

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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**SUPPLEMENTAL DIRECT TESTIMONY  
OF  
CHARLES LOY  
  
ON BEHALF OF  
NORTHEAST OHIO NATURAL GAS CORP.**

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_____	Management Policies, Practices, and Organization
_____	Operating Income
_____	Rate Base
_____	Allocations
_____	Rate of Return
_____	Rates and Tariffs
<u>  X  </u>	Other

**JULY 25, 2019**

1 **I. INTRODUCTION, BACKGROUND AND PURPOSE OF TESTIMONY**

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

3 A. My names is Charles Loy. I am a principal at GDS Associates, Inc. My business address is  
4 919 Congress Ave., Suite 1110, Austin, Texas 78701.

5 **Q. ARE YOU THE SAME CHARLES LOY WHO FILED DIRECT TESTIMONY ON**  
6 **BEHALF OF NEO IN THIS PROCEEDING ON JANUARY 11, 2019?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9 A. My supplemental testimony is intended to support NEO's objections to the  
10 recommendations made by the Staff of the Public Utilities Commission of Ohio ("Staff")  
11 in its Report of Investigation ("Staff Report") filed in this proceeding on June 25, 2019.

12 **II. STAFF'S RECOMMENDATION TO RECLASSIFY CERTAIN GENERAL**  
13 **SERVICE CUSTOMERS**

14 **Q. WHAT DOES STAFF PROPOSE REGARDING THE RECLASSIFICATION OF**  
15 **CERTAIN GENERAL SERVICE CUSTOMERS?**

16 A. Staff recommends that those customers currently taking service in the General Service  
17 ("GS") rate class that consume less than 200 Mcf annually be reclassified to the Small  
18 General Service ("SGS") class to help mitigate the bill impacts to this particular group of  
19 customers.

20 **Q. HOW MANY CUSTOMERS WOULD BE RECLASSIFIED IF STAFF'S**  
21 **PROPOSAL IS ADOPTED?**

22 A. Staff's proposal would require moving 483 customers. These customers consumed 41,061  
23 Mcf during the year ending March 31, 2019, which is the period which Staff used to

1 develop its rates. Under Staff's recommended rates, if these customers and their usage  
2 move from the GS to SGS class, the GS class would see a revenue decrease of \$635,146,  
3 and the SGS class would see a revenue increase of \$170,633, resulting in an overall revenue  
4 shortfall of \$464,512.

5 **Q. DID THE STAFF PROVIDE A RECOMMENDATION AS TO HOW THIS**  
6 **REVENUE SHORTFALL SHOULD BE RECOVERED?**

7 A. No. Staff's recommended revenue requirement and rates presented in their report did not  
8 reflect this reclassification. If the Commission orders the reclassification, the revenue  
9 shortfall will need to be recovered from either one or both classes.

10 **Q. DOES THE COMPANY AGREE WITH THE RECLASSIFICATION?**

11 A. The Company recognizes that customers using less than 200 Mcf in the GS class would  
12 see significant increases under the proposed rates. However, the Company does not believe  
13 that this is the best approach for mitigating the bill impacts.

14 **Q. WHAT APPROACH TO THESE CUSTOMERS DOES THE COMPANY**  
15 **RECOMMEND?**

16 A. Instead of reclassifying these customers as SGS customers, NEO proposes that two GS  
17 subclasses be created. The first would be GS-1, which would include all customers  
18 currently taking service under the GS rate who had an annual usage of more than 200 Mcf  
19 during the test period. The second subclass, GS-2, would include those customers currently  
20 taking service under the GS rate with an annual usage less than 200 Mcf during the test  
21 period.

22 The fixed charge for the GS-2 subclass would be reduced from the proposed \$100.00 per  
23 month to Orwell's current fixed charge of \$50.00 per month. The fixed charge for those

1 customers taking service under GS-1 would remain at the proposed \$100.00. The  
2 volumetric rate would be recalculated to reflect a uniform rate for both sub-classes. Thus,  
3 the overall revenue recovered from the GS class as whole would remain as proposed.

