**Before**

**The Public Utilities Commission of Ohio**

|  |  |  |
| --- | --- | --- |
| In the Matter of the Application of Ohio Gas Company for an Increase in Gas Distribution Rates | ))) | Case No. 17-1139-GA-AIR |
|  |  |  |
| In the Matter of the Application of Ohio Gas Company for Tariff Approval | )) | Case No. 17-1140-GA-ATA |
|  |  |  |
| In the Matter of the Application of Ohio Gas Company for Approval of Certain Accounting Authority | ))) | Case No. 17-1141-GA-AAM |

**TESTIMONY OF JOSEPH G. BOWSER IN SUPPORT OF
THE JOINT STIPULATION AND RECOMMENDATION**

|  |  |
| --- | --- |
|  | Management policies, practices, and organization |
|  |  |
|  | Operating income |
|  |  |
|  | Rate base |
|  |  |
|  | Allocations |
|  |  |
|  | Rate of return |
|  |  |
|  | Rates and tariffs |
|  |  |
|  X | Other |

**January 29, 2018**

**Before**

**The Public Utilities Commission of Ohio**

In the Matter of the Application of Ohio )

Gas Company for an Increase in Gas ) Case No. 17-1139-GA-AIR

Distribution Rates )

In the Matter of the Application of Ohio ) Case No. 17-1140-GA-ATA

Gas Company for Tariff Approval )

In the Matter of the Application of Ohio )

Gas Company for Approval of Certain ) Case No. 17-1141-GA-AAM

Accounting Authority )

**Direct Testimony of Joseph G. Bowser**

**on Behalf of Ohio Gas Company**

**INDEX**

 **Page No.**

**I. Introduction 1**

**II.** **PURPOSE OF TESTIMONY 3**

**III. SUMMARY OF THE STIPULATION AND RECOMMENDATION 3**

1. **STANDARDS FOR CONSIDERING APPROVAL OF A STIPULATION 7**

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Accounting Authority )

**Direct Testimony of Joseph G. Bowser**

**on Behalf of Ohio Gas Company**

1. **Introduction**

**Q1. Please state your name and business address.**

A1. My name is Joseph G. Bowser, 21 East State Street, 17th Floor, Columbus, Ohio 43215.

**Q2. By whom are you employed and in what position?**

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC (“McNees”), providing testimony on behalf of Ohio Gas Company.

**Q3. Please describe your educational background.**

A3. In 1976, I graduated from Clarion State College with a Bachelor of Science degree in Accounting. In 1988, I graduated from Rensselaer Polytechnic Institute with a Master of Science degree in Finance.

**Q4. Please describe your professional experience.**

A4. I have been employed by McNees since 2005, where I focus on assisting Industrial Energy Users-Ohio (“IEU‑Ohio”) members address issues that affect the price and availability of utility services. As part of my responsibilities, I provide IEU-Ohio members assistance as they evaluate and act upon opportunities to secure value for their demand response and other capabilities in the base residual auction (“BRA”) and incremental auctions conducted by PJM Interconnection, L.L.C. (“PJM”) as part of the Reliability Pricing Model (“RPM”). Prior to joining McNees, I worked with the Office of the Ohio Consumers’ Counsel (“OCC”) as Director of Analytical Services. There I managed the analysis of financial, accounting, and ratemaking issues associated with utility regulatory filings. I also spent ten years at Northeast Utilities, where I held positions in the Regulatory Planning and Accounting Departments, provided litigation support in regulatory hearings, and assisted in the preparation of the financial/technical documents filed with state and federal regulatory commissions. I began my career with the Federal Energy Regulatory Commission (“FERC”), where I led and conducted audits of gas and electric utilities in the Eastern and Midwestern regions of the United States. I am a Certified Public Accountant (inactive) and am a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants.

**Q5. Have you previously submitted expert testimony before the Public Utilities Commission of Ohio (“Commission” or “PUCO”)?**

A5. Yes. Since 1996, I have submitted testimony as an expert in numerous cases, including these proceedings. A listing of the cases I have testified in are contained in Exhibit JGB-1 in my testimony in support of the application, dated May 31, 2017.

1. **PURPOSE OF TESTIMONY**

**Q6. What is the purpose of your testimony?**

A6. The purpose of my testimony is to summarize, sponsor, and support the Joint Stipulation and Recommendation filed on January 26, 2018 (“Stipulation”) for the Commission’s consideration. My testimony discusses the criteria that the Commission utilizes when it considers the adoption of settlements and explains how the Stipulation in these cases meets those criteria. More specifically, my testimony supports the conclusion that the Stipulation:

1. Is the product of serious bargaining among capable, knowledgeable parties;
2. As a package, benefits ratepayers and the public interest; and
3. Does not violate any important regulatory principle or practice.
4. **SUMMARY OF THE STIPULATION AND RECOMMENDATION**

**Q7. Did you participate in the negotiations which led to the Stipulation being submitted for consideration and approval by this Commission?**

A7. Yes. I attended the settlement meetings held at the offices of the Commission and participated in other discussions, which led to the Stipulation. The parties represented in those meetings were the Ohio Gas Company, the Staff of the Commission (“Staff”), and the Ohio Consumers’ Counsel (“OCC”). The Stipulation is attached to my testimony as Exhibit JGB-S1.

