

OCC EXHIBIT NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an) Case No. 18-0049-GA-ALT
Alternative Rate Plan.)

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an Increase) Case No. 18-0298-GA-AIR
in Gas Rates.)

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an) Case No. 18-0299-GA-ALT
Alternative Rate Plan.)

**SUPPLEMENTAL DIRECT TESTIMONY
OF
WILSON GONZALEZ**

IN OPPOSITION TO THE JOINT STIPULATION AND RECOMMENDATION

**On Behalf of
The Office of the Ohio Consumers' Counsel**
*65 East State Street, 7th Floor
Columbus, Ohio 43215-4213*

January 28, 2019

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ATTACHMENTS

Exhibit WG-1

*Supplemental Direct Testimony of Wilson Gonzalez
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 18-0298-GA-AIR et al.*

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

4 ***A1.*** My name is Wilson Gonzalez. My business address is 450 Whitney Avenue,
5 Worthington, Ohio 43085. I am the President of Tree House Energy and
6 Economic Consulting, LLC. I am testifying in this proceeding on behalf of the
7 Office of the Ohio Consumers' Counsel ("OCC").

8

9 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
10 ***PROFESSIONAL EXPERIENCE.***

11 ***A2.*** I have a Bachelor of Arts degree in Economics from Yale University, and a
12 Master of Arts degree in Economics from the University of Massachusetts at
13 Amherst. I have also completed coursework and passed my comprehensive
14 exams towards a Ph.D. in Economics at the University of Massachusetts at
15 Amherst.

16

17 I have been employed in the energy industry since 1986. I was first employed by
18 the Connecticut Energy Office as a Senior Economist (1986-1992). Then I was
19 employed by Columbia Gas Distribution Companies ("Columbia Gas") as an
20 Integrated Resource Planning Coordinator (1992-1996). After that, I was
21 employed by American Electric Power Shared Services ("AEP") as a Marketing
22 Profitability Coordinator and Market Research Consultant (1996-2002). From
23 2004 to 2013, I managed the Resource Planning activities for OCC. Since 2011,

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1 Tree House Energy and Economics Consulting has provided analytical and policy
2 related consulting services to consumer and environmental organizations.

3

4 ***Q3. WHAT HAS BEEN YOUR EXPERIENCE IN PUCO PROCEEDINGS***
5 ***REGARDING STRAIGHT FIXED VARIABLE (“FIXED CHARGE”) RATE***
6 ***DESIGN AND REVENUE DECOUPLING MECHANISMS?***

7 ***A3.*** I have been directly involved in Fixed Charge rate design and revenue decoupling
8 cases that have been filed before the Public Utilities Commission of Ohio
9 (“PUCO”). I filed testimony in the Duke Energy Ohio Case No. 07-589-GA-AIR,
10 Vectren (“VEDO” or “Utility”) Case No. 05-1444-GA-UNC, Dominion Case No.
11 07-829-GA-AIR, and AEP Ohio Case No. 11-351-EL-AIR.

12

13 ***Q4. WHAT HAS BEEN YOUR EXPERIENCE IN OTHER REGULATORY***
14 ***PROCEEDINGS?***

15 ***A4.*** I have been involved with many aspects of electric utility regulation since 1986
16 including, but not limited to, rate design and integrated resource planning (with or
17 without transmission as a resource in the planning mix). While at the Connecticut
18 Energy Office, I was involved in one of the first demand-side management
19 (“DSM”) collaborative processes in the country -- Connecticut Department of
20 Public Utility Control (“CDPUC”) Docket No. 87-07-01. In that case, I analyzed
21 the performance and cost-effectiveness of many energy efficiency programs for
22 Connecticut’s electric and gas utilities that led to demonstration projects, policy
23 recommendations, DSM programs (including rate design recommendations) and

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1 energy efficiency standards. I also performed all of the analytical modeling for
2 United Illuminating's first integrated resource plan filed before the CDPUC in
3 1990.

4
5 ***Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE***
6 ***PUBLIC UTILITIES COMMISSION OF OHIO?***

7 ***A5.*** Yes. A list of my testimony before the Public Utilities Commission of Ohio
8 ("PUCO") is attached as Exhibit WG-1.

