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A report by the Staff of the  
Public Utilities Commission of Ohio

Suburban Natural Gas Company  
17-594-GA-ALT

Application for an Alternative  
Rate Plan

September 20, 2017

2017 SEP 20 PM 2:08



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**Public Utilities  
Commission**

Asim Z. Haque, Chairman

**Commissioners**

M. Beth Trombold  
Thomas W. Johnson  
Lawrence K. Friedeman  
Daniel R. Conway

September 20, 2017

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

RE: *In the Matter of the Application of Suburban Natural Gas Company, for the approval of an Alternative Rate Plan, Case No. 17-594-GA-ALT.*

Dear Docketing Division:

Enclosed please find the Staff's Report in regard to the application of Suburban Natural Gas Company, for the approval of an Alternative Rate Plan, Case No. 17-594-GA-ALT.

Tamara S. Turkenton  
Chief, Regulatory Services Division  
Public Utilities Commission of Ohio

David Liphtratt  
Chief, Research and Policy Division  
Public Utilities Commission of Ohio

## **SUMMARY**

Having reviewed the Application, Staff believes that Suburban Natural Gas Company ("Suburban" or "Company") should be permitted to begin the shift to a straight fixed variable rate design for both residential and commercial / industrial customers. In accordance with the Commission's decision in the Pike and Eastern cases<sup>1</sup> Staff believes that only the billing determinates from the last full rate case can be used in the straight fixed variable rate design. Attached as Staff Attachment 1 to this Report is the Staff's conversion from the current largely volumetric driven rate design to the straight fixed variable rate design. The Staff also believes that Suburban should file a rate case within the next two years. It has been a decade since the billing determinates used in both the current rates and the Staff's straight fixed variable rate design were determined. During that time Suburban has increased both the number of customers it serves and the size of its distribution network. In fact, based upon the discovery conducted in this case, Staff has determined that Suburban is no longer below the statutory threshold of being a small local distribution company. To prevent the rates charged customers from being based on stale billing determinates, the Staff recommends that Suburban file a rate case under Section 4909.18, Revised Code no later than June 1, 2019. Finally, the Staff supports setting up a collaborative to design and implement a weatherization program for Suburban's high usage Percentage of Income Payment Plan (PIPP) customers.

## **PROCEDURAL HISTORY**

On April 25, 2017, Suburban filed an application for approval of an alternative rate plan, not for an increase in rates. The application requests authority to initiate a revenue decoupling mechanism to facilitate a straight fixed rate design (SFV) to be phased in over a two-year period. Suburban proposed the rate design be based on the billing determinants updated for the number of customers, sales, and revenue levels for calendar year 2013 more than five years after the last rate case. As part of the application, Suburban also requested approval to initiate an Energy Efficiency Program (EEP) pilot, in order to weatherize the residences of Suburban's high-usage Percentage of Income Payment Plan-Plus customers, and approval to establish an associated cost recovery mechanism, Rider EEP. The Rider EEP rate would initially be set at zero. The EEP pilot would be designed, including identification of the Rider EEP charge, with the input of Staff and other interested stakeholders. Suburban proposed to submit the Rider EEP charge for Commission approval within four months after approval of the application in this proceeding.

The Company's proposed altered rate design would permit the Company to bifurcate the General Service Rate schedule (GS) into two separate groups. Residential and small

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<sup>1</sup> Eastern Natural Gas Company, Case No. 08-940-GA-ALT; Pike Natural Gas Company, Case No. 08-941-GA-ALT

commercial customers in one group and large commercial and industrial customers in the second group. Currently, all tariffed customers pay a fixed \$9.18 customer charge and a variable charge of \$2.84029 per Mcf. The proposed SFV rate design would be phased-in over 2 years as follows:

**Residential & Small Commercial** – The first year fixed charge would increase from \$9.18 to \$19.50 and the variable rate would decrease from \$2.84029 to \$1.419373. In the second year, 100% of the rate would be recovered through a \$29.81 fixed charge.

**Large Commercial & Industrial** – The first year fixed charge would increase from \$9.18 to \$79.50, and the variable rate would decrease from \$2.84029 to \$2.336228. In the second year, the fixed charge would increase from \$79.50 to \$150.00, and the variable rate would decrease from \$2.336228 to \$1.832166.

## **STAFF REVIEW**

Staff has concerns with the Company's proposed rate design being based on the number of customers, sales and revenue for calendar year 2013. Staff reviewed the Company's alternative rate plan and found evidence of declining sales on a per customer basis but not on a total company basis. Suburban is currently experiencing strong growth in the number of distribution customers it currently serves and is expected to continue to grow its customer base in the foreseeable future. The strong customer growth has allowed Suburban to increase sales on a total company basis when compared to their last base rate case (Case No. 07-689-GA-AIR).