**Q8. Who are the Signatory Parties to the Stipulation?**

A8. The Signatory Parties are the Ohio Gas Company, OCC, and Staff. These parties represent diverse interests including the Ohio Gas Company and its investor and residential customers.

**Q9. Please provide an overview of the Stipulation.**

A9. The provisions of the attached Stipulation resolve all issues pending before the Commission related to the Company’s application for a rate increase. The Stipulation provides for a rate increase of $2,419,587. This amount adjusts the amount requested by the Company for changes recommended by the Staff Report, the resolution of issues raised by the Staff Report noted by Ohio Gas in its objections, and a reduction in the revenue requirement to account for recent changes in federal income tax law. I further discuss the term of the Stipulation addressing the federal income tax law changes below. Schedules attached as Appendix A set out the basis for the rate increase. The increase would be collected through an increase in the customer charge. As a result of the rate case, several current charges would be eliminated as they would be incorporated into base rates.

In the Application, Ohio Gas Company also sought to update the general terms and conditions of service. The Staff Report recommended one modification to the proposed tariff. The recommendation was to allow for one meter test without charge.

The Stipulation proposes that the Commission authorize Ohio Gas Company to file the new tariff attached as Appendix B to the Stipulation. The proposed tariff incorporates the change requested by the Staff Report to the charge for meter testing.

The Application also sought authority to make certain adjustments to the depreciation reserve balances on the books of Ohio Gas Company. The Stipulation provides that adjustments to the depreciation accrual reserves contained in Appendix D to the Stipulation should be approved by the Commission for Ohio Gas Company’s use. The adjustments to the depreciation reserve have no effect on the proposed rates.

**Q10. What concessions did Ohio Gas Company make that are recommended in the Stipulation?**

A10. The Stipulation provides several concessions in addition to the reduction in the revenue requirement. Most significantly, Ohio Gas Company has agreed to recommend an out-of-period adjustment to account for changes in the federal corporate income tax rate. The Stipulation also states, “Ohio Gas understands that the Commission may order Ohio Gas to file a request to adjust rates in PUCO Case No. 18-0047-AU-CO or another case. To the extent that the order would permit Ohio Gas to seek to increase rates, Ohio Gas agrees to waive its opportunity to request such an increase. To the extent that the order would require Ohio Gas to reduce its rates, Ohio Gas agrees to make an application to effect that change, but may do so under protest. Further, it is agreed and recommended that the Commission find that no Party waives any legal, administrative, judicial, or appellate rights to challenge any change in rates of Ohio Gas if such a change is in addition to the rates set out in this Joint Stipulation and Recommendation.”

**Q11. Please explain why the Stipulation contains a provision regarding the recent enactment of changes in the federal corporate income tax rate.**

A11. When Ohio Gas Company prepared the Application and filed it on May 31, 2017, it calculated rates based on the existing corporate federal income tax rate. Late in 2017, Congress approved a revision of the federal tax laws that included a reduction of the federal corporate tax rate to 21%. This change was not anticipated by Ohio Gas Company when it filed its Application or the Staff when it issued the Staff Report.

 In its objections to the Staff Report, OCC raised its concern that the proposed revenue deficiency was overstated because the Staff Report did not incorporate the federal income tax law changes.

I am aware that the Commission has opened a proceeding to consider a regulatory response to the tax law changes, PUCO Case No. 18-0047-AU-COI. Because Ohio Gas Company has a pending rate case, it is proposing in the Stipulation to account for the change in the federal corporate income tax rate. Based upon the adjusted Staff Report schedules that are attached as Appendix A of the Stipulation, Ohio Gas Company has estimated that the monthly customer charge could be reduced by $1.01 to account for the change in the corporate tax rate.

Ohio Gas Company, the Staff, and OCC are also aware that the Commission may seek to address the effect of the change in the corporate tax rate on accumulated deferred income taxes or other matters that could positively or negatively affect the revenue requirement. As a means of addressing the concerns of the parties that the adjustment for the federal income tax law changes in this case may not capture the outcome of the Commission-ordered investigation, Ohio Gas Company agreed not to seek an increase in rates if the Commission issued a decision in either the Commission ordered investigation or another case that would permit it to increase rates. If the Commission were to order Ohio Gas Company to file an application to reduce rates as a result of the recent federal income tax law changes, Ohio Gas Company would do so, but has reserved the option of file under protest and retain its rights for administrative and appellate review. The goal of this approach is to assign the risk of a Commission decision in the Commission-ordered investigation to the Company rather than its customers. OCC and the Staff agreed and support this approach.

