Orwell, Spelman, and NEO (unless specifically stated otherwise).

for some time. In the process, the Company has identified certain inconsistencies, duplicative provisions, and a lack of coherent organization. For instance, certain parts of the tariff, particularly those dealing with customer transportation services, were written as if they applied to large gas utilities. Specifically, certain portions of the gas transportation portion of the tariff describe services that the Company, as a small gas utility with less than 30,000 customers, has never offered (and do not plan to offer in the future due to limitations explained below). Over the years, changes and other modifications to the tariff were made in an effort to address the foregoing issues. Unfortunately, making changes to the tariff inadvertently created additional problems, namely the tariff lacked coherent organization or a uniform format. The Company determined that a more substantial overhaul of the entire tariff was necessary to address concerns related to its substance, structure, coherence, and overall format.

Q. HOW DID NEO DEVELOP THE FORMAT FOR THE NEW TARIFF IT IS PROPOSING?

A. The Company carefully analyzed other natural gas utility tariffs on file with the Commission to develop a format that is more organized, comprehensible, and more easily accessible to its customers. In so doing, NEO incorporated certain provisions from its existing tariff without making any change while other provisions have been deleted, revised, or supplemented as required.

Q. CAN YOU DESCRIBE IN MORE DETAIL THE SPECIFIC CHANGES NEO MADE TO ADDRESS THE LACK OF ORGANIZATION AND CONSISTENT FORMATTING IN ITS EXISTING TARIFF?

A. The Company revised the new tariff so that it was organized by subject matter into the following ten sections: 1) Table of Contents; 2) Service Territory; 3) Definitions; 4) Service; 5) Billing and Metering; 6) Physical Property; 7) Transportation – Application Requirements; 8) Transportation – Gas Deliveries; 9) Transportation – Termination of Service; and 10) Rate Schedules. Organizing the tariff into ten sections according to subject matter provides more order, clarity, and structure to the Company's tariff. For example, in the existing tariff, definitions are spread throughout the entire tariff instead of having a uniform, segregated section where all defined terms are easily identified and clearly explained.

In addition, the Company introduced a consistent format to its rate schedules and riders in the proposed tariff. Specifically, all rate schedules have been organized by clearly defined categories such as Applicability, Character of Service, and Rates and Charges. The Rates and Charges category is further divided for each rate schedule by the following sub-categories: Customer Charge, Volumetric Charge per Mcf, Minimum Monthly Charge, Miscellaneous Charges, and Riders. By organizing and describing the Company's services and offerings in a consistent, more clearly defined and organized manner, customers will be able to more readily make cost comparisons between offerings.

Further, these proposed changes to the tariff will create greater transparency, so that customers can fully understand and readily identify charges associated with the service they select.

Q. WHAT MAJOR INFORMATIONAL ADDITIONS DID NEO MAKE TO ITS PROPOSED TARIFF?

A. The Company added a listing of all the municipalities in its service territory. As Company witness Charles Loy explains in his testimony, this addition is important because the Company is proposing two new area rates: 1) the NEO and Brainard area rate; and 2) the Orwell area rate .

Q. WHAT MAJOR INFORMATIONAL DELETIONS DID NEO MAKE TO ITS EXISTING TARIFF?

A. When the existing tariffs were written in the late 1990s and early 2000s, the Company began offering gas transportation under the General Transportation Service ("GTS") and Large General Transportation Service ("LGTS") rates. As a smaller utility offering gas transportation service for the first time, NEO tariff language for transportation service was modeled similar to the more well-established natural gas utilities in Ohio that had developed robust offerings and programs. However, although NEO began offering transportation service at that time, the Company did not have the operational capacity to offer many of the same types of programs and/or services that were described in the transportation portion of the tariff. Moreover, as described in greater detail below, the Company faced unique operating issues that constrained its ability to offer certain programs and services to customers. Even now and into the future, the Company will continue to be limited in what it can offer customers in terms of transportation services. Consequently, the Company's existing tariff, particularly those portions concerning transportation services, must be updated to accurately reflect the gas transportation services that the Company is currently offering and will continue to offer in the future.

Q. PLEASE DESCRIBE THE UNIQUE OPERATING ISSUES THAT NEO FACES.

A. Many of our customers are relatively recent additions located in previously unserved areas, NEO does not operate in a single, contiguous service area; instead, the service area consists of various isolated geographic areas of different sizes, most of which receive gas deliveries from a single feed from pipeline companies, neighboring utilities or producers. Making matters more complex, the Company's distribution system is not fully integrated, meaning that the gas supply it receives cannot be redelivered to any customer it serves. In addition, the Company does not have on-system storage; thus, gas supply on any given day must match customer demand in the various disjointed service areas.

