

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
SUBURBAN NATURAL GAS COMPANY FOR
APPROVAL OF AN ALTERNATIVE FORM OF
REGULATION TO INITIATE A REVENUE
DECOUPLING MECHANISM.

CASE NO. 17-594-GA-ALT

FINDING AND ORDER

Entered in the Journal on November 1, 2017

I. SUMMARY

{¶ 1} The Commission approves the alternative rate plan application of Suburban Natural Gas Company, as modified by the Commission.

II. PROCEDURAL BACKGROUND

A. *Applicable Law*

{¶ 2} Suburban Natural Gas Company (Suburban or Company) is a natural gas company, as defined in R.C. 4905.03, and a public utility, as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of the Commission.

{¶ 3} R.C. 4929.05(A), which governs requests for approval of an alternative rate plan filed by a natural gas company, provides that the Commission shall authorize the applicant to implement the alternative rate plan if the natural gas company demonstrates and the Commission finds that all of the following conditions are met:

- (a) The natural gas company is in compliance with R.C. 4905.35 and is in substantial compliance with the policy of this state in R.C. 4929.02.
- (b) The natural gas company is expected to continue to be in substantial compliance with the policy of this state as specified in R.C. 4929.02 after implementation of the alternative rate plan.
- (c) The alternative rate plan is just and reasonable.

{¶ 4} R.C. 4905.35 prohibits discrimination on the part of a public utility. Additionally, R.C. 4929.02 sets forth the policy of the state as to natural gas services and goods. Pursuant to R.C. 4929.05(B), the burden of proof is with the public utility to demonstrate compliance with the applicable statutes.

{¶ 5} Additionally, R.C. 4929.051(A) provides that an alternative rate plan filed by a natural gas company under R.C. 4929.05 and proposing to initiate or continue a revenue decoupling mechanism shall be considered an application not for an increase in rates if the rates or charges are based upon the billing determinants and revenue requirement authorized by the 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.

B. Procedural History

{¶ 6} On April 25, 2017, as supplemented on May 15, 2017, and amended on July 28, 2017, Suburban filed an alternative rate plan application, along with supporting exhibits and testimony, pursuant to R.C. 4929.05, 4929.051, and 4909.18. In its application, Suburban requests approval to implement a revenue decoupling mechanism with a straight fixed variable (SFV) rate design, not as an application for an increase in rates, to be phased in over a two-year period.

{¶ 7} On May 11, 2017, Ohio Consumers' Counsel (OCC) filed a motion to intervene on behalf of Suburban's residential customers. OCC's motion was granted by Entry issued June 21, 2017.

{¶ 8} On May 19, 2017, Staff filed a letter indicating that Suburban's application, as supplemented, is in compliance with Ohio Adm.Code 4901:1-19-06. By Entry issued May 23, 2017, the application was deemed to have been filed as of April 25, 2017. The procedural schedule was also established for the review and consideration of Suburban's application. Pursuant to the May 23, 2017 Entry, motions to intervene were due by June 6, 2017; the Staff

Report was due by July 31, 2017; and objections to the Staff Report or Suburban's application were due by August 31, 2017.

{¶ 9} On July 25, 2017, Staff filed a motion for an extension of time, until August 30, 2017, to file the Staff Report and requested an expedited ruling on the motion. By Entry issued July 26, 2017, Staff's motion for an extension was granted and the procedural schedule revised such that the Staff Report would be due August 30, 2017, and objections to the Staff Report or Suburban's application would be due by September 15, 2017.

{¶ 10} On July 31, 2017, OCC filed an interlocutory appeal of the July 26, 2017 Entry. OCC contends the July 26, 2017 Entry is unreasonable, unlawful, and inconsistent with Commission rules, to the extent that the Entry revised the timeframe for filing objections to the Staff Report and the application from 30 days to 16 days.

{¶ 11} On August 29, 2017, Staff filed a second motion for an extension of time, until September 20, 2017, to file the Staff Report.

