**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program.  In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Change Accounting Methods. | )  )  )  )  )  )  ) | Case No. 11-5351-GA-UNC  Case No. 11-5352-GA-AAM |

**APPLICATION FOR REHEARING**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

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September 28, 2012

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**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**APPLICATION FOR REHEARING**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

The Office of the Ohio Consumers’ Counsel (“OCC”), on behalf of the approximately 1.2 million residential utility consumers of the Columbia Gas Company of Ohio (“Columbia” or “the Company”), applies for rehearing of the August 29, 2012, Finding and Order (“F&O”) issued by the Public Utilities Commission of Ohio (“PUCO” or “Commission”). Through this Application for Rehearing, OCC submits that the PUCO erred in failing to address OCC’s comments in this proceeding. And the PUCO erred by unreasonably granting the Company’s request to establish deferrals for its Capital Expenditure Program (“CEP”), in reliance on Columbia’s proposal. In this regard, Columbia’s proposal understates the potential bill impacts on customers that the “cap” is supposed to be protecting against.

Under R.C. 4903.10 and Ohio Admin. Code 4901-1-35, OCC asserts that the Finding and Order was unjust, unreasonable, and unlawful in the following particulars:

A. The Commission Erred By Not Including the Actual Cost of the CEP-Related Investments in the Deferral Cap Calculation, with a Result that Customers are Not Protected from the Potential Shock of Too Great a Rate Increase.

1. The Commission Erred By Not Explaining Why It did Not Include the Actual Cost of The CEP-related Investment in the Deferral Cap Calculation, in Violation of R.C. 4903.09.
2. The Commission Erred by Not Including the Actual Cost of the CEP-related Investment in the Deferral Cap Calculation, Resulting in Potential Future Rates that Would Not Be Just and Reasonable in Violation of R.C. 4905.22.

An explanation of the basis for each of the grounds for rehearing is set forth in the attached Memorandum in Support. Consistent with R.C. 4903.10 and the OCC’s claims of error, the PUCO should grant rehearing and modify its Order.

Respectfully submitted,

BRUCE J. WESTON

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*/s/ Joseph P. Serio*

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**MEMORANDUM IN SUPPORT**

# I. INTRODUCTION and Procedural background

On October 3, 2011, Columbia Gas of Ohio, Inc. (“Columbia” or “the Company”) filed an Application for an estimated $76 million Capital Expenditure Program (“CEP”), a program that could ultimately result in significant future rate increases for Ohio customers.[[1]](#footnote-1) The Application was the first CEP Application filed by a Local Distribution Company (“LDC”) pursuant to R.C. 4909.18 and 4929.111. The CEP Application was for an Alternative Regulation case that is not for an increase in rates for the period October 1, 2011 through December 31, 2012.[[2]](#footnote-2) The CEP Application represents an opportunity for Columbia to defer Post in Service Carrying Charges (“PISCC”) on assets that are placed in service but not yet included in the Company’s rates as plant in service, depreciation expenses of those facilities, and property taxes associated with those facilities.

On October 12, 2011, the Office of the Ohio Consumers’ Counsel (“OCC”) filed a Motion to Intervene in these cases. On October 18, 2011, the Ohio Partners for Affordable Energy (“OPAE”) filed a Motion to Intervene. On January 27, 2012, the Attorney Examiner issued an Entry that granted the OCC and OPAE Motions to Intervene, and also established a procedural schedule for Initial Comments (due February 17, 2012) and Reply Comments (due February 27, 2012). On February 17, 2012, Staff, OCC and OPAE filed Comments. On February 27, Staff, OCC and Columbia filed Reply Comments.

Although the PUCO’s stated procedural schedule did not provide for any additional Comments, on July 26, 2012, Columbia filed Supplemental Reply Comments. On August 15, 2012, the PUCO Staff filed Sur-Reply Comments. The Public Utilities Commission of Ohio (“Commission” or “the PUCO”) issued a Finding and Order (“F&O”) on August 29, 2012. Pursuant to R.C. 4903.10 and Ohio Admin. Code 4901-1-35, OCC asserts that the Finding and Order (“F&O”) was unjust, unreasonable, and unlawful in the following particulars and respectfully requests the Commission grant rehearing.