9
10 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF***
11 ***YOUR FIXED CHARGE TESTIMONY?***

12 ***A6.*** I have reviewed the rate design portions of VEDO's Rate Increase Application
13 ("Application"), the Direct Testimony of VEDO witnesses Scott Albertson and
14 Rina Harris, and the Staff Report in this proceeding. Finally, I have reviewed the
15 relevant residential rate design related sections in the Stipulation and
16 Recommendations ("Settlement") filed by VEDO on January 4, 2019.

II. PURPOSE OF TESTIMONY AND RECOMMENDATIONS

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A7. My testimony concerns VEDO's strict¹ Fixed Charge rate design that has been adopted in the filed Settlement, and its significant negative bill impact on low income residential customers with low usage, and regular low usage residential customers if the Utility's rate increase is approved.

I recommend the rejection of VEDO's proposed Fixed Charge rate design (Objection 11), meaning the fixed charge should be reduced below the current \$ 18.37.² A Fixed Charge rate design adversely impacts low-usage customers, sends an improper price signal to customers, fails to encourage customer-initiated conservation, and adversely impacts customer efficiency efforts.

As a secondary alternative position (Objections 13 and 14), I recommend that the PUCO maintain the \$18.37 fixed charge and reassign any base rate increases to be approved and existing Distribution Replacement Rider ("DRR") and the Capital Expenditure Program ("CEP") rider charges from a fixed customer charge to a volumetric charge in order to provide bill relief to low usage customers. VEDO

¹ For the purposes of this testimony a strict Fixed Charge rate design is one that places all distribution cost into a fixed charge on a customer bill as opposed to a modified Fixed Charge rate design that has a high fixed charge, but also contains a volumetric component on the bill.

² Prior to the statewide move to a Fixed Charge rate design for natural gas companies (starting with Duke Energy Ohio Case No. 07-589-GA-AIR), residential customer charges to connect to the utility gas system ranged from \$5.70 to \$7.00. See table on page 9 of Gonzalez testimony in the above referenced case.

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1 and the Settlement's proposal to continue a strict Fixed Charge rate design is
2 problematic because it:

- 3 1. penalizes those customers who have undertaken energy
4 efficiency investments,
- 5 2. leads to less energy efficiency by lessening consumer
6 incentives for self-initiated efficiency,
- 7 3. sends improper price signals, encouraging more natural gas
8 consumption that may conflict with energy efficiency
9 policy goals,
- 10 4. has a more extreme impact when compared to a revenue
11 reconciling form of decoupling,
- 12 5. violates the tenant of Gradualism for low use customers,
- 13 6. takes away some of the control customers have to manage
14 their utility bills,
- 15 7. may cause very low usage customers to drop off the
16 system,
- 17 8. is an exercise of monopoly power, and
- 18 9. is not particularly fair since all residential consumers
19 contribute equally to VEDO's distribution revenue
20 regardless of the level of their usage.

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1 Therefore, VEDO's residential rate designs adopted by the filed Settlement are
2 not in the public interest.

3

4 **Q8. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

5 **A8.** I recommend that the PUCO reject the Settlement filed in this proceeding because
6 it violates the three-prong test that the PUCO uses in evaluating the approval of
7 settlements. The level of fixed charges that will be realized if the filed Settlement
8 is approved, will harm low usage customers (low income and non-low income)
9 and are not in the public interest. Specifically, I recommend that the better
10 approach for customers is for the PUCO to reject VEDO's and the Settlement's
11 adherence to a Fixed Charge rate design and reduce the current fixed charge of
12 \$18.37 to pre-Fixed Charge customer charge levels.

13 As a secondary alternative, I recommend that the PUCO maintain the current
14 Fixed Charge residential charge of \$18.37 and apply any PUCO approved base
15 rate increases and DRR and CEP to a volumetric rate component.

16

17 In addition (Objection 16), the PUCO should also approve a volumetric revenue
18 decoupling mechanism. This symmetrical mechanism will reconcile VEDO's
19 revenue through an annual true-up and provide residential customers with a credit
20 when VEDO's authorized revenue requirement is exceeded.