Q. PLEASE IDENTIFY THE TYPE(S) OF GAS TRANSPORTATION SERVICE OUTLINED IN THE EXISTING TARIFF THAT THE COMPANY DOES NOT OFFER OR IS INCAPABLE OF OFFERING.

A. The Company's existing tariff offers a gas transportation service titled, "Volume Banking and Balancing", whereby the Company was to establish a system that would allow for aggregation, volume banking, imbalance purchases and sales, and pool-to-pool transfers. Due to its operational limitations as a small utility and the unique operating issues described above, the Company has never offered and is incapable of offering these services.

Q. ARE THERE ANY OTHER EXAMPLES OF GAS TRANSPORTATION SERVICES THAT THE COMPANY DOES NOT OFFER OR IS INCAPABLE OF OFFERING?

A. Yes. The Company does not issue "Operational Matching Orders" ("OMO") to its customers, which would require customers with daily measuring devices to adjust their usage to match volumes flowing on pipelines. Further, the Company does not offer "Full Requirements Standby Service", which is a type of backup service available to certain customers that make gas available at all times for 100% of the customer's annual or maximum daily transportation volumes. Nor does the Company offer "Partial Full Requirement Standby Service", another type of backup service that makes gas available at all times for a set percentage of the customer's maximum daily transportation volume. Again, these types of services are unavailable to customers because the Company does not possess the system capabilities necessary to offer them. Neither does the Company possess the on-system and off-system storage necessary to offer these types of services to its gas transportation customers. The new, proposed tariff accounts for these limitations by removing these services from the tariff to accurately reflect the Company's system capabilities.

Q. HAS THE COMPANY PROPOSED ANY CHANGES TO THE TERMS AND CONDITIONS IN ITS TARIFF?

A. Yes. The Company has added a “Payment Avoidance by Location” provision to its terms and conditions, and it has changed its policy on main, service line and meter responsibility.

Q. WHAT IS PAYMENT AVOIDANCE BY LOCATION, HOW DOES IT WORK, AND WHY IS IT NEEDED?

A. The purpose of Payment Avoidance by Location (“PAL”) arises when the Company receives a new application for utility service at a service location of a former customer who was previously disconnected for non-payment. If the Company has proof that the new applicant for service also resided at the service location during the time the disconnected customer’s debt accrued, the Company may require the new applicant, upon meeting verifiable PAL conditions, to pay a deposit equal to one-third of the estimated charges for the premise prior to initiating service. Adding a PAL provision will provide protection for the Company and its ratepayers from persons seeking to avoid payment for service used at a specific service location by simply switching account names when the customer who was turned off for delinquency resides at the same location.

Q. PLEASE DESCRIBE THE PROPOSED CHANGE IN POLICY ON MAINS, SERVICE LINES, AND SERVICE LINE RESPONSIBILITY OWNERSHIP.

A. The Company’s current policy with respect to the installation of distribution main is to require the customer to pay the Company to install main so that they can receive service. However, under its new tariff, the Company proposes to extend its distribution mains on any dedicated street or highway, without cost to the applicant, for service up to (but no more than) 100 feet of main, or for multiple applicants, an average of 100 feet of main for each applicant that agrees to take service within a one-year period. Further, the new tariff proposes that for main installations greater than 100 feet, the Company – at its sole discretion – will perform a cost benefit study and may require a contribution from the customer of that portion determined to be not economically justified.

For customer service line installations, the Company's existing tariff provides that such installations must be made solely at the expense of the customer. However, under the newly proposed tariff, the Company will install up to 100 feet of curb-to-meter service and maintain the entire curb-to-meter service and equipment (including risers, meters and service regulators) on its side of the point of delivery, without charge to the customer, for all new services installed from effective date of the proposed tariff. For any new service line installation in excess of 100 feet, customers will be charged the actual cost for the initial installation, but the Company will maintain the entire curb-to-meter service and equipment (including risers, meters and service regulators on its side of delivery (outlet of meter)), without cost to the customer. With that said, under the newly proposed tariff, the customer will be responsible for all services installed prior to the effective date of the new tariff. Furthermore, until the Company replaces or repairs an existing service line, the service line from the curb valve to the meter shall be the property of the owner of the premises and shall be under the owner's exclusive control, and the Company shall not be liable for any issues associated with the owner's service line.

Q. WHY IS THE COMPANY PROPOSING CHANGES TO ITS POLICY ON MAINS, SERVICE LINES, AND SERVICE LINE RESPONSIBILITY/OWNERSHIP?