{¶ 12} By Entry issued August 30, 2017, Staff's second motion for an extension of time to file the Staff Report was granted and the procedural schedule revised such that the Staff Report would be due September 20, 2017, and objections to the Staff Report or Suburban's application would be due by October 20, 2017. With the revision to the procedural schedule, as reflected in the August 30, 2017 Entry, the Commission finds OCC's interlocutory appeal filed on July 31, 2017, to be moot.

{¶ 13} The Staff Report was filed on September 20, 2017.

{¶ 14} On October 11, 2017, Suburban filed its objections to the Staff Report.

{¶ 15} On October 18, 2017, OCC filed a correspondence informing the Commission of its continued opposition to SFV rate design. However, in light of the experience gained

from rulings on past appeals, OCC states that it will not contest the implementation of SFV rate design for Suburban.

{¶ 16} On October 26, 2017, Suburban filed revised tariffs and a revised customer notice. In response, Staff filed a supplement to the Staff Report on October 27, 2017.

C. Summary of Suburban's Application

{¶ 17} In its application, Suburban states it seeks approval to initiate a revenue decoupling mechanism to facilitate a SFV rate design, not as an application for an increase in rates, to be phased in over a two-year period. Suburban proposes the rate design be based on the billing determinants from the Company's last rate case, updated for the number of customers, sales, and revenue levels for calendar year 2013. *In re Suburban Natural Gas Co.*, Case No. 07-689-GA-AIR (*Rate Case*), Opinion and Order (Mar. 19, 2008). Suburban explains that the Company currently serves approximately 16,758 customers on two distinct distribution systems in northwest and central Ohio. Suburban states that while the number of customers served has increased over the test year level, consumption levels per customer degree days have decreased as a result of more energy efficient homes and customer conservation.

{¶ 18} The Company notes its current rate design has only two components: a volumetric rate applied to the quantity of natural gas each customer consumes and a fixed monthly customer charge. Suburban states that the Company's monthly customer charge is designed to recover the cost of metering and billing only. According to Suburban, a relatively small proportion of its fixed costs are allocated to the low fixed monthly charge, with the remaining fixed costs recovered through the higher variable usage component. Suburban explains its ability to recover its fixed distribution service costs, therefore, depends largely on its actual gas sales, despite the fact that the Company's distribution costs are essentially fixed regardless of how much gas is sold.

{¶ 19} Suburban emphasizes its current rate design is primarily based on volumes delivered to customers during the test year. As a result, unpredictable weather and temperature variations, in particular more frequent warmer than normal winters, do not allow the Company to attain the delivered volumes experienced during the test year in the last base rate proceeding, despite strong growth in the number of customers served. Suburban also states approximately 98 percent of the Company's customers are heat-sensitive residential and small commercial customers. The Company notes the decline in volumes delivered to customers exposes Suburban to the substantial risk of depleted revenues which do not allow Suburban to recover maintenance costs, working capital, and investment capital necessary to ensure high quality and safe natural gas service, and hinders Suburban's opportunity to earn the rate of return approved by the Commission in the Company's base rate proceeding. Suburban concludes that a SFV rate design, which has been adopted by the Commission for several other natural gas companies over the last decade, would enable the Company to recover its fixed costs and support energy conservation by its customers.

{¶ 20} As part of the application, Suburban also requests 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 (PIPP) customers, and 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 proposes to submit the Rider EEP charge for Commission approval within four months after approval of the application in this proceeding. Suburban requests approval to implement the alternative rate plan by October 1, 2017, in order to ensure that customers receive the benefit of the reduced volumetric charge during the 2017-2018 winter heating season.

