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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Pike Natural :
Gas Company for Approval of an Alternative Rate : Case No. 08-941-GA-ALT
Plan Proposing a Revenue Decoupling :
Mechanism. :

**PRE-FILED TESTIMONY
OF
STEPHEN E. PUICAN
UTILITIES DEPARTMENT
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit _____

September 3, 2009

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1 1. Q. Would you please state your name and business address?
2

3 A. My name is Stephen E. Puican. My business address is 180 East Broad Street,
4 Columbus, Ohio.
5

6 2. Q. What is your present employment?
7

8 A. I am currently employed as Co-Chief of the Rates & Tariffs / Energy & Water
9 Division in the Utilities Department of the Public Utilities Commission of Ohio
10 ("PUCO"). In that position I am responsible for oversight of the Utilities
11 Department's positions related to natural gas utility regulation, including all Gas Cost
12 Recovery procedures, tariff and contract applications and customer choice program
13 oversight.
14

15 3. Q. Would you outline your academic and professional qualifications?
16

17 A. I received a B.A. degree in Economics from Kent State University in 1980 and an
18 M.A. degree in Economics from Ohio State University in 1983. I was employed by
19 the Ohio Department of Development, Division of Energy, from May 1983 until
20 October 1985 at which time the functions of the Division were incorporated into the
21 Public Utilities Commission of Ohio. I have been employed in several positions at
22 the PUCO since that time and have been Co-Chief of the Rates & Tariffs / Energy &
23 Water Division since May 2005. Prior to that, I had been Chief of the Gas and Water
24 Division since 1999. In both my current and previous positions I have been
25 responsible for oversight of the Utilities Department's natural gas staff which
26 includes responsibility for all GCR cases, as well as other areas relating to natural gas
27 such as contracts, certain tariff provisions, and certain rate case issues. I have also
28 been involved in the development and evolution of Ohio's customer choice programs
29 and participated in writing the rules that implemented House Bill 9, which formalized
30 the structure of Ohio's customer choice programs
31

Q. 1 4. Q. What is the purpose of your testimony in this proceeding?
2

3 A. I will respond to objections to the Staff Report in this proceeding filed by the Office
4 of the Ohio Consumers' Counsel (OCC) and Ohio Partners for Affordable Energy
5 (OPAE).
6

7 5. Q. The OCC and OPAE both object to the Staff Report's recommendation of a
8 movement to a Straight Fixed Variable (SFV) type of rate design. Do you agree with
9 these objections?
10

11 A. No I do not. The SFV rate design is a straightforward solution that removes the
12 inherent disincentives under traditional rate design for LDCs to promote energy-
13 efficiency. It is an economically logical concept that eliminates the need for the
14 annual true-ups required by a Decoupling Rider approach. The SFV approach has a
15 level of certainty that the Decoupling Rider approach does not. It recovers costs as
16 incurred by the LDC and eliminates the need for carrying costs associated with
17 deferred recoveries. The annual true-ups required by a Decoupling Rider invite
18 potentially contentious proceedings as parties would be free to argue for restrictions
19 on full recovery or to seek other types of concessions. In contrast to a Decoupling
20 Rider, the straightforward application of SFV is easier for customers to understand
21 and it promotes timely recovery of costs without the need for annual true-up
22 proceedings.
23

24 I also disagree that the SFV rate design will have a significant impact on consumers'
25 energy efficiency investment decisions. I believe consumers make such decisions
26 based on the total variable rate, including gas costs, rather than just the distribution

1 rate. The Staff Report is proposing to reduce the volumetric component of the
2 residential distribution rate from \$1.8876 to \$0.6319 per Mcf, a reduction of \$1.2557
3 per Mcf. Although a relatively large percentage change in the distribution rate, when
4 compared to Pike's total rate including gas costs, that reduction is relatively small.
5 Customers will always achieve the full value of the gas cost savings regardless of the
6 distribution rate. I do not agree with OCC's argument that customers will conserve
7 significantly less at a variable rate that differs by approximately 13% from the current
8 rates including gas costs. I believe most consumers make conservation decisions
9 based on their total bill rather than by an explicit cost/benefit analysis based solely on
10 the variable portion of rates, particularly given the volatility of the gas cost
11 component. In addition, given the extreme volatility that exists in the natural gas
12 commodity market, I believe customers recognize the imprecision of any payback
13 analysis and will incorporate that uncertainty into their energy efficiency investment
14 decisions regardless of the fixed/variable base rate allocation.

15
16 Even assuming customers conduct this type of payback analysis, including fixed
17 costs in a variable rate, distorts the price signals customers face. The variable
18 component of rates should reflect a utility's true avoided costs, *i.e.* the costs that a
19 utility does not incur with a unit reduction in sales. The SFV rate design satisfies this
20 condition by more closely matching fixed and variable cost recovery to those actual
21 costs incurred. Artificially inflating the volumetric rate beyond its cost basis skews
22 the analysis and can cause an inefficient level of investment in conservation. This
23 exacerbates the under-recovery of fixed costs that the utility must then recover from

1 all other customers.