1 **III. EVALUATION OF THE STIPULATION REGARDING THE THREE-**
2 **PRONG TEST USED BY THE PUCO FOR EVALUATING**
3 **SETTLEMENTS.**

4
5 ***Q9. WHAT CRITERIA DOES THE PUCO RELY UPON FOR CONSIDERING***
6 ***WHETHER TO ADOPT A STIPULATION?***

7 ***A9.*** The PUCO will adopt a stipulation only if it meets all three criteria below. The
8 PUCO must analyze the Settlement and decide the following:

- 9 1. Is the settlement a product of serious bargaining among
10 capable, knowledgeable parties?
- 11 2. Does the settlement, as a package, benefit customers and
12 the public interest?
- 13 3. Does the settlement package violate any important
14 regulatory principle or practice?³

15 In addition to these criteria, the PUCO also routinely considers whether the
16 parties to the settlement represent diverse interests.

³ *Consumers' Counsel v. Pub Util. Comm'n.* (1992) 64 Ohio St.3d 123, 126.

1 ***Q10. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT CUSTOMERS AND***
2 ***THE PUBLIC INTEREST?***

3 ***A10.*** No. The Settlement does not benefit either residential customers or the public
4 interest. Specifically, the number and level of fixed charges embedded in the
5 Settlement harms low usage customers and reflects an exercise in monopoly
6 power.

7
8 **IV. EVALUATION AND RECOMMENDATION OF THE SETTLEMENT'S**
9 **RESIDENTIAL FIX CHARGES ON LOW USAGE CUSTOMERS**

10
11 ***Q11. WHAT ARE THE RESIDENTIAL CUSTOMER BILL IMPACTS FROM***
12 ***POTENTIAL INCREASES IN THE FIXED PORTION OF THEIR BILL?***

13 ***A11.*** Placing the rate case increases into the fixed portion of a residential customer's
14 bill will have bad consequences for low income and low use residential customers
15 (Objections 12 and 15). This occurs because the residential bill increases are
16 skewed towards low use customers because of the Fixed Charge rate design. The
17 Settlement, if approved, will increase the residential fixed charge from \$27.62
18 (\$18.37+\$9.25 DRR) to \$32.86, a sizable 19% increase, whereas the Staff Report
19 landed on \$30.95, or an increase of 12%.⁴ However, residential fixed charges
20 stand to increase further this year, with additional DRR and CEP charges (DRR

⁴ Staff Report at 35.

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1 capped at \$2.50 plus applicable CEP cap) in 2019, and up to a maximum of
2 \$15.25 (DRR Capped at \$13.75 and CEP capped at \$1.50) by 2024 as shown in
3 Table 1 below.⁵
4

Table 1.		Residential
DRR Caps per Settlement	DRR Investment Period	Rate Cap
9/1/19 - 8/31/20	As of 12/31/2018	\$ 2.50
9/1/20 - 8/31/21	As of 12/31/2019	\$ 5.00
9/1/21 - 8/31/22	As of 12/31/2020	\$ 7.50
9/1/22 - 8/31/23	As of 12/31/2021	\$ 10.00
9/1/23 - 8/31/24	As of 12/31/2022	\$ 12.00
9/1/24 - 8/31/25	As of 12/31/2023	\$ 13.75

5
6 When added to the \$32.86 fixed charge in residential rates, the DRR and CEP rate
7 caps can potentially⁶ increase residential fixed charges from \$32.86 to \$48.11 in
8 2024. This represents an extraordinary residential fixed charge increase ranging
9 from approximately 20% to 74%.⁷
10 Table 2, Table 3, and graph 1 below shows the projected residential rate and bill
11 increases if the Settlement's distribution rate increases are approved and added to
12 the fix charge, compared to OCC's alternate recommendation that the distribution
13 increase above \$18.37 get billed on a volumetric basis.

⁵ Stipulation DRR Caps at page 7 and CEP Cap at page 9.

⁶ If the maximum cap charges are applied for the DRR and CEP.

⁷ It is interesting to note that Maryland Senate Bill 1131 concerning Fixed Charge rate designs for the state's electric cooperatives contained a restriction that the fixed increase should be no more than 25 percent higher than the fixed charge in effect one year prior. See Whited, Malone, and Vitolo, "Rate Design Impacts for Customers of Maryland's Electric Cooperatives," 12/30/16.