{¶ 21} To institute the proposed SFV rate design, Suburban would bifurcate the general service rate schedule into two groups: residential and small commercial customers,

Small General Service (SGS), using less than 300 thousand cubic feet (Mcf) annually; and large commercial and industrial customers, Large General Service (LGS), using 300 Mcf or more annually. As proposed in the application, Suburban's current and proposed customer and volumetric charges are as follows:

	Current customer charge	Proposed Year 1 customer charge	Proposed Year 2 customer charge		Current volumetric charge (Mcf)	Proposed Year 1 volumetric charge (Mcf)	Proposed Year 2 volumetric charge (Mcf)
SGS	\$9.18	\$19.50	\$29.81		\$2.840290	\$1.41937371	\$0.00
LGS	\$9.18	\$79.59	\$150.00		\$2.840290	\$2.33622840	\$1.83216680

D. Summary of the Staff Report

{¶ 22} Based on Staff's review of the application and analysis of Suburban's proposed rate design, Staff raises several concerns. Staff determined that while the Company experienced declining sales on a per customer basis, Suburban has experienced growth in the number of distribution customers on a total company basis and expects continued growth in the foreseeable future. In fact, Staff states that strong customer growth has allowed Suburban to increase sales on a total company basis when compared to sales as reflected in the Company's last base rate case. *Rate Case, Opinion and Order* (Mar. 19, 2008). Consistent with R.C. 4929.05, Staff opposes, as the basis of new rates, the Company's use of any level of revenue above that authorized in the Company's last base distribution rate case. However, Staff recognizes that, under Suburban's current rate design, the Company's ability to collect revenue is vulnerable to weather volatility and customer conservation. Staff agrees that the Company's request to initiate a revenue decoupling mechanism, specifically SFV, should stabilize revenue and eliminate the Company's disincentive to promote energy efficiency.

{¶ 23} Therefore, based on Staff's investigation and analysis, Staff makes four recommendations.

- (a) Staff recommends that Suburban's application be denied as filed.
- (b) Staff recommends that Suburban's application for an alternative rate plan be modified, to redesign the rates to be based on the Company's 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 as reflected in Att. 1 to the Staff Report.
- (c) Staff recommends that Suburban's request to initiate an EEP pilot be approved without shared savings.
- (d) Staff recommends that as a condition of authorizing the SFV rate design, Suburban should be required to file a base rate case by no later than June 1, 2019.

{¶ 24} Based on Staff's recommendations, Suburban's proposed customer and volumetric charges would be as follows:

	Current customer charge	Proposed Year 1 customer charge	Proposed Year 2 customer charge		Current volumetric charge (Mcf)	Proposed Year 1 volumetric charge (Mcf)	Proposed Year 2 volumetric charge (Mcf)
SGS	\$9.18	\$19.30	\$29.42		\$2.840290	\$1.41996333	\$0.00
LGS	\$9.18	\$79.59	\$150.00		\$2.840290	\$2.30910463	\$1.77791925

E. Summary of Objections to the Staff Report and the Application

{¶ 25} As previously noted, on October 11, 2017, Suburban filed its objections to the Staff Report. In its objections, Suburban states to resolve this matter, Suburban accepts Staff's modification to implement the SFV rate design based upon 2007 test year billing determinants and base revenues, as established in the Company's last rate case and the other recommendations, with two exceptions. Suburban also attached revised tariffs, as modified by Staff's recommendations, and as further amended by the Company in its objections.

{¶ 26} Suburban objects to Staff's recommendation to require the Company to file a base rate case, pursuant to R.C. 4909.18, by June 1, 2019. Suburban states that since the Staff Report was filed, four months have passed and more time will pass before the Commission rules on the pending application and Suburban implements the SFV rate design. On that basis, Suburban requests that it be afforded at least two full years after the Company has implemented the SFV rate design to file a rate case, until December 31, 2019. Suburban notes that it is authorized to state that Staff has no objection to this request.

{¶ 27} Suburban also objects to the Staff Report's failure to recommend an effective date for the revised and new tariffs to implement the SFV rate design proposed in the application, as amended by the Staff Report. Emphasizing that the Company requested implementation of the alternative rate plan by October 1, 2017, Suburban again stresses the importance of implementing the rate design as soon as possible for the 2017-2018 winter heating season. As such, Suburban requests that the alternative rate plan become effective for all services rendered on or after November 1, 2017, and on November 1, 2018, for year two of the alternative rate plan. Again, Suburban notes that Staff has no objection to this proposal.