2
3 Customer incentives to conserve must also be considered within the context of the
4 change in incentives the SFV rate design provides the Company. To artificially
5 require the Company to recover its fixed costs through the volumetric rate creates a
6 disincentive for the Company to promote energy efficiency. Staff is supporting a rate
7 design that eliminates this disincentive. The relatively small potential disincentive for
8 customers to conserve due to the reduction of the volumetric component of the
9 distribution rate is, in my opinion, more than offset by the removal of the Company's
10 disincentive to actively promote and fund energy-efficiency.

11
12 Finally the Commission recently approved SFV rate designs for Columbia Gas of
13 Ohio, Duke Energy Ohio, Vectren Energy Delivery of Ohio and Dominion East Ohio.
14 These four companies serve approximately 95% of the residential customers in Ohio.
15 Given these previous Commission rulings, it can no longer be argued, as OCC does in
16 its objections, that the SFV rate design proposed in this proceeding is a break with
17 Commission precedent.

18
19 6. Q. Would you address the OCC and OPAE objection to the Staff Report's SFV rate
20 design proposal on the grounds it adversely impacts low-use and low-income
21 customers?

22
23 A. The shift to the SFV rate design will result in low-usage customers seeing a higher
24 total bill and high-usage customers seeing a lower total bill than would occur with a

1 continuation of the current rate design. However the impact on low-use customers
2 must be considered within the context of the rationale for the movement to the SFV
3 rate design as discussed above. We have seen in previous rate cases that in all four of
4 Ohio's large LDCs, the average PIPP customer's usage is greater than the average
5 non-PIPP customer. This is likely attributable to low-income customers being more
6 likely to reside in older, less energy-efficient homes, more likely to rent than to own,
7 and more likely to lack the discretionary income to invest in energy-efficiency.
8 Because high-usage customers will benefit from the SFV rate design, and low-income
9 customers are more likely to be high-usage customers, it is reasonable to conclude
10 that low-income customers are more likely to actually benefit from SFV.

11
12 7. Q. OPAE objects that the Staff Report proposed the SFV rate design without considering
13 whether the declines in average customer usage will continue. Do you agree with this
14 objection?

15
16 A. No. As shown in the Staff Report, Pike has been experiencing a downward trend in
17 use per residential customer since 1991. Whether or not use per customer has reached
18 a "plateau" it is not realistic for a natural gas utility to undertake the type of
19 investment in Demand-Side Management without addressing the impact that
20 investment will have on the Company's earnings. We have seen significant reductions
21 in per customer usage in recent years as a response to increasing commodity prices.
22 One cannot expect a utility to actively contribute to an acceleration of that decline
23 through DSM programs without compensating the Company for the revenue erosion

1 that the DSM programs, by definition, will cause. I believe the SFV rate design is the
2 most efficient and accurate way to accomplish that goal.

3
4 8. Q OCC objects to the SFV because it states that it amounts to a “guaranteed” recovery
5 of Pike’s distribution costs rather than the “opportunity” to recovery those costs. Do
6 you agree with this objection?

7
8 A. No. The recommendation to move to a SFV rate design is based on a belief that this
9 rate design more accurately aligns rate recovery to the types of costs are that actually
10 incurred. Even so, there remains a significant variable component to Pike’s
11 distribution rates for which Pike remains at risk. The charge that the SFV rate design
12 guarantees recovery of distribution costs is baseless.

13
14 9. Q. OCC objects to the SFV rate design as being contrary to the State policy of
15 conservation as noted in R.C. 4929.02 and R.C.49.0570. Do you agree with this
16 objection?

17
18 A. No. As I have discussed above, I believe the removal of the disincentive to the utility
19 to promote energy conservation through the SFV rate design outweighs any
20 disincentive for consumers to conserve on their own due to the lower variable rate.
21 Thus I believe the SFV rate design is entirely consistent with the requirements cited
22 in the objection.

1 10. Q OCC objects to the Staff Report's failure to recommend a reduction in Pike's return
2 on equity to reflect its lower risk due to the SFV rate design, Do you agree with this
3 objection?

4

5 A. No. Without addressing whether such an adjustment would be appropriate within the
6 context of a full base rate proceeding, I do not think it is appropriate to make such a
7 recommendation without the type of comprehensive review that occurs only in such a
8 proceeding.

9

10 11. Q. OCC objects that the Staff failed to recommend a DSM stakeholder process be
11 established to address funding of administrative, advertising and educational
12 expenses associated with the DSM program. OCC also objects to the Staff's failure to
13 recommend such expenses be limited to 20% of the total DSM program costs. Do
14 you agree with this objection?

15

16 A. To the extent such a stakeholder group can assist in efficiently spending these dollars
17 and can reach agreement on any limits to these expenses, I believe establishing such a
18 stakeholder group is appropriate.

19


20 12. Q. Does this complete your pre-filed testimony?

21

22 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Pre-filed Testimony of Steven Puican was served by regular U.S. mail, postage pre-paid, or hand-delivered and sent by facsimile, to the following parties of record, this 3rd day of September, 2009.


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