# II. Standard of Review

Applications for rehearing are governed by R.C. 4903.10. This statute provides that within thirty days after an order is issued by the Commission “any party who has entered an appearance in person or by counsel in the proceeding may apply for rehearing in respect to any matters determined in the proceeding.” Furthermore, the application for rehearing must be “in writing and shall set forth specifically the ground or grounds on which the applicant considers the order to be unreasonable or unlawful.”[[3]](#footnote-3)

In considering an application for rehearing, Ohio law provides that the Commission “may grant and hold such rehearing on the matter specified in such application, if in its judgment sufficient reason therefore is made to appear.”[[4]](#footnote-4) If the Commission grants a rehearing and determines that “the original order or any part thereof is in any respect unjust or unwarranted, or should be changed, the commission may abrogate or modify the same \* \* \*.”[[5]](#footnote-5)

OCC participated in this case, and thus, meets the statutory conditions that apply to an applicant for rehearing under R.C. 4903.10. Accordingly, OCC respectfully requests that the Commission hold a rehearing on the matters specified below.

# III. ARGUMENT

## The Commission Erred By Not Including the Actual Cost of the CEP-Related Investments in the Deferral Cap Calculation, with a Result that Customers are Not Protected from the Potential Shock of Too Great a Rate Increase.

In establishing the CEP deferral cap, the PUCO failed to include the costs of the actual CEP-related investment in the deferral cap calculation. The result is that the deferral cap that the Company purported would protect customers from too great a rate increase will actually be inadequate for that purpose. In the F&O, the Commission ruled that:

Columbia may accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50/month. Accrual of all future **CEP-related deferrals should cease once the $1.50/month threshold is surpassed**, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism under Section 4909.18, 4929.05, or 4929.11, Revised Code.[[6]](#footnote-6) (Emphasis added.)

In approving Columbia’s Application, the PUCO also accepted Columbia’s rationale for the proposed CEP deferral cap. That rationale was proposed in supplemental comments that were not authorized in the PUCO’s procedural Entry. Columbia made the proposal, purportedly as a means of mitigating any potential rate shock for customers from the deferrals at the point in time when the deferrals would be included in customer rates. In its supplemental comments, Columbia proposed the deferral limit or cap whereby the deferrals under its CEP (for PISCC, depreciation expense, property tax expense net of any incremental revenues) would be allowed to accrue until the impact from those deferrals on the rates for Columbia’s Small General Service (“SGS”) customers would exceed $1.50/month which Columbia projected will not occur until 2023.[[7]](#footnote-7) Columbia opined and the PUCO accepted that tying the deferrals to this specific rate impact threshold would avoid the “rate shock” that is at the root of the concerns raised by OCC and Staff’.[[8]](#footnote-8)

In addition to this concern about the rate shock impact of the CEP deferrals on customer rates, the Commission also recently voiced an overall concern with deferrals. The Commissions announced that “\* \* \* this Commission is generally **opposed to the creation of deferrals**, \* \* \*.”[[9]](#footnote-9) The Commission further clarified this statement by explaining that the deferrals in the AEP ESP Case were in response to “extraordinary circumstances presented before us, which allow for AEP-Ohio to fully participate in the market in two years and nine months as opposed to five years, necessitate that we remain flexible and utilize a deferral to ensure we reach our finish line of a fully-established competitive electric market.”[[10]](#footnote-10) Thus, the extraordinary circumstance in the AEP ESP case is that the deferral would help accomplish the goal of market based electric rates (and ensuing customer benefits) much sooner than would otherwise have been possible.