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Table 2: Vectren Typical
Residential Bill Including Fuel

		Current	Settlement	Proposed	Proposed		Proposed	Proposed
		Bill	Proposed Bill	Settlement	Settlement	OCC	OCC	OCC
				Increase	Incr %	Proposed Bill	Increase	Incr %
Customer Charge		\$ 18.37	\$32.86			\$18.37		
DRR		\$ 9.25						
Total Fixed Charge		\$ 27.62	\$32.86			\$18.37		
Volumetric Charge						\$0.2372/CCF*		
CCF Usage	0	\$ 29.00	\$ 34.50	\$ 5.50	18.97%	\$ 19.29	\$ (9.71)	-33.48%
	25	\$ 41.13	\$ 46.40	\$ 5.27	12.81%	\$ 37.42	\$ (3.71)	-9.02%
	50	\$ 53.27	\$ 58.31	\$ 5.04	9.46%	\$ 55.55	\$ 2.28	4.28%
Avg. Usage 61.1		\$ 58.66	\$ 63.59	\$ 4.93	8.40%	\$ 63.60	\$ 4.94	8.42%
	100	\$ 77.54	\$ 82.12	\$ 4.58	5.91%	\$ 91.81	\$ 14.27	18.40%
	150	\$101.81	\$ 105.93	\$ 4.12	4.05%	\$ 128.07	\$ 26.26	25.79%

- 1 *32.86 - \$18.37 = \$14.49 Converted to a volumetric charge. (Does not include any
- 2 additional DRR, CEP, or tax credits).

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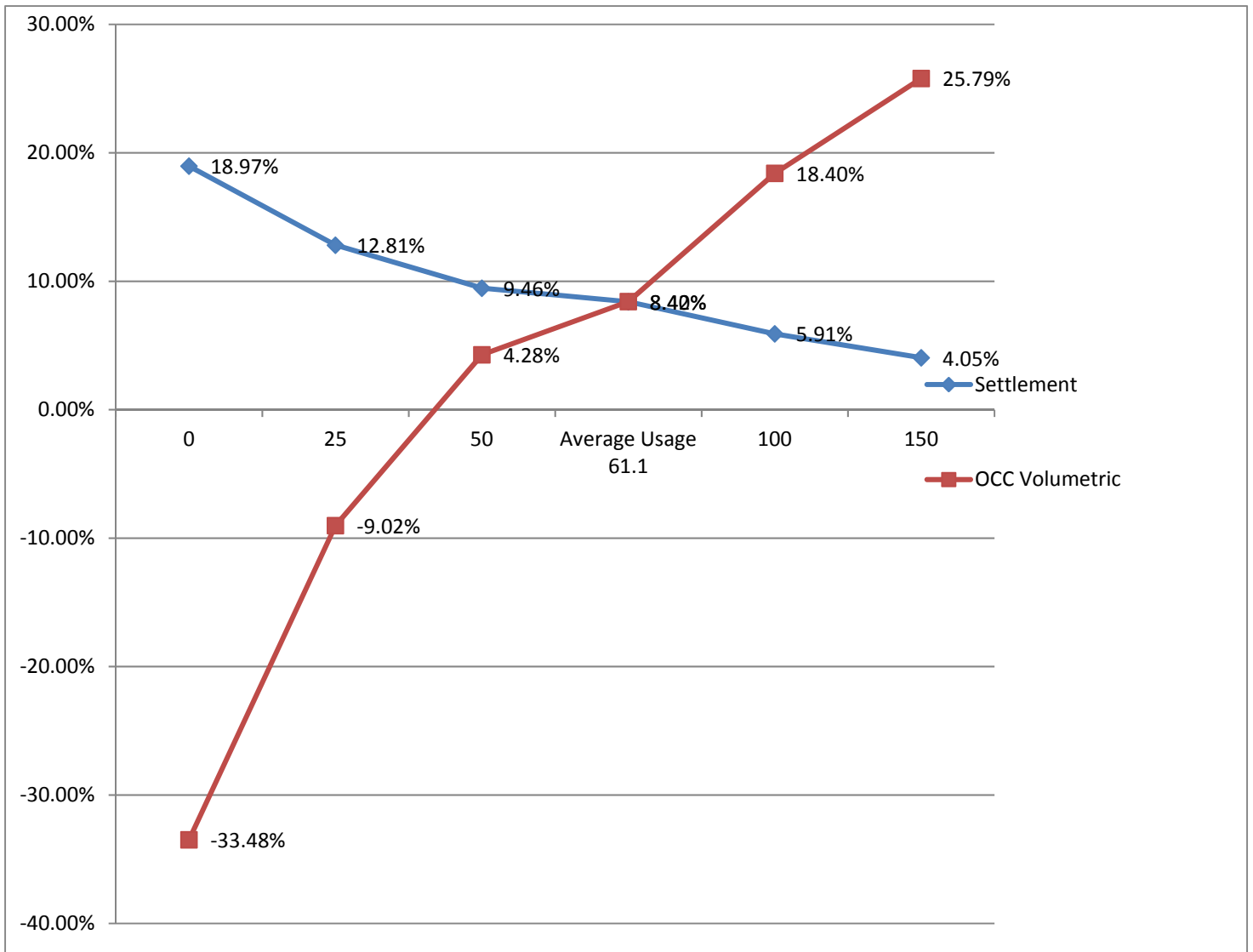
Table 3 Vectren Typical
Residential Bill Including
Fuel*