{¶ 28} On October 26, 2017, Suburban filed revised tariffs and a revised customer notice following consultation with Staff. Suburban notes that the revised tariffs reflect the application and the Staff Report, as modified, and would establish, on a bills rendered basis, November 10, 2017, as the effective date of the first year of the alternative rate plan and

November 10, 2018, as the effective date of the second year. Suburban also notes that the revised customer notice would be used to notify all affected customers of the new rate design via a bill insert within 30 days of the effective date of the tariffs.

{¶ 29} On October 27, 2017, Staff filed an update to the Staff Report. After reviewing the revised tariffs filed on October 26, 2017, Staff concludes that the tariffs comport with Staff's recommendations and recommends that the Commission approve the tariffs to be effective on a bills rendered basis.

III. COMMISSION'S DISCUSSION AND CONCLUSIONS

{¶ 30} Suburban's application, as modified pursuant to Staff's recommendations, complies with the requirements of R.C. 4929.05, 4929.051, and 4909.18, for an alternative rate plan, not for an increase in rates. The proposed rates, as modified, are based on the billing determinants and revenue requirement authorized by the Commission in Suburban's most recent rate case proceeding and the application proposes the initiation of an energy efficiency pilot program for the Company's high-use PIPP-Plus customers. *Rate Case*, Case No. 07-689-GA-AIR, Opinion and Order (Mar. 19, 2008). Accordingly, the Commission finds that the application is not for an increase in rates.

{¶ 31} Suburban's application sets forth Suburban's policies and procedures regarding its regulated services and goods, and all services and goods are offered to all similarly situated consumers under comparable terms and conditions. Suburban has set forth sufficient evidence of non-discriminatory practices pursuant to its present operations and in regard to the proposed alternative rate plan and EEP pilot. Accordingly, the Commission finds Suburban's application is in compliance with R.C. 4905.35 and substantially in compliance with R.C. 4929.02, and is expected to remain in substantial compliance with R.C. 4929.02 with the implementation of the alternative rate plan.

{¶ 32} The Commission notes that the institution of a SFV rate design and the proposed EEP pilot promote the state policies set forth in R.C. 4929.02 (A)(1) and (12), to

promote the availability of adequate, reliable, and reasonably priced natural gas services and goods to consumers and to promote the alignment of natural gas company interests with consumer interest in energy efficiency and energy conservation. Accordingly, the Commission finds Suburban's application complies with the requirements of R.C. 4905.35 and 4929.02, and, therefore, is in compliance with the requirements of R.C. 4929.05(A)(1) and (2).

{¶ 33} Based on the information provided in the application, as supplemented and amended, and as modified consistent with Staff's recommendations regarding the billing determinants and base revenues, the Commission finds Suburban's alternative rate plan to be just and reasonable pursuant to R.C. 4929.05(A)(3). Therefore, Suburban's alternative rate plan application, as modified by this Finding and Order, should be approved. Accordingly, the Commission finds that a hearing on Suburban's application is not necessary.

{¶ 34} In approving Suburban's transition to a SFV rate design, the Commission notes that, historically, natural gas rate design incorporated a modest customer charge that only covered a portion of a company's fixed costs, while other fixed charges were collected through a volumetric rate that added to the cost of the natural gas itself. That rate structure, while not truly cost-reflective, provided the company an opportunity to recover its revenue requirement as long as gas consumption was at or above the level upon which the rates were based. However, as a result of increased conservation efforts by customers, decreased sales have impacted the financial stability of Suburban and other natural gas companies.