In this case, Columbia not only made no showing of the existence of any similar “extraordinary circumstances,” but a review of Columbia’s Application and Comments indicates that Columbia did not even make an attempt to do so. Instead, of any extraordinary need, the Columbia request for deferrals was a part of the normal course of business with no consideration to actual need for deferrals or the Company’s earnings. In fact, as presented in this case, the deferrals would be for the sole benefit of Columbia’s shareholders and not customers.

If both the effect of the CEP deferrals and the actual CEP-related investment are considered, then the $1.50 per month cap as proposed by Columbia would be exceeded in 2016 and not in 2023 as claimed by Columbia’s analysis (that was based on counting just the CEP deferrals, and not the actual CEP-related investment).[[11]](#footnote-11) Moreover, when contemplating the potential rate impact from the CEP investment, the customer bill impact in Year 2023 would be $5.25 per month ($63.00 per year) and not $1.50 per month ($18.00 per year).[[12]](#footnote-12) This magnifies the need for a mechanism to mitigate the potential rate shock that Columbia and the PUCO acknowledged.

It also clearly demonstrates the magnitude of the impact of the actual CEP-related investment on the deferral cap. Despite the magnitude of this impact, the F&O (in relying on Columbia’s proposal) fails to include the largest cost component -- the actual CEP-related investment itself -- in the deferral cap calculation.

Inclusion of the actual CEP-related investment cost in the deferral cap calculation would also be consistent with the PUCO’s reliance and use of the principle of gradualism.[[13]](#footnote-13) An all-inclusive deferral cap would ensure that the deferrals and associated CEP-related investment are addressed in a rate case sooner rather than later, thus mitigating the potential impact of the CEP deferrals on future rates.

In light of the Commission’s own reluctance to establish deferrals combined with the potential rate shock concerns that led to the proposed deferral rate cap in the first place, it is unreasonable to not include the actual CEP-related investment in the calculation of a cap. Thus, if the PUCO determines that CEP deferrals are necessary, any CEP cap designed to mitigate potential rate shock should also include the actual CEP-related investment in the calculation. The PUCO’s failure to include the actual CEP-related investment in the deferral cap calculation fails to mitigate the potential rate shock from the deferrals--and the PUCO should grant rehearing.

## The Commission Erred By Not Explaining Why It did Not Include the Actual Cost of The CEP-related Investment in the Deferral Cap Calculation, in violation of R.C. 4903.09.

R.C. 4903.09 requires that, in all contested cases, “the commission shall file, with the records of such cases, findings of fact and written opinions setting forth the reasons prompting the decisions arrived at, based upon said findings of fact.” The Ohio Supreme Court has recognized that complying with this statute is important because otherwise the Court cannot fulfill its responsibility to review the order being appealed.[[14]](#footnote-14) By not explaining why it did not include the actual amount of any actual CEP-related investment in the deferral cap calculation, the Commission violated R.C. 4903.09. Without sufficient detail, the Ohio Supreme Court will be unable to determine how the Commission reached its decision. Thus, the purpose of R.C. 4903.09 will be thwarted and the review that OCC is entitled to, under R.C. 4903.09 and 4903.10 cannot occur.

Specifically, in the F&O, the Commission ruled that:

Columbia may accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than $1.50/month. Accrual of all future **CEP-related deferrals should cease once the $1.50/month threshold is surpassed**, until such time as Columbia files to recover the existing accrued deferrals and establish a recovery mechanism under Section 4909.18, 4929.05, or 4929.11, Revised Code.[[15]](#footnote-15) (Emphasis added.)

As noted above, the PUCO accepted Columbia’s proposed CEP deferral cap as a means of mitigating any potential rate shock from the deferrals at the point in time when the deferrals would be included in customers’ rates. However, Columbia’s claim that the $1.50/month deferral cap would not be met until 2023 is significantly over-stated because the actual CEP-related investment is not included in the deferral cap calculation. To the extent that the deferral cap was proposed and adopted as a means to mitigate rate shock, then all of the cost components need to be included. Failure to do so has the effect of over-stating the value of the cap and significantly reducing the rate mitigation effect of the deferral cap for customers.

