BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan.	)))	Case No. 18-49-GA-ALT
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for an Increase in Gas Rates.	)))	Case No. 18-298-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan.	)))	Case No. 18-299-GA-ALT

DIRECT TESTIMONY OF
DAVID C. RINEBOLT
ON BEHALF OF OHIO PARTNERS FOR AFFORDABLE ENERGY

November 7, 2018

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is David C. Rinebolt. My business address is PO Box 1793, Findlay, Ohio 45839-1793. I am the Director of Special Projects for Ohio Partners for Affordable Energy ("OPAE") and I appear in this case as a witness on its behalf.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS FOR YOUR TESTIMONY IN THIS PROCEEDING.

A. My career has covered a broad spectrum of activities in human services programs and the energy industry including policy analysis and program management at both the federal and state levels. I served as Deputy Director of the State of Minnesota Washington Office from 1983 through 1985, focusing on human services, energy and environmental issues. Between 1985 and 1988 I served as Senior Research Associate for Energy with the Coalition of Northeastern Governors Policy Research Center, focusing on low income energy assistance programs, new energy technologies, and wholesale markets and regulation. I was Director of Research for the National Wood Energy Association and Counsel to the Solar Energy Industries Association from 1988 through 1990, working on research and development, regulatory issues, and siting and permitting of renewable energy projects. I also served as Legislative Director for Representative Collin Peterson of Minnesota from 1991 through 1993, and was Director of Programs for the National Association of State Energy Officials from 1994 through 1996. I became executive director of Ohio Partners for Affordable Energy (OPAE) in 1996. After leaving OPAE in at the end of June 2016, I served

as the Program Manager for the Weatherization Assistance Program at the U.S. Department of Energy. I rejoined OPAE in June 2018.

I have a Bachelor of Liberal Studies from Bowling Green State University and a Juris Doctor degree from the Columbus School of Law at The Catholic University of America (1981). My professional career has focused on policy advocacy, the development, operation and funding of demand side management (DSM) programs – particularly low income energy assistance programs -- and renewable energy development programs, and utility regulation, including rate design, cost of service, forecasting, and related issues. These concentrations have required a broad-based knowledge of the energy and utility sectors of the U.S. economy and related regulatory regimes.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE OHIO PUBLIC UTILITIES COMMISSION ("PUCO" OR "COMMISSION")?

A. Yes. I testified on behalf Ohio Partners for Affordable Energy in litigation involving Duke Energy Ohio, Case No. 11-3549-EL-SSO, The Dayton Power and Light Company, Case Nos. 12-426-EL-SSO, et.al., Case No. 14-1297-EL-SSO which involved FirstEnergy distribution companies, and Case No. 15-1046-EL-USF, a proceeding to set the Universal Service Fund Rider.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to demonstrate the inequity and negative impacts of the proposed increase in the customer charge and the Straight Fixed Variable (SFV) rate design; to propose the use of decoupling as an approach to ensure Vectren recovery of its revenue requirement; to encourage the Commission to continue the current approach to funding and managing Vectren's DSM programs; to support an increase in funding for Vectren's low income weatherization program; and, to oppose any move relating to an exit of the merchant function or to foist additional costs onto customers taking service under the Standard Choice Offer (SCO).

Straight Fixed Variable Rate Design

Q. PLEASE DESCRIBE THE STRAIGHT FIXED VARIABLE RATE DESIGN.

A. Straight Fixed Variable (SFV) rate design is a particular approach to the development of rates based on the idea that fixed costs should be recovered through fixed charges, while variable costs are recovered through variable charges such as the charge for natural gas in $-per-MCF. Ohio regulators have tended to define fixed costs broadly. The SFV rate design is a simplistic form of decoupling, meaning funds are recovered irrespective of customer usage.

The SFV concept as applied in Ohio is based on classifying variable costs as 'fixed'. The only costs that are truly fixed are interest and depreciation. All other

costs – shareholder return, income taxes, labor, and revenue-sensitive costs -- actually vary from month to month. The premise behind the SFV is incorrect.