	Potential Proposed Settlement Final Year	Increase	Percentage Increase
Customer Charge	\$ 32.86		
DRR	\$ 13.75		
CEP	\$ 1.50		
Total Fixed Charge	\$ 48.11		
CCF Usage			
	0 \$ 50.51	\$21.51	74.17%
	25 \$ 62.42	\$21.29	51.76%
	50 \$ 74.32	\$21.05	39.52%
Average Usage 61.1	\$ 79.61	\$20.95	35.71%
	100 \$ 98.13	\$20.59	26.55%
	150 \$121.94	\$20.13	19.77%

1 *Does not include tax credits.

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1 Graph 1. Residential Bills: Percentage Changes From Current Bills



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1 As can be observed in VEDO's proposed Application as altered by the
2 Settlement, residential low-use customers (50 Ccf or less) will experience
3 dramatic bill increases ranging from 19 percent to 10 percent while high use
4 residential customers (100 to 150 Ccf) experience lower increases in the six
5 percent to four percent range.

6
7 OCC's volumetric component recommendation reverses the dramatic bill
8 increases for low usage customers (34% decrease to 4% increase), and for high
9 usage customers, the increases range from eight percent to 26%.

10 Moreover, potential bills in 2024, the last year of the settlement are alarming.
11 Residential low-use customers (50 Ccf or less) could experience dramatic bill
12 increases ranging from 40 percent to 74 percent while high use residential
13 customers (100 to 150 Ccf) may experience lower increases in the 27% to 20%
14 range (See Table 3).

15
16 Overall, under the Settlement, all low usage customers (less than average
17 consumption) will bear a disproportionate increase in their natural gas bills even
18 while they maintain their current usage patterns. A Fixed Charge rate design is
19 regressive leading to even greater impact on low use, low income customers or
20 low use elderly customers on fixed incomes.

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1 This is significant because the city of Dayton, where VEDO serves, has an
2 unfortunate 34.5% poverty rate for residents.⁸ And Montgomery County
3 unfortunately has an approximate 18% percent level of food insecurity for
4 residents.⁹

5
6 On average, low- income, multi-family households in VEDO's service territory
7 use 41.2 Ccf per month and there are approximately 30,101 households.¹⁰ So on
8 average, their distribution bill will increase close to ten percent in Settlement
9 (without additional DRR + CEP charges) and over 17% in Settlement in 2019 if
10 the maximum DRR and CEP cap charges are realized.

11
12 Overall, a Fixed Charge rate design has intra-class impacts, invariably shifting
13 cost from high-usage, high-income customers to low usage or low income/fixed
14 income customers. Increasing natural gas bills presents an undue hardship for
15 low usage, low income/fixed income customers and may lead to increasing PIPP
16 arrearages and costs.

⁸ <https://www.census.gov/quickfacts/fact/table/daytoncityohio/IPE120217#viewtop>

⁹ <https://map.feedingamerica.org/county/2016/overall/ohio/county/montgomery>

¹⁰ Rina Harris Testimony at 111-114. On average, 84,609 low-income, single-family homes using 59.7 Ccf per month would see distribution bill increases approaching 13% under VEDO's proposal and over five percent on Staff's proposal. One can also assume that low income homes that have gone through VEDO's low income weatherization programs since 2005 (saving on average 22%) will see their dollar savings diminished if a strict Fixed Charge is approved. Rina Harris at 11.

