**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of<br>Vectren Energy Delivery of Ohio, Inc.<br>for Approval of an Alternative Rate Plan. | )<br>)<br>) | Case No. 18-49-GA-ALT |
| In the Matter of the Application of<br>Vectren Energy Delivery of Ohio, Inc.<br>for an Increase in Gas Rates. . | )<br>)<br>) | Case No. 18-298-GA-AIR |
| In the Matter of the Application of<br>Vectren Energy Delivery of Ohio, Inc. for<br>Approval of an Alternative Rate Plan. | )<br>)<br>) | Case No. 18-299-GA-ALT |

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# SUPPLEMENTAL DIRECT TESTIMONY OF DAVID C. RINEBOLT ON BEHALF OF OHIO PARTNERS FOR AFFORDABLE ENERGY

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January 28, 2019

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is David C. Rinebolt. My business address is PO Box 1793, Findlay, Ohio 45839-1793. I am the Director of Special Projects for Ohio Partners for Affordable Energy ("OPAE") and I appear in this case as a witness on its behalf.

Q. ARE YOU THE SAME DAVID RINEBOLT WHO FILED DIRECT TESTIMONY ON BEHALF OF OHIO PARTNERS FOR AFFORDABLE ENERGY IN THIS PROCEEEDING ON NOVEMBER 7, 2018?

A. Yes.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to demonstrate that the Stipulation and Recommendation ("Stipulation") fails to meet the requirements of the three-part test used by the Commission to evaluate stipulations.

Q. IS THE SETTLEMENT THE PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?

A. All parties involved are represented by experienced counsel. Vectren Energy Delivery of Ohio (VEDO) conducted an open settlement process. However, I would note that there is a lack of diversity among the signatories as no organization whose sole concern is the impact on customers, be they rich or poor, residential or small commercial, is a party to the settlement.

Q. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT RATEPAYERS AND THE PUBLIC INTEREST?

A. No it does not. The rate design included in the settlement undermines the benefits energy efficiency can provide ratepayers. For this reason, the rate design is not in the public interest. The rate design also has a disparate impact on low users, causing their rates to increase significantly on a per therm basis, while the largest users experience a price decrease. This is inconsistent with the public interest in encouraging the efficient use of natural resources and rewarding residential customers and small businesses for reducing energy use. Moreover, by encouraging usage, the rate design will potentially increase rather than reduce greenhouse gas emissions which would occur if the rate design promoted conservation by customers. These outcomes fail to benefit ratepayers, nor are they in the public interest.

In addition, the commitments made to continue a process which could lead to VEDO exiting the merchant function also fail to benefit ratepayers or the public interest. Eliminating the standard offer – the Standard Choice Office (SCO) – would reduce the choices available to customers in the competitive market and assign hundreds of thousands of customers to price increases. (https://www.puco.ohio.gov/industry-information/statistical-reports/natural-gas-customer-choice-program/2017-natural-gas-customer-choice-program/ ) Increasing costs for an unregulated commodity is not in the public interest.

Ratepayers should have a pricing option that is transparent and readily understandable.

These two provisions offset any benefits of the package represented by the stipulation, and the Commission will rue the day it approves such a settlement.

Q. IN MR. ALBERTSON'S SECOND SUPPLEMENTAL TESTIMONY HE INDICATES THAT THE TOTAL INCREASE IN FIXED CHARGES WHEN FACTORING IN THE CREDIT FROM THE TAX SAVINGS CREDIT RIDER ("TSCR") IS A MERE $1.52. IS THIS CORRECT?

A. Mr. Albertson is being disingenuous in that he fails to tell the entire story. First, the TSCR has not been approved, so there is no basis for assuming the level discussed by Mr. Albertson is the refund customers will actually receive. And it is a *refund* of ratepayer's money that was *overpaid* to VEDO. To suggest that a ratepayer's own funds offset a rate increase is simply improper. The ratepayer is in fact paying the total rate. He or she is just paying it with money that VEDO has essentially been holding in escrow for the customer. This is no bargain or advantage to the ratepayer.

