

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission’s)
Investigation of the Financial Impact of the)
Tax Cuts and Jobs Act of 2017 on Ohio) Case No. 18-47-AU-COI
Regulated Companies.)

**INITIAL COMMENTS OF NORTHEAST OHIO NATURAL GAS CORPORATION,
ORWELL NATURAL GAS COMPANY, BRAINARD GAS CORPORATION, AND
SPELMAN PIPELINE HOLDINGS, LLC**

Northeast Ohio Natural Gas Corporation (“Northeast”), Orwell Natural Gas Company (“Orwell”), Brainard Gas Corporation (“Brainard”), and Spelman Pipeline Holdings, LLC (“Spelman”) (collectively, the “Companies”) respectfully submit these comments pursuant to the Public Utilities Commission of Ohio’s (“Commission”) January 10, 2018 Entry. In its Entry, the Commission invited jurisdictional rate-regulated utilities and other interested parties to file comments regarding components of utility rates that the Commission will need to reconcile with The Tax Cuts and Jobs Act of 2017 (TCJA”) and the process and mechanics for how the Commission should do so.

The Commission should, in its reconciliation of utility rates, consider the unique characteristics of each individual utility much like it did in response to the Tax Reform Act of 1986. *See In re the Commission’s Investigation of the Financial Impact of the tax Reform Bill of 1986 on Regulated Ohio Utility Companies*, Case No. 87-831-AU-COI, 1987 Ohio PUCO Lexis 25 (“1987 COI Case”). In the *1987 COI Case*, the Commission staff investigated the financial information of a number of utilities to determine if customers of these utilities were entitled to a rate reduction due to the Tax Reform Act of 1986. *1987 COI Case*, 1987 Ohio PUCO Lexis 25 at

*2-4, Finding and Order (December 23, 1987). Based on this information, the Commission staff recommended that a number of utilities be exempt from a rate reduction. Staff considered a number of factors when examining the utilities' financial information, including but not limited to: (1) the financial position of the utilities based on reported earnings; (2) the Staff's desire to maintain continuity in terms of quality of service and level of rates; and (3) the projected return of the utilities in comparison to their last rate case filing. *Id.* The Commission ultimately approved of the Staff's findings in the *1987 COI Case. Id.* at *4-5.

Based on the approach which the Commission adopted under similar federal tax-reduction conditions during its 1987 proceeding and the Companies' existing financial results and positions, the Companies submit that the Commission should consider the Companies exempt from any rate reductions due to the TCJA. After accounting for the 21% federal income tax rate, the Companies' estimated returns on equity ("ROEs") are approximately 5.5% for Brainard, *negative* 1.3% for Orwell, and 7.4% for Northeast when calculated based on 2017 income.¹ These levels of returns on equity cannot be considered excessive in any manner.² To the contrary, it could be argued that these returns are unreasonably low. Orwell's estimated ROE is negative after accounting for the TCJA. In addition, Orwell's net income was negative for 2016 and 2017. Further, Northeast's estimated return on equity of approximately 7.4% is significantly lower than the 9.99% ROE which was used to establish Northeast's current base distribution rates. *See In the Matter of the Application of Northeast Ohio Natural Gas Corp. for*

¹ These initial projections are submitted solely for purposes of this proceeding and should not be used as evidence against the Companies in subsequent proceeding.

² Although the Companies have not submitted a projected ROE for Spelman in these comments, it should be noted that Spelman is a very small intrastate pipeline in comparison to other Commission regulated pipeline companies. For example, Spelman's intrastate gross earnings for 2016 were only \$48,125. <https://www.puco.ohio.gov/emplibrary/files/docketing/AnnualReports/2016/Pipeline%20Companies/Spelman%20Pipeline%20Holdings%20LLC%2089-9021%202016.pdf>

an Increase in its Rates and Charges For Natural Gas Service, Case No. 03-2170-GA-AIR, Opinion and Order at 8 and 12 (November 10, 2004) (“*2003 Rate Case*”).³

This information demonstrates that the TCJA does not result in an earnings windfall for the Companies and does not significantly impact the financial positions of the Companies. The Companies fully understand and appreciate the Commission’s goal in this investigation and believe that the Commission should consider the unique financial status and characteristics of each particular utility before taking action. Such an approach is especially important for small natural gas utilities like the Companies. As it did in the *1987 COI Case*, the Commission should weigh any alleged benefit of a rate reduction against the goal of “maintain[ing] continuity in terms of quality of service and level of rates.”

Respectfully submitted by
NORTHEAST OHIO NATURAL GAS CORPORATION,
ORWELL NATURAL GAS COMPANY,
BRAINARD GAS CORPORATION, AND
SPELMAN PIPELINE HOLDINGS, LLC

/s/ Marty K. Whelan

Marty K. Whelan, President
5640 Lancaster-Newark Road, NE
Pleasantville, Ohio 43148
mwhelan@egas.net

³ Northeast’s capital structure was 100% equity when its rates were established in the 2003 Rate Case. As such, the rate of return was based solely on Northeast’s ROE of 9.99%. *See 2003 Rate Case*, Stipulation and Recommendation at Schedule A-1 (October 22, 2004) and Applicant’s Objections to the Staff Report of Investigation at 5-6 (August 27, 2004).

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Summary: Comments of Northeast Ohio Natural Gas Corporation, Orwell Natural Gas Company, Brainard Gas Corporation, and Spelman Pipeline Holdings, LLC electronically filed by Teresa Orahod on behalf of Marty K. Whelan