1 **V. OTHER CONCERNS WITH A STRICT FIXED CHARGE RATE DESIGN**

2

3 ***Q12. WHAT OTHER PROBLEMS MAY A STRICT FIXED CHARGE***
4 ***EXACERBATE?***

5 ***A12.*** While a strict Fixed Charge rate design is easy to administer, it contains other
6 elements that are problematic.

7 1. **A strict Fixed Charge rate design penalizes those**
8 **customers who have undertaken energy efficiency**
9 **investments.** This occurs because the higher fixed charge
10 results in a lower per Ccf charge. The lower volumetric
11 charge encourages consumption and discourages customer-
12 initiated conservation and, adversely affects the Utility's
13 and its customers' energy efficiency efforts. Customers
14 who have invested in additional home insulation, purchased
15 more efficient furnaces and water heaters as a rational
16 response to increasing gas costs will see their investment
17 returns diminished and payback periods increased as a
18 result of a Fixed Charge rate design.

19 2. **A strict Fixed Charge rate design leads to less energy**
20 **efficiency by lessening consumer incentives for self-**
21 **initiated efficiency.** A Fixed Charge rate design lengthens

1 the payback period¹¹ of customers contemplating energy
2 efficiency investments by eliminating the variable portion
3 of the distribution rate.

4 3. **A strict Fixed Charge sends improper price signals,**
5 **encouraging more natural gas consumption that may**
6 **conflict with energy efficiency policy goals (Objection**
7 **15).** For example, ORC 4905.70 states that “The public
8 utilities commission shall initiate programs that will
9 promote and encourage conservation of energy and a
10 reduction in the growth rate of energy consumption,
11 promote economic efficiencies, and take into account long-
12 run incremental costs.” A lower volumetric charge that
13 encourages consumption may adversely affect the Utility’s
14 and its customers' energy efficiency efforts.¹²
15

16 4. **A strict Fixed Charge rate design has a more extreme**
17 **impact when compared to a revenue reconciling form of**
18 **decoupling.** The Utility has not presented any evidence

¹¹ A Fixed Charge rate design reduces the Participant Test Benefit-Cost ratio as defined by the 2002 “CALIFORNIA STANDARD PRACTICE MANUAL: ECONOMIC ANALYSIS OF DEMAND-SIDE PROGRAMS AND PROJECTS”.

¹² As such, it requires utility sponsored energy efficiency programs to provide higher customer incentives to move customers to invest in energy efficient measures. The existing residential energy efficiency rebates program participant test is marginally passing in the Utility’s filing. See page 86 in the Direct Testimony of Rina Harris.

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1 that the increase in its fixed charge will be well accepted by
2 customers. In fact, the large increase in the customer
3 charge for all customers and the increased bills of low
4 usage customers may be a recipe for customer complaints
5 and protests. A sales reconciling form of decoupling
6 without an increase to the customer charge is a less extreme
7 approach because it represents a less dramatic shift in
8 customer bills and its impact does not fall
9 disproportionately on low usage low income and fixed
10 income customers.

11 5. **A strict Fixed Charge rate design violates the tenant of**
12 **Gradualism (Objection 15).** For low use customers as the
13 numerical examples discussed above clearly demonstrate.
14 Without some regulatory relief, rate shock for low usage
15 customers usually accompanies a Fixed Charge rate design.

16 6. **A strict Fixed Charge rate design takes away some of**
17 **the control customers have to manage their utility bills.**
18 With all the distribution costs charged on a fixed charge,
19 financially stressed customers can only control the
20 commodity portion of their bill. This is important because
21 of current lower commodity costs relative to the years the
22 PUCO approved the Fixed Charge rate design. Fixed

1 charges now make up a larger relative portion of a
2 customer's bill.

3 7. **A strict Fixed Charge rate design may cause very low**
4 **usage customers to drop off of the system.** A Fixed
5 Charge rate design can result in very low volume users
6 discontinuing their gas service. For example, those
7 customers who only use natural gas for secondary non-
8 heating purposes such as fireplace logs, decorative lighting,
9 and outdoor grills may opt to switch to other energy
10 sources.

11 8. **There is also currently a push by some in the**
12 **environmental community for fuel switching from all**
13 **natural gas end-uses to electric end-uses.** Losing more
14 natural gas customers would then necessitate a further
15 reallocation of the fixed costs they would contribute to
16 remaining customers in the form of higher fixed rates
17 creating increased costs for remaining customers and
18 potentially starting a vicious cycle of ever-increasing costs
19 for potentially fewer customers.