The real impact of the rates included in the stipulation are these. In Year 1 of the agreement, the increase in the bill for the average residential customer is on the order of $4.43 per month; $53.19 per year; or, 8.39%. By Year 5 of the

agreement, average residential customer bills will have increased by $11.03 per month; $132.30 per year; or, 20.88%. If Vectren does not file a base rate case with new rates to take effect after Year 5, rates will continue to climb. In Year 7, average residential customer bills will have increased an average of $14.78 per month; $177.30 per year; or, 24.72%. These numbers are based on the consumption pattern of the average residential customer. As noted previously, the impacts are greater, both in a percentage and dollar basis, for low use customers.

The annual impacts fail to reflect the more significant rate increases that occur in non-heating months. In Year 1, the four non-heating months see an increase of over 15%. In Year 5, six essentially non-heating months see increases of over 30%. And, if the rates stay in place through Year 7, the increase exceeds 49% for five non-heating months of the year. It is the non-heating months that see a profound increase in rates, an increase low income families will have difficulty absorbing, and all ratepayers will likely find unacceptable when they receive those bills.

The rate increases noted above are tempered by inclusion of gas costs. If one looks at just fixed costs, which is where Mr Albertson focuses, the increases balloon. These are the increases low use customers will feel viscerally. In Year 1, the price increase is 18.97% to $32.86. By Year 5 the increase metastasizes, increasing by 48.26% over the current fixed charges to $40.95 per month.

Again, if the stipulation runs through Year 7, the fixed component of the bill will have increased by 55% to $42.95 per month.

Q. MR. SWIZ LISTS A NUMBER OF BENEFITS FROM THE SETTLEMENT. DO YOU AGREE WITH HIS CONCLUSIONS?

A. I do not agree entirely. It is undisputed that VEDO can justify a rate increase. As a result, providing an increase will help ensure VEDO continues to provide safe and reliable service by promoting its financial position. Whether the rate increase occurs via settlement or through a litigated proceeding, the impact of an increase in the revenue requirement is the same. The fact that the settlement reduces the revenue requirement is no surprise given the Staff Report's conclusions.

VEDO has had an infrastructure replacement program for a number of years. There is no benefit unique to the settlement of continuing the Distribution Replacement Rider ("DRR"), though structuring the rider as a fixed charge significantly exacerbates the inequitable impacts of the Straight Fixed Variable ("SFV") rate design on customer bills.

The settlement does not approve the reduction in federal income tax under the TCJA. That will be dealt with in a separate proceeding, so it is of no benefit to customers in this matter.

And, the reduction in the rate of return requested in the Application was foreshadowed by the Staff Report. Some reduction of the rate included in the Application was inevitable. This is a benefit to customers, but it is not a direct result of the settlement, and would have undoubtedly been similar in a settlement that reversed the precedent of approving a rate design that is harmful to ratepayers and violates regulatory principles and practices.

Q. ARE THERE OTHER IMPACTS OF THE SETTLEMENT THAT ARE HARMFUL TO RATEPAYERS AND COUNTER TO THE PUBLIC INTEREST?

A. Probably the most significant impact is the reduction in the cost savings from energy efficiency investments. During the past decade, the usage per customer on the VEDO system has declined significantly to 799 Ccf. A combination of efficiency standards and customer investment, as well as VEDO's excellent portfolio of Demand Side Management ("DSM") Programs have all contributed to a significant reduction in customer usage.

As demonstrated in my initial testimony, establishing high fixed charges sends a price signal that undermines investments in efficiency by reducing the potential bill savings and thus the cost-effectiveness. That is harmful to ratepayers. It is also counter to State policy as articulated in Ohio Revised Code §4929.02(A): It is the policy of this state to, throughout this state:…(4) Encourage innovation and market access for cost-effective supply- and demand-side natural gas services

and goods; and, (12) Promote an alignment of natural gas company interests with consumer interest in energy efficiency and energy conservation.

The high fixed charges act as a barrier to market access for demand-side technologies that make customers more efficient, clearly running counter to the requirement to align VEDO's interest with those of its ratepayers in energy efficiency and conservation.

I recognize that it is important for VEDO, or any local distribution company, to have an opportunity to recover its revenue requirement in order to continue to provide safe and reliable service. However, there is an alternative that effectively eliminates the negative aspects of the rate design continued in this case: decoupling. VEDO currently has a Sales Reconciliation Rider – A ("SSR-A"), that is a decoupling rider. Utilizing this rider to ensure recovery of the revenue requirement would not discourage efficiency investments. It is a simple solution to a rate design that is inherently problematic. The SFV is a crude approach to decoupling that has a number of negative impacts. Decoupling through the SSR-A better aligns the ratepayer's interest with those of the Company.