As noted above, the failure to include the actual CEP-related investment cost in the deferral cap calculation could result in a significant difference in the potential future rates for customers. The potential customer rate impact from the CEP investment in year 2023 would be $5.25 per month ($63.00 per year) and not $1.50 per month ($18.00 per year).[[16]](#footnote-16) This difference of $3.75 per month and $45.00 per year constitutes a significant potential rate increase that warrants mitigation.

Moreover, as significant as this rate impact would be on customers’ bills, it cannot be viewed in a vacuum. Instead, the PUCO should keep in mind that this additional monthly charge (of $5.25 per month) would be on top of the monthly customer charge, currently at $17.81 per month,[[17]](#footnote-17) the monthly IRP Rider of $3.57,[[18]](#footnote-18) and numerous usage-based Riders: PIPP Rider, Excise Tax Rider, Uncollectible Expense Rider, Choice/SCO Reconciliation Rider, DSM Rider, Regulatory Assessment Rider and Gross Receipts Tax..[[19]](#footnote-19) Moreover, although the IRP Rider is currently $3.57, the charge is anticipated to increase each year for the foreseeable future by up to $1.00 each year.[[20]](#footnote-20) This means that by 2023, customers could face monthly fixed rate charges of up to $38.26, and yearly fixed costs of $459.12 before ever consuming even one Ccf of gas.[[21]](#footnote-21)

The longer time period that would result from a $1.50/month deferral cap that excludes the actual CEP-related investment costs would extend the potential accrual period from 2016 to 2023. Permitting the deferrals to grow until 2023 would grow the deferral amount to $228 million while the actual CEP-related capital investments would grow even greater, to $643 million. Thus the time period covered by the $1.50/month deferral cap that excludes the actual CEP-related investment cost is simply too long. The PUCO recently recognized the potential harm to customers from a deferral of costs that extends for too long a period of time. In the AEP-Ohio ESP case, the PUCO ordered AEP-Ohio to commence recovery of Phase-in Recovery Rider (“PIRR”) as soon as practicable, rather than delaying it, in order to mitigate the rate impact on customers.[[22]](#footnote-22)

Given this new paradigm of cost recovery outside of base rate cases, and consistent with the Commission’s recent ruling in the AEP ESP case, it is appropriate for the Commission to put a more inclusive limit on the deferral cap granted in this case. The F&O fails to explain how the rate shock from the deferrals would be mitigated by a deferral cap that does not include the actual CEP-related investment in the cap calculation in violation of R.C. 4903.09, and thus the PUCO should grant rehearing.

## The Commission Erred by Not Including the Actual Cost of the CEP-related Investment in the Deferral Cap Calculation Resulting in Potential Future Rates that Would Not Be Just and Reasonable in Violation of R.C. 4905.22.

R.C. 4905.22 states that:

Every public utility shall furnish necessary and adequate service and facilities, and every public utility shall furnish and provide with respect to its business such instrumentalities and facilities, as are adequate and in all respects just and reasonable. All charges made or demanded for any service rendered, or to be rendered, **shall be just, reasonable,** and not more than the charges allowed by law or by order of the public utilities commission, and no unjust or unreasonable charge shall be made or demanded for, or in connection with, any service, or in excess of that allowed by law or by order of the commission. (Emphasis added).

In this case, the PUCO’s failure to include the actual cost of CEP-related investment in the deferral cap calculation results in customers facing potential future costs that will be millions of dollars greater, thus violating R.C. 4905.22.

Columbia has stated that under the $1.50/month deferral cap, the cap will not be exceeded until 2023.[[23]](#footnote-23) Based on the information provided by Columbia, the total **revenue requirement** associated with Columbia’s deferral of PISCC, depreciation and property taxes until 2023 is approximately $34.5 million.[[24]](#footnote-24) If on the other hand, the deferral cap included the cost of the actual CEP-related investment, then the $1.50 cap would be reached in 2016. The total revenue requirement associated with Columbia’s deferral of PISCC, depreciation and property taxes until 2016 is approximately $6.2 million. Ceasing the deferrals in 2016 instead of letting them accrue until 2023 would save Columbia’s customers approximately $28.3 million. Thus the exclusion of the CEP-related investment in the deferral cap could result in customers having to pay the significantly higher costs of deferrals. These higher costs would result in rates that are not just and reasonable as required by R.C. 4905.22.