Q. PLEASE DESCRIBE THE IMPACTS OF THE STRAIGHT FIXED VARIABLE RATE DESIGN ON THE USE OF UTILITY SERVICE BY CUSTOMERS.

A. Vectren proposes increasing the current fixed customer charge from $18.37 to $35.41, a 92.75% increase. Staff proposes an increase to $30.95, a 68.48% increase. Both increases would exacerbate the inequities inherent in an SFV rate design. An SFV significantly increases bills for low use customers, as evidenced by the Typical Bill Comparison in the Staff Report in this case. (See Pages 136 – 138). Low income customers as a group tend to use less gas than the average customer. Vectren's filing indicates that 39% of its residential customers are low income, defined as households with incomes under $35,000. The average low income customer, according to the Vectren market study, uses 9% less than non-low income users. There can be no doubt that the SFV harms low use customers, including most poor households. This exacerbates the heat or eat dilemma faced by the most vulnerable families.

The SFV proposed by Vectren would increase bills for the average low income customer living in a single family home by 13.63%, with the monthly increases as much as 23.32%. A household living in single family home that has an income above $35,000/year will see an average annual increase of 13.03%. The Staff

alternative moderates these increases somewhat, but cannot correct the inequities inherent in the SFV rate design. This effectively punishes low use customers with higher bills per one hundred cubic feet (CCF), while high use customers pay lower prices per CCF. It is inequitable because bills are no longer proportional to the benefits received by the customer. The SFV rate design does not recognize the variations in demand customers impose on the distribution system. This distorts the price signal because high-demand and low-demand customers are paying the same amount of fixed costs though the demand they impose on the system is different.

SFV sends a price signal that promotes additional consumption. The SFV also serves as a disincentive to conservation because investments to reduce usage generate a lower return on investment. A simple example makes this clear:

Customer A has a monthly bill of $100.00. Assume this customer is at the break-even point; the bill does not change as a result of the increase in the customer charge. The average reduction in usage resulting from the Vectren Low Income Weatherization program is 22%. This example assumes that all components of the bill other than the customer charge are volumetric. When the customer charge is $18.37, the volumetric component of the bill is $81.63. When the customer charge is $35.41, the volumetric component of the bill is $64.59. Under the lower customer charge, the savings resulting from the weatherization is $17.95. Under the higher customer charge, the savings from weatherization is

$14.21, roughly 21% less. If the customer charge was $10, a charge that was typical prior to the imposition of the SFV rate design, the savings would be $19.80. Over the 18 year average life of the weatherization measures installed under the Vectren Low Income Weatherization Program, the customer would save well over $1,000 more if the customer charge was set at a level to cover customer service and billing. The SFV rate design reduces the overall cost-effectiveness of any efficiency program. Some measures are no longer cost effective.

SFV appears to be a solution in search of a problem. For over a century, utilities have prospered while charging volumetric rates. They have recovered a reasonable return on investment and, as is the situation here, when the recovery is inadequate to cover costs the utility files a rate case. It is true that average customer usage on the Vectren system has significantly declined, but the Company has not filed a rate case for 11 years, so it was clearly recovering adequately. Other rate design approaches can provide stable revenues without the negative aspects of an SFV.

Q. WILL ANY OTHER ASPECT OF THE VECTREN PROPOSAL EXACERBATE THE IMPACT OF AN INCREASED CUSTOMER CHARGE?

A. Vectren has proposed a new Distribution Replacement Rider (DRR). It is a fixed charge. Vetren proposes to cap the charge at $2.50 from September 1, 2019—

August 31, 2020; $5.00 from September 1, 2020—August 31, 2021; $7.50 from September 1, 2021—August 31, 2022; $10.00 from September 1, 2022—August 31, 2023; $12.00 from September 1, 2023—August 31, 2024; and, $13.75 from September 1, 2024—August 31, 2025. Assuming that Vectren's spending on infrastructure equals the cap each year, the total monthly fixed charge paid by customers as proposed by Vectren would rise from $37.91 from September 1, 2019—August 31, 2020, and ultimately reach $49.16 per month in September 2024. If the Staff's proposed customer charge and DRR are implemented, the total fixed charge would be slightly less each month, but would top out at $42.95 in September 2024.

This further punishes low use and low income households and potentially pushes more customers off the system. It also increases the disincentive to invest in conservation. Finally, it exacerbates the overall inequity of the rate structure and places the interest of the utility in guaranteeing recovery of the revenue requirement and increasing rate base through the DRR over the interest of customers who will no longer have control over the vast majority of their bill. Ohio has promoted competition and electric smart meters because they give customers more control over their energy usage. The SFV and other fixed charges such as the DRR counteract these innovations and give customers far less control over their usage.