4 **Q. WHY DO YOU BELIEVE THIS TO BE A REASONABLE ALTERNATIVE TO**  
5 **STAFF’S RECOMMENDATIONS?**

6 A. The most important aspect of this proposal is that it will provide more continuity in the  
7 pricing structures impacting customers in the next rate case. As Staff notes, the proposed  
8 GS tariff is available to any non-residential customer<sup>1</sup>, and, as I stated in my Direct  
9 Testimony, prior to its next rate case the Company will have reviewed and identified  
10 customers currently taking service under the SGS rate such that they can be categorized  
11 into more homogeneous groups, i.e., separate commercial and residential classes.<sup>2</sup>

12 The Company’s effort to standardize the SGS customers into residential and  
13 commercial classes will require more than an examination of a customer’s normalized  
14 usage for one year. In order to properly classify these customers, the Company will need  
15 to examine and verify each customer’s characteristics, including the type of customer and  
16 the usage history for identified commercial customers. The Company is committed to  
17 having the standardization completed by the next rate case and is currently in the early  
18 planning stages to successfully execute this undertaking.

19 The Company’s “two sub-class” approach for the GS class avoids the distinct  
20 possibility that non-residential customers will be moved from GS to SGS, only to be moved  
21 to another class in the future. In addition, it will provide the Company with higher fixed

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<sup>1</sup> For non-residential customers using more than 500 Mcf.

<sup>2</sup> See Loy Direct Testimony (Jan. 11, 2019), pp. 8-9.

1 revenues than the Staff's proposal and avoids the need to recover the multi thousand-dollar  
2 shortfall from the SGS class.

3 **Q. IF THE STAFF'S RECOMMENDED RECLASSIFICATION IS APPROVED,**  
4 **HOW SHOULD THE SHORTFALL BE RECOVERED?**

5 A. NEO believes the shortfall should be allocated to the SGS class because those costs ought  
6 to follow the customers being reassigned to their new class, and those costs should be  
7 recovered based on volumetric rates.

8 **III. STAFF'S PROPOSED VOLUMETRIC RATES FOR THE BRAINARD RATE**  
9 **ZONE**

10 **Q. THE COMPANY PROPOSED UNIFORM VOLUMETRIC RATES FOR NEO AND**  
11 **BRAINARD. WHAT DOES STAFF PROPOSE?**

12 A. Although Staff's rate design proposal is very similar to the Company's, they recommend  
13 different volumetric rates for Brainard and NEO, resulting in volumetric rates that are 20%  
14 higher for Brainard SGS customers and slightly lower for Brainard GS customers than their  
15 NEO counterparts. Staff does not explain their unusual departure from the Company's  
16 proposed rate design.

17 **Q. DO YOU AGREE WITH STAFF'S PROPOSAL?**

18 A. No, I do not. The Company's goal is to consolidate all three companies (NEO, Brainard  
19 and Orwell) under one tariff with uniform rates. The next step or steps in this consolidation  
20 will be uniform rates for all companies or bringing Orwell's rates closer to NEO and  
21 Brainard. Given the small number of customers in Brainard and the difference between  
22 Staff's recommended rates for NEO and Brainard, it makes little sense not to create  
23 uniform rates for the two companies in the current case.

1           The total Brainard customer count for GS and SGS customers is approximately  
2           1/100 of the number of GS and SGS customers in the Orwell service area. Thus, under  
3           uniform volumetric rates the bill impacts are lower and the four customers taking service  
4           under the Brainard GS rate would see less than a 1% overall rate increase.

5           Additionally, from an administrative and billing perspective, uniform rates are  
6           more efficient, and resolving the issue of uniform rates for NEO and Brainard in this case  
7           will allow the company to avoid rate case expense in the next case relitigating the issue.

8   **Q.   DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

9   **A.   Yes. I reserve the right to further supplement this testimony.**

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**7/25/2019 4:40:32 PM**

**in**

**Case No(s). 18-1720-GA-AIR, 18-1721-GA-ATA, 18-1722-GA-ALT**

Summary: Testimony Supplemental Direct Testimony of Charles Loy electronically filed by Mr. Mark T Keaney on behalf of Northeast Ohio Natural Gas Corp.