20 9. **A strict Fixed Charge rate design is an exercise of**
21 **monopoly power.** The imposition of a customer fixed
22 charge is not often seen in competitive markets. Even

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1 competitive companies with large fixed costs recover their
2 fixed and variable costs through volumetric pricing. An
3 important aim of regulation is to impart competitive market
4 pricing discipline on natural monopolies.

5 10. **The strict Fixed Charge rate design is not particularly**
6 **fair.** All residential consumers contribute equally to
7 VEDO's distribution revenue regardless of the level of their
8 usage. Those who make a greater use of the distribution
9 system should bear a proportionately greater share of its
10 cost.¹³

11 The foregoing elements demonstrate that the Fixed Charge in the
12 Settlement is not in the public interest and violates important regulatory
13 principles.

¹³ Generally, it would cost less to serve a residential customer who lives in a small apartment in an area with high customer density than it would to serve a customer who lives in a neighborhood with a larger home and large frontage in less densely populated areas. Also, demand charges and customer charges are not the same thing, but an Fixed Charge rate design forces high demand and low demand customers to pay the same even if their demand characteristics are different. Even in a gas distribution system, fixed costs do vary partly as a function of individual customer demand. The Fixed Charge rate used by Atlanta Gas Light, for example, estimates the fixed charge as a function of the maximum daily demand for gas imposed by each premise. American Gas Association, Natural Gas Rate Round-Up: Innovative Rate Designs for Fixed Cost Recovery, June 2006.

1 **VI. REVENUE DECOUPLING**

2

3 ***Q13. ARE YOU ALSO RECOMMENDING THAT VEDO IMPLEMENT A***
4 ***REVENUE DECOUPLING MECHANISM IF THE PUCO APPROVES A***
5 ***VOLUMETRIC COMPONENT TO THE RESIDENTIAL DISTRIBUTION***
6 ***RATE DESIGN (Objection 16)?***

7 ***A13.*** Yes.

8

9 ***Q14. WHAT IS A REVENUE DECOUPLING MECHANISM?***

10 ***A14.*** Revenue decoupling is an approach to rate design that addresses the revenues that
11 can be lost when customers use less utility service such as when they are
12 participating in energy efficiency programs. The symmetrical mechanism of a
13 decoupling mechanism will reconcile VEDO's revenue loss with a true-up
14 annually and provide residential customers with a credit when VEDO's
15 authorized revenue requirement is exceeded. Decoupling can be defined
16 generally as separating utility revenues and profits from the volume of kWh sold.
17 Decoupling mechanically trues-up revenues via a per Ccf rider adjustment when
18 actual sales are different than the test year levels approved in a utility's
19 distribution rate case.¹⁴

¹⁴ See AEP-Ohio mechanism containing a sample example in Attachment WG-2.

**Q15. WHAT CONSUMER PROTECTIONS USUALLY ACCOMPANY REVENUE
DECOUPLING MECHANISMS.?**

A15. The consumer protections that have been adopted in Ohio are:

1. The revenue decoupling mechanisms approved contain an annual cap to protect consumers (a three percent annual cap is the norm);¹⁵
2. The revenue decoupling rider rate designs are based on easily understood per kWh (Ccf for LDCs) charge; and
3. The interest on the annual revenue balances is at the long-term cost of debt (rather than the weighted average cost of capital [WACC]).¹⁶

These consumer safeguards ensure that the public interest is protected and are consistent with important regulatory principles.

¹⁵ The three percent cap is the percentage caps that were approved in the PUCO Orders for AEP-Ohio and Duke Energy Ohio. Opinion and Order in Case No. 11-351-EL-AIR filed on 12/14/11, page 7 and Finding and Order in Case No. 11-5905-EL-RDR filed on 5/30/12, page 4.