Q. IF THE COMMISSION CHOOSES TO RETAIN THE SFV RATE DESIGN SHOULD IT BE EXTENDED TO SMALL GENERAL SERVICE CUSTOMERS?

A. No. Commercial customers are not as homogeneous as residential customers so a fixed rate is even less justifiable for these customers. Some commercial customers put very small levels of demand on the system, while others have a relatively large demand. Treating all these customers the same would be inequitable. Just because commercial customers are grouped in the same class for purposes of determining the cost of service, the wide variations in usage patterns does not justify a similar grouping for the purposes of rate design.

DECOUPLING

Q. ARE THERE ALTERNATIVE RATE DESIGNS THAT CAN ENSURE RECOVERY OF THE REVENUE REQUIREMENT FOR THE UTILITY?

A Decoupling is a more sophisticated, though simple to apply, approach to ensuring utilities recover their revenue requirement regardless of throughput. Under decoupling, a utility's revenue requirement is set through a rate case. On a regular basis – with Ohio's electric utilities it is an annual true-up like many other riders – the utility's authorized revenue requirement is compared to the actual recovery. A rider is used to adjust the recovery to the revenue requirement. The process is symmetrical; if a utility under-recovers, the rider is

set to increase revenue the appropriate amount, while if the utility has over-recovered, the rider is negative so it returns the excess revenue to customers.

Depending on the design of the rider, there may be some risk associated with recovery. A good example is weather-risk. In some decoupling schemes, utilities retain the risk for variations in weather. For a gas company, this means that in a warm winter, all other things being equal, it would under-recover. However, given the impacts of climate change and inherent changes in weather, it is reasonable to insulate a natural gas utility from weather risk. The same is true of economic risk. The Dayton area has been buffeted by a significant reduction in its manufacturing base accompanied by a reduction in energy usage. However, a decoupling mechanism ensures an opportunity to earn the approved level of distribution revenue so long as the utility continues to run its business efficiently. To the extent the utility can increase efficiency and reduce its costs, it can increase earnings, consistent with traditional regulatory principles.

Q. DOES DECOUPLING AVOID THE NEGATIVE ASPECTS OF STRAIGHT FIXED VARIABLE?

A. Decoupling is a dynamic approach that better aligns the interests of the utility and its customers. Utilities are ensured of recovery of the revenue requirement, while customers will see their rates adjusted in a manner that makes certain they do not overpay for the service.

A key benefit of decoupling is that it virtually eliminates the disincentive for conservation on the part of the utility. The significant decline in average customer usage, which would have a significant impact on a utility's revenue recovery, is mitigated by the decoupling rider. Actions by individual households to become more energy efficient remain incentivized because any revenue shortfall is made up by a fee placed on all users of the system. This is an equitable outcome because it allows those that invest in energy savings and thus reduce their impact on system costs to see a clear price signal to encourage those investments. It also is equitable because it allows the utility to recover its revenue requirement and nothing more. In addition, decoupling covers more than simply the impact of customer conservation because it looks at the entirety of the revenue requirement, not just a few components.

DEMAND SIDE MANAGEMENT PROGRAMS

Q. DO YOU SUPPORT THE COLLABORATIVE WHICH OVERSEES AND APPROVES CHANGES IN VECTREN'S DEMAND SIDE MANAGEMENT PORTFOLIO?

A. I do support the use of a collaborative to oversee and approve changes in Vectren's Demand Side Manage (DSM) Program. I participated in the collaborative for many years. The existing collaborative meets regularly and

reviews program operation. Participants also are free to suggest program improvements and approve the transfer of funding among programs based on changed circumstances, including the success or failure of the program. If a program is successful, the collaborative can recommend an increase in funding, which is included in the Energy Efficiency Funding Rider (EEFR) when approved by the Commission.

Efficient technologies are constantly evolving as is the development of the delivery infrastructure. The Vectren DSM Program has promoted this market transformation. The collaborative is an effective vehicle to review these changes and vet alternatives that improve program performance and cost-effectiveness.

Q. WHAT IS THE BEST APPROACH TO FUNDING DSM PROGRAMS?

A. Ohio has traditionally used a combination of funding with part of the program included in base rates and the remainder recovered through a rider. I view this as an optimal approach. Unlike electric utilities, where DSM portfolios are approved on a three-year cycle consistent with the statute, the approach used with natural gas utilities reflects a more traditional approach. Funding programs, particularly low income programs, in base rates ensures continuity in funding; interruptions in funding have a negative impact on low income programs that require highly trained personnel to deliver, and on trade allies that deliver many of the programs that serve market rate customers. When the collaborative

approves changes in the DSM portfolio that require more or less funding, the Commission reviews those programs through a rider proceeding. Otherwise, the Commission is not burdