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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 Plan Proposing a Revenue Decoupling Mechanism.	:	Case No. 08-941-GA-ALT

PRE-FILED TESTIMONY
OF
STEPHEN E. PUICAN

UTILITIES DEPARTMENT
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

September 3, 2009

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

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

2. Q. What is your present employment?

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

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

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

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

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

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

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

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

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

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

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

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

A. The shift to the SFV rate design will result in low-usage customers seeing a higher total bill and high-usage customers seeing a lower total bill than would occur with a continuation of the current rate design. However the impact on low-use customers must be considered within the context of the rationale for the movement to the SFV rate design as discussed above. We have seen in previous rate cases that in all four of Ohio's large LDCs, the average PIPP customer's usage is greater that the average non-PIPP customer. This is likely attributable to low-income customers being more likely to reside in older, less energy-efficient homes, more likely to rent than to own, and more likely to lack the discretionary income to invest in energy-efficiency. Because high-usage customers will benefit from the SFV rate design, and low-income customers are more likely to be high-usage customers, it is reasonable to conclude that low-income customers are more likely to actually benefit from SFV.

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

A. No. As shown in the Staff Report, Pike has been experiencing a downward trend in use per residential customer since 1991. Whether or not use per customer has reached a "plateau" it is not realistic for a natural gas utility to undertake the type of investment in Demand-Side Management without addressing the impact that investment will have on the Company's earnings. We have seen significant reductions in per customer usage in recent years as a response to increasing commodity prices. One cannot expect a utility to actively contribute to an acceleration of that decline through DSM programs without compensating the Company for the revenue erosion that the DSM programs, by definition, will cause. I believe the SFV rate design is the most efficient and accurate way to accomplish that goal.

8. Q OCC objects to the SFV because it states that it amounts to a "guaranteed" recovery of Pike's distribution costs rather than the "opportunity" to recovery those costs. Do you agree with this objection?

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

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

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

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

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

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

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

12. Q. Does this complete you pre-filed testimony?

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.

Werner L. Margard III
Assistant Attorney General

PARTIES OF RECORD:

Stephen Howard
Attorney at Law
Vorys, Sater, Seymour & Pease
52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43215

Larry Sauer
Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

David C. Rinebolt
Ohio Partners for Affordable Energy
231 West Lima Street
P.O. Box 1793
Findlay, Ohio 45839-1793