¹⁶ In its Finding and Order in the Duke Energy Ohio Decoupling case the PUCO approved the interest rate to be the long-term cost of debt. Finding and Order in Case No. 11-5905-EL-RDR filed on 5/30/12, page 4. OPAE for example, commented on the inappropriateness of interest and the WACC as the interest charged. "Nonetheless, OPAE recommends that no carrying charges be assessed during the pilot. The differences between the adjusted revenue requirement and actual recovery should not be of a scale to warrant carrying charges, particularly given that there is a working capital allowance already built into base rates which negates the impact of under-recovery. In addition, the lag time between the end of the year and the recovery or repayment is less than one year. Traditionally, carrying charges are not assessed in Ohio for when costs are recovered less than one year after they are incurred. Moreover, Duke's approved WACC of 9.1% is excessive for the purposes of this pilot program. Should the [PUCO] opt to provide for carrying charges, the long-term cost of debt would be adequate." OPAE comments filed on 3/22/12, page 2.

1 **VII. CONCLUSION**

2

3 ***Q16. WHAT ARE YOUR RECOMMENDATIONS?***

4 ***A16.*** For all of the reasons described above, the PUCO should not adopt the Settlement,
5 as filed, because the strict adherence to a Fixed Charge rate design harms
6 customers and is not in the public interest. In addition, other OCC witnesses have
7 shown that as a package the Settlement does not benefit customers.

8 As a secondary alternative, I recommend that the PUCO maintain the current
9 Fixed Charge residential charge of \$18.37 and apply any PUCO approved base
10 rate increases and DRR and CEP to a volumetric rate component.

11 In addition, the PUCO should approve a volumetric revenue decoupling
12 mechanism.

13

14 ***Q17. DOES THIS CONCLUDE YOUR TESTIMONY?***

15 ***A17.*** Yes. However, I reserve the right to incorporate new information and/or
16 discovery responses that may subsequently become available. I also reserve the
17 right to supplement my testimony in response to positions taken by VEDO or
18 other parties.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing *Supplemental Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served electronically this 28th day of January 2019.

/s/ William J. Michael

William J. Michael
Assistant Consumers' Counsel

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Mr. Gonzalez has submitted testimony in the following cases before the Public Utility

Commission of Ohio:

1. Vectren Energy Delivery of Ohio, Case No. 04-571-GA-AIR
2. Dominion East Ohio, Case No. 05-474-GA-ATA
3. Dominion East Ohio, Case No. 07-829-GA-AIR
4. Vectren Energy Delivery of Ohio, Case No. 05-1444-GA-UNC
5. Columbus Southern Company/Ohio Power Company, Case No. 06-222-EL-SLF
6. Duke Energy of Ohio, Case No. 07-589-GA-AIR
7. FirstEnergy Companies, Case Nos. 07-551-EL-AIR, et al
8. Vectren Energy Delivery of Ohio, Case No. 07-1080-GA-AIR
9. FirstEnergy Companies, Case No. 08-935-EL-SSO
10. FirstEnergy Companies, Case No. 08-936-EL-SSO
11. Duke Energy of Ohio, Case No. 08-920-EL-SSO
12. AEP Ohio Case No. 08-917-EL-SSO
13. Dayton Power and Light, Case No. 08-1094-EL-SSO
14. FirstEnergy Companies, Case No. 09-906-EL-SSO
15. Duke Energy of Ohio, Case No. 10-1999-EL-POR
16. FirstEnergy Companies, Case No. 10-388-EL-SSO

17. FirstEnergy Companies, Case No. 10-1128-EL-CSS
18. AEP Ohio Case No. 11-351-EL-AIR
19. FirstEnergy Companies, Case No. 11-5201-EL-RDR
20. FirstEnergy Companies, Case No. 12-1230-EL-SSO
21. FirstEnergy Companies, Case No. 12-2190-EL-POR
22. Duke Energy Ohio Case No. 13-431-EL-POR
23. Duke Energy Ohio Case No. 13-753-EL-RDR
24. Dayton Power and Light Case No. 13-833-EL-POR, et al
25. Duke Energy Ohio Case No. 14-1580-EL-RDR
26. Duke Energy Ohio Case No. 14-457-EL-RDR
27. AEP Ohio Case No. 13-1939-EL-RDR
28. Duke Energy Ohio 17-1263-EL-SSO

This foregoing document was electronically filed with the Public Utilities

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Case No(s). 18-0298-GA-AIR, 18-0299-GA-ALT, 18-0049-GA-ALT

Summary: Testimony Supplemental Direct Testimony of Wilson Gonzalez in Opposition to the Joint Stipulation and Recommendation electronically filed by Ms. Jamie Williams on behalf of Michael, William Mr.