1. **STANDARDS FOR CONSIDERING APPROVAL OF A STIPULATION**

**Q12. What are the standards that the Commission has used when considering approval of a stipulation?**

A12. The Commission typically evaluates the adoption of stipulations that it is presented with for consideration by applying a three-part test. The questions that the Commission considers are:

1. Is the stipulation the product of serious bargaining among capable, knowledgeable parties;
2. Does the stipulation, as a package, benefits ratepayers and the public interest; and
3. Does the stipulation violate any important regulatory principle or practice?

**Q13.** **Does the Stipulation in this case satisfy the above criteria?**

A13. Yes, it does. I will explain in more detail below how the Stipulation fulfills each of the three criteria.

**Q14. Is the Stipulation the product of serious bargaining among capable and knowledgeable parties?**

A14. Yes, the Stipulation is the result of a process of negotiations involving experienced counsel representing members of several stakeholder groups. The parties that took part in the negotiations were capable and knowledgeable about the issues raised in this case. Parties have had the opportunity to participate in discovery, and the settlement process was open to all intervening parties. The settlement discussions ultimately lead to the Stipulation.

**Q15. Please explain how the Stipulation benefits customers and the public interest.**

A15. There are several benefits to the Stipulation. First, my understanding is that Ohio Gas will have one of the lowest customer charges in Ohio among regulated natural gas companies even after the approval of the rates proposed in this case. To that end, customers benefit from the fact that the starting point for calculating the revenue increase is approximately $189,000 below Ohio Gas Company’s requested rate increase and reflects a lower rate of return than reflected in the rate increase recommended by Staff at its upper bound.

 Second, customers will benefit from an immediate adjustment to base rates to account for changes in the corporate federal income tax rate. This adjustment to the revenue increase reduces the customer charge by $1.01 monthly. Further, Ohio Gas is agreeing to forgo any increase for which it may be eligible as a result of the Commission-ordered investigation in PUCO Case No. 18-0047-AU-COI.

 The Stipulation continues the certainty and predictability in customer rates that Ohio Gas Company’s customers have had for the past three decades, dating back to the Company’s last base rate increase in 1985. The certainty and predictability in rates has also been enhanced by Ohio Gas Company’s excellent management of its operations, which has allowed the Company to avoid the need for rate riders to enhance revenues between rate cases.

 The Stipulation also supports Ohio Gas Company’s commitment to customer service. Its customer service has been exemplary as demonstrated by the virtual absence of customer complaints, as noted by the Staff Report. Under the proposed tariff, residential and small commercial customers will continue to benefit from Ohio Gas Company’s policy to not impose requirements on these customers to establish creditworthiness. Additionally, the Ohio Gas Company will offer to customers one free meter test per year, in accordance with Staff’s recommendation, thereby allowing a customer to determine the meter’s accuracy, should that be a concern to a customer, at no cost.

 In summary, this Stipulation advances the interests of the Company and its customers.

**Q16. How does the rate design recommended in the Staff Report and adopted in the Stipulation benefit customers and the public interest?**

A16. As I noted previously, use of a customer charge provides rate stability for both customers and Ohio Gas Company. This is consistent with the demonstrated interest of Ohio Gas Company’s customers, a substantial portion of which have elected budget billing. Clearly, those customers prefer predictable gas bills over monthly bills based on volumetric rates. The use of a customer charge also benefits Ohio Gas Company by providing a steady revenue stream for covering its essentially fixed costs of providing distribution gas service.

**Q17. Does the Stipulation violate any important regulatory principle or practice?**

A17. No, the Stipulation does not violate any important regulatory principle or practice. The terms of the Stipulation represent a compromise of the Signatory Parties to the Stipulation, and none of the provisions of the Stipulation is inconsistent with or violates any important Commission principle or practice. On the contrary, the compromise reached in the Stipulation promotes the state policy expressed in Ohio Revised Code 4929.02 of promoting the availability to consumers of adequate, reliable and reasonably priced natural gas services and goods.

**Q18. Does this conclude your testimony?**

A18. Yes.

**Certificate of Service**

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO’s e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Testimony of Joseph G. Bowser in Support of the Joint Stipulation*, as sent by, or on behalf of, the undersigned counsel for Ohio Gas to the following parties of record this 29th day of January, 2018, *via* electronic transmission.

*/s/ Frank P. Darr*

 Frank P. Darr

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