Q. DO YOU HAVE ANY RECOMMENDATIONS FOR RATEPAYERS IF THE STIPULATION IS APPROVED BY THE COMMISSION?

A. I do have one suggestion. A recent evaluation of the Weatherization Assistance Program found that the average customer saved $283 annually from a program where the average cost per unit is around $5,000.00. If the average gas heating customer were to purchase and install an electric stove and a heat pump water heater at a cost of around $1,200.00 and disconnect from the VEDO system from May through September, the customer would save about $180.00 per year. The payback period would be about 7 years. And, at the end of that period the customer would own something tangible and continue to save by avoiding the high fixed customer charge during months when they are not operating their furnace.

Customers taking steps to disconnect from the gas system during months when heating is not necessary is as far-fetched as one might think. Duke Energy Ohio, which has a very high customer charge of $33.03 per month, filed an Application in Case No. 1682-GA-ATA (May 2, 2016) to modify its tariffs to require a customer that voluntarily disconnects service and requests reconnection within 8 months of that disconnection to pay the Fixed Delivery Service Charges for the months the service was turned off. This filing indicates that Duke was seeing a revenue erosion as a result of its high fixed charges. It is impossible to determine how many customers were leaving the system temporarily because the Commission chose to take no action on the application, but it is certainly not in the public interest to establish a rate design that encourages customers to leave the system because of an unnecessary and inequitable pricing scheme.

Q. DOES THE SETTLEMENT PACKAGE VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?

A. Yes, it does. The settlement ignores the regulatory concepts of cost causation and gradualism by adopting a rate design that significantly increases the fixed charges paid by small customers. It is also not acceptable to or understandable by the average customer.

As I noted in my initial testimony, the SFV rate design is a particular approach to the development of rates based on the idea that fixed costs should be recovered through fixed charges, while variable costs are recovered through variable charges such as the charge for natural gas in $-per-Ccf. Ohio regulators have tended to define fixed costs broadly. The SFV rate design is a simplistic form of decoupling, meaning funds are recovered irrespective of customer usage. The SFV concept as applied in Ohio is based on classifying variable costs as 'fixed'. The only costs that are truly fixed are interest and depreciation. All other costs – shareholder return, income taxes, labor, and revenue-sensitive costs -- actually vary from month to month. The premise behind the SFV is incorrect.

The VEDO system like all distribution systems has a Design Day, which is used to plan for system capacity. The Design Day is a function of customer usage. If customers used less, a smaller system could be designed. This should be true of the VEDO system, where reductions in heating load for residential and small

commercial customers have undoubtedly reduced the capacity needed to safely serve customers. However, those who use more than the average force the system to be larger than it would be otherwise, so higher usage translates into higher costs for all.

VEDO recognizes that some customers cause distribution costs to increase. Sheet No. 68 requires customers wishing to be connected to the system to pay to extend distribution lines. Under Sheet No. 69, owners of house trailer parks are required to build out the distribution system behind the meter. Both tariffs are a recognition that system additions must be paid for by those that cause the cost.

The settlement also runs afoul of the principle of gradualism wherein a rate should increase modestly over time rather than rise dramatically. Under this settlement, the customer charge increases 32% or $12.53 per month. That level of increase is hardly gradual.

Public understanding and acceptance is also a fundamental regulatory principle. Customers expect bills to reflect their usage. When they can only effect 40% of the bill by becoming more efficient, customers will be confused. Moreover, they are likely to react negatively to receiving high bills in the summer when they are using little to no natural gas. What seems natural to economists does not always square with the expectations of customers. A decoupling approach keeps the

price signals oriented to encourage energy efficiency is more understandable, and will find greater acceptance by customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, but I reserve the right to supplement the testimony as necessary.

## CERTIFICATE OF SERVICE

A copy of the foregoing Supplemental Testimony of David C. Rinebolt will be served electronically by the Commission's Docketing Division upon the persons identified below who are electronically subscribed to these cases on this 28th day of January, 2019.

/s/Colleen Mooney

Colleen L. Mooney

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Summary: Testimony Supplemental Testimony of David C. Rinebolt electronically filed by Colleen L Mooney on behalf of Ohio Partners for Affordable Energy