{¶ 35} Consistent with our prior decisions, we again find it appropriate to adopt a rate design that decouples the Company's recovery of its fixed distribution costs from the amount of gas that customers actually consume. As we have previously recognized, a SFV rate design provides significant customer benefits, such as more stable customer bills throughout the entire year, better price signals to consumers, and more equitable cost allocations among customers, as well as greater conservation by diminishing the utility's

incentive to increase its gas sales. *In re Duke Energy Ohio, Inc.*, Case No. 07-589-GA-AIR, et al., Opinion and Order (May 28, 2008); *In re The East Ohio Gas Co. d/b/a Dominion East Ohio*, Case No. 07-829-GA-AIR, et al., Opinion and Order (Oct. 15, 2008); *In re Columbia Gas of Ohio, Inc.*, Case No. 08-72-GA-AIR, et al., Opinion and Order (Dec. 3, 2008); *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 07-1080-GA-AIR, et al., Opinion and Order (Jan. 7, 2009); *In re Eastern Natural Gas Co. and Pike Natural Gas Co.*, Case No. 08-940-GA-ALT, et al., Opinion and Order (June 16, 2010).

{¶ 36} In light of the fact that it has been a decade since Suburban's last distribution rate case, Suburban should, as Staff recommends, be required to file a base rate case in the not too distant future. The Commission accepts Suburban's request to extend the date by which the Company must file a rate case to December 31, 2019, to allow for the implementation of the approved SFV rate design and the EEP Rider for approximately two years before the case is due. The Commission also approves Suburban's request that the alternative rate plan become effective for all bills rendered on or after November 10, 2017, for the first year of the plan, and on November 10, 2018, for year two.

IV. FINDINGS OF FACTS AND CONCLUSIONS OF LAW

{¶ 37} Suburban is a natural gas company, as defined by R.C. 4905.03, and a public utility, as defined by R.C. 4905.02.

{¶ 38} On April 25, 2017, as supplemented on May 15, 2017, and amended on July 28, 2017, Suburban filed an alternative rate plan application, pursuant to R.C. 4929.05, 4929.051, and 4909.18, seeking to initiate a revenue decoupling mechanism to facilitate a SFV rate design and to initiate an EEP pilot to weatherize the residences of the Company's high-usage PIPP customers, including an associated cost recovery mechanism, Rider EEP.

{¶ 39} By Entry issued May 23, 2017, the attorney examiner established a procedural schedule for the consideration of Suburban's application. The procedural schedule was revised pursuant to Entries issued on July 26, 2017, and August 30, 2017.

{¶ 40} By Entry issued on June 21, 2017, OCC's motion to intervene was granted.

{¶ 41} The Staff Report was filed on September 20, 2017. Suburban filed objections to the Staff Report on October 11, 2017. On October 26, 2017, Suburban filed revised tariffs and a revised customer notice. Staff filed a supplement to the Staff Report on October 27, 2017.

{¶ 42} The Commission finds that Suburban's application, as supplemented and amended, and as modified in accordance with the recommendations of Staff, is in compliance with Ohio Adm.Code 4901:1-19-06 and is not for an increase in rates.

{¶ 43} The Commission finds that Suburban's alternative rate plan application, as supplemented and amended, and as modified in this Order, meets the requirements of R.C. 4929.05, 4929.051, and 4909.18 and should be approved.

V. ORDER

{¶ 44} It is, therefore,

{¶ 45} ORDERED, That OCC's interlocutory appeal be denied as moot. It is, further,

{¶ 46} ORDERED, That Suburban's application to institute an alternative rate plan, as modified in this Finding and Order, be approved. It is, further,

{¶ 47} ORDERED, That Suburban work with Staff and other interested stakeholders to establish an EEP pilot and proposed Rider EEP rate application to be filed by March 1, 2018, for the Commission's consideration. It is, further,

{¶ 48} ORDERED, That Suburban be authorized to file tariffs, in final form, consistent with this Finding and Order. Suburban shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 49} ORDERED, That the new tariffs become effective for all bills rendered on or after November 10, 2017, for the first year of the alternative rate plan, and on November 10, 2018, for year two of the plan. It is, further,

{¶ 50} ORDERED, That Suburban shall notify all affected customers via a bill message or bill insert within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

{¶ 51} ORDERED, That nothing in this Finding and Order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 52} ORDERED, That a copy of this Finding and Order be served upon all parties and interested persons of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

A Z W

Asim Z. Haque, Chairman

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