A. The Company is proposing substantive changes to its policy on mains, service lines, and service line responsibility/ownership to bring greater affordability, consistency, clarity, convenience, and safety to its customers. Prior to the proposed NEO merger described above, Brainard and Orwell's individual tariffs provided 100 feet of free main extension for their customers while NEO (as a pre-merger standalone entity) did not. As a result, the Company (as a merged entity) seeks to incorporate a uniform policy in its proposed tariff to ensure all of its customers receive the same benefits and operate under the same terms and conditions as similarly situated customers. More importantly, the Company seeks to implement a uniform, consistent policy for purposes of customer convenience and safety. Specifically, by proposing a uniform, consistent policy with respect to the installation of the service lines, customers, most of whom are not experienced in these matters, are spared the cost and aggravation of having to find, contract with, and oversee a third-party's construction/installation of their service line. The Company also benefits insofar as the new policy circumvents the need to make an additional trip to the customer's home for inspection and testing of the new line. It also significantly enhances safety as NEO has oversight of the installation and eliminates the cost of testing and inspecting the installation completed by a third party. The integrity of the Company's natural gas distribution system is maintained and no unauthorized material will be installed.

IV. <u>CHANGES TO MISCELLANEOUS CHARGES AND RIDERS</u>

Q. HAS THE COMPANY MADE ANY CHANGES TO ITS MISCELLANEOUS CHARGES?

A. Yes. First, the Company proposes the elimination of the Field Collection Charge.

Q. WHY HAS THE COMPANY PROPOSED THE ELIMINATION OF ITS FIELD COLLECTION CHARGE?

A. The Company proposes the elimination of its Field Collection Charge because the Company does not want its field personnel collecting or otherwise retrieving monies from customers for security and liability reasons. Under the current tariff, the Field Collection Charge, which is assessed at the time of disconnection, is a ten-dollar ($10.00) charge payable to an employee authorized to accept such payment. However, under the Company's proposed tariff, if the customer elects to tender payment at the time of disconnection to avoid disconnection of service for non-payment, the Company will make available to the customer payment by credit card over the phone as outlined in Number 19 of the proposed tariff, titled "Payment of Bills."

Q. PLEASE IDENTIFY AND EXPLAIN ANY CHANGES TO EXISTING RIDERS IN THE COMPANY'S PROPOSED TARIFF.

A. In total, the Company has included seven riders in its newly proposed tariff, three of which are brand new. Of the five existing riders that the Company seeks to continue, the Company seeks to modify only one, i.e., the Ohio Mcf Tax Rider.[2] For the Ohio Mcf Tax Rider, the Company is proposing to adopt a more simplified approach in assessing the Mcf tax. Specifically, the Company is proposing to set the tax rate at $0.0411 per Mcf, which will address and resolve an inconsistency in the Mcf tax rate charged to the Company's customers under the existing tariff. Brainard and Orwell currently assess a

[2] The Company does not seek to modify or change the Gross Receipts Tax Rider, the Percentage of Income Payment Plan Rider, the Gas Cost Rider, or the Uncollectable Expense Rider, but has recalculated them as necessary.

flat charge of $0.0411 per Mcf, but NEO (i.e., as a pre-merger standalone entity) calculates its Mcf tax on a graduated scale as follows:

First 100 Mcf per month	$.1593 per Mcf
Next 1,900 Mcf per month	$.0877 per Mcf
Over 2,000 Mcf per month	$.0411 per Mcf

Thus, applying a uniform flat Mcf tax rate to all customers fosters a more simplified, consistent, and equitable approach for the Company's customers going forward. The Ohio Revised Code provides for utilities serving less than 70,000 customers to calculate their excise tax as if it were serving one customer. This means the total tax amount would be computed utilizing the volumetric steps listed in the Code as a single quantity. Utilizing the methodology, the company is proposing, customers would see a reduction in their costs. Additionally, this methodology brings consistency and simplification to the Company's calculation of this tax.

Q. PLEASE IDENTIFY AND EXPLAIN THE NEW RIDERS IN THE COMPANY'S PROPOSED TARIFF.

A. The Company has introduced two new riders to its proposed tariff: 1) the Income Tax Credit Mechanism Rider; and 2) the Infrastructure Replacement Program Rider.

The first new rider is the Income Tax Credit Mechanism Rider, which is designed to provide a credit to customers courtesy of the Tax Cut and Jobs Act ("TCJA") of 2017. The TCJA lowered the federal corporate income tax rate on corporations, and to reflect these tax savings, the Income Tax Credit Mechanism Rider provides a credit to customers calculated as of January 1, 2018, i.e., the effective date of the TCJA. The Company proposes to apply the Income Tax Credit Mechanism Rider to all rate schedules.

The second new rider proposed by the Company is the Infrastructure Replacement Program ("IRP") Rider, which is designed to recover costs associated with the Company's IRP Plan on file with the Commission. Specifically, the IRP Rider will recover costs associated with customer notification, education, replacement of aging and high-risk infrastructure, and AMR equipment. The Company proposes to apply the IRP Rider to all rate schedules. Company witness Degenstein explains the IRP Rider in detail.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.