Staff disagrees with the Company's use of any level of revenue above what was previously authorized in their last distribution rate case to design the new rates. A rate case is where a Company should establish and address issues such as revenue and rate of return. Section 4929.05 of the Revised Code states that ".....a revenue decoupling mechanism shall be considered an application not for an increase in rates if the rates, joint rates, tolls, classifications, charges, or rentals are based upon the billing determinants and revenue requirement authorized by the public utilities commission in the company's most recent rate case proceeding and the plan also establishes, continues, or expands an energy efficiency or energy conservation program."

Staff does recognize that the Company's current rate design leaves the Company's revenue vulnerable to weather volatility and customer conservation. The Company's request to initiate a revenue decoupling mechanism, specifically SFV, should stabilize revenue and remove the Company's disincentive to promote energy efficiency.

## **RECOMMENDATION**

Based upon Staff's findings the Staff recommends to the Commission that the application should be denied as currently filed by the applicant. Staff recommends that the Company's application be modified so as the redesigned rates (as shown in Staff Attachment 1 which is attached and incorporated as part of the Staff Report) be based upon 2007 test year billing determinants and 2007 base revenues as established in the Company's last distribution rate case without shifting approved class revenue responsibility, which Staff believes would comport with Section 4929.05 of the Revised Code.

Staff additionally recommends that Suburban's request for approval to initiate an Energy Efficiency Program (EEP) pilot be approved without shared savings. Lastly, Staff recommends that as a condition of authorizing the SFV rate design the Company should be required to file a rate case no later than June 1, 2019.

**SUBURBAN NATURAL GAS COMPANY**  
**Case No. 17-594-GA-ALT**  
**Determination of Proposed Tariff Rates**  
**Based on Original Tariff Calculation from 2007 Case \*\***

**Staff Attachment 1**

	Year 1 of Phase In				Year 2 of Phase In					
	Per 2007 Tariff Calculation ***		Approved Tariff Rates	Base Revenue Received	Per 2007 Tariff Calculation***		Adjusted Rates	Adjusted Revenue	Incremental Adjustment	
	No Monthly Bills	CCF			No Monthly Bills	CCF			Rate	Percent
<b>General Service</b>										
Residential and Small Commercial										
Customer Charge	155,725		\$ 9.18	\$ 1,429,556	155,725		\$ 19.30	\$ 3,005,493	\$ 10.12	110%
Rate per CCF		11,095,595	0.2840290	3,151,471		11,095,595	0.141996333	1,575,534	(0.1420327)	-50%
Total Residential and Small Commercial				\$ 4,581,026				\$ 4,581,026		
<b>Large Commercial</b>										
Customer Charge	2,509		\$ 9.18	\$ 23,033	2,509		\$ 79.59	\$ 199,691	\$ 70.41	767%
Rate per CCF		3,325,745	0.2840290	944,608		3,325,745	0.230910463	767,949	(0.0531185)	-19%
Total Large Commercial				\$ 967,641				\$ 967,641		
Total	158,234	14,421,340		\$ 5,548,667	158,234	14,421,340		\$ 5,548,667		
<b>General Service</b>										
Residential and Small Commercial										
Customer Charge	155,725		\$ 9.18	\$ 1,429,556	155,725		\$ 29.42	\$ 4,581,026	\$ 10.12	52%
Rate per CCF		11,095,595	0.2840290	3,151,471		11,095,595		-	(0.1419963)	-100%
Total Residential and Small Commercial				\$ 4,581,026				\$ 4,581,026		
<b>Large Commercial</b>										
Customer Charge	2,509		\$ 9.18	\$ 23,033	2,509		\$ 150.00	\$ 376,350	\$ 70.41	88%
Rate per CCF		3,325,745	0.2840290	944,608		3,325,745	0.177791925	591,291	(0.0531185)	-23%
Total Large Commercial				\$ 967,641				\$ 967,641		
Total	158,234	14,421,340		\$ 5,548,667	158,234	14,421,340		\$ 5,548,667		

\*\* The sales and number of bills for the twelve months ending July 31, 2007 are reflective of amounts utilized in the Tariff Calculation resulting from Order in Case No. 07-689-GA-AIR.

\*\*\* Information was not available to allocate usage between residential/small commercial and large commercial customers for the twelve month test period ending July 31, 2007. However, information was available for the twelve months ending December 31, 2007. Therefore the above July 31, 2007 amounts were allocated proportionately based upon the December 31, 2007 breakdown of usage between residential/small commercial and large commercial customers.