# Iv. CONCLUSION

For all the reasons discussed above, the Commission should grant OCC’s Application for Rehearing.

Respectfully submitted,

BRUCE J. WESTON

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*/s/ Joseph P. Serio*

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**CERTIFICATE OF SERVICE**

I hereby certify that a copy of this Application for Rehearing was served via electronic transmission to the persons listed below on this 28th day of September 2012.

*/s/ Joseph P. Serio*

Joseph P. Serio

Assistant Consumers’ Counsel

**SERVICE**

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1. *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 11-5351-GA-UNC, 11-5352-GA-AAM, Columbia Application at Attachment A (October 31, 2011). (“Columbia CEP Case”). [↑](#footnote-ref-1)
2. Columbia CEP Case, Columbia Application at 1. [↑](#footnote-ref-2)
3. Columbia CEP Case, Columbia Application at 1. [↑](#footnote-ref-3)
4. Id. [↑](#footnote-ref-4)
5. Id. [↑](#footnote-ref-5)
6. Columbia CEP Case, F&O at 12-13 (August 29, 2012). [↑](#footnote-ref-6)
7. See Attachment A, page 1. OCC worksheet based on data provided by Columbia. The data provided by Columbia has not been verified through an evidentiary hearing process, so OCC uses the data for illustrative purposes only, subject to opportunities for further verification at rehearing. [↑](#footnote-ref-7)
8. Columbia CEP Case, Columbia Supplemental Reply Comments at 4-5. (July 26, 2012). [↑](#footnote-ref-8)
9. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO, Opinion and Order (August 8, 2012) at 36. (“AEP ESP Case”) Emphasis added. [↑](#footnote-ref-9)
10. Id. [↑](#footnote-ref-10)
11. See Attachment A, page 1. OCC worksheet based on data provided by Columbia. The data provided by Columbia has not been verified through an evidentiary hearing process, so OCC uses the data for illustrative purposes only, subject to opportunities for further verification at rehearing. [↑](#footnote-ref-11)
12. Id. [↑](#footnote-ref-12)
13. For Example, see *In the Matter of the Application of the Cincinnati Gas & Electric Company for an Increase in Its Rates for Gas Service to All Jurisdictional Customers*, Case No. 95-656-GA-AIR, Opinion and Order (December 12, 1996) at 46. [↑](#footnote-ref-13)
14. See e.g., *Allnet Communications v. Pub. Util. Comm.* (1994), 70 Ohio St.3d 202, 209. [↑](#footnote-ref-14)
15. Columbia CEP Case, F&O at 12-13. [↑](#footnote-ref-15)
16. Columbia CEP Case, F&O at 12-13. [↑](#footnote-ref-16)
17. X:/coh/molymail/08-Internet Rate Sheet SCO Rate Unit 1 August 2012. (See OCC Attachment B.) [↑](#footnote-ref-17)
18. Id. [↑](#footnote-ref-18)
19. Id. [↑](#footnote-ref-19)
20. *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation,* Case No. 11-5515-GA-ALT, Application at Schedules G-5, G-6 and G-7 (May 8, 2012). [↑](#footnote-ref-20)
21. $17.81 + $5.25 + $6.20 + (9 \* $1.00) [↑](#footnote-ref-21)
22. AEP ESP Case, Opinion and Order at 55 (August 8, 2012). [↑](#footnote-ref-22)
23. See Attachment A, page 2. OCC worksheet based on data provided by Columbia. The data provided by Columbia has not been verified through an evidentiary hearing process, so OCC uses the data for illustrative purposes only, subject to opportunities for further verification at rehearing. [↑](#footnote-ref-23)
24. Id. [↑](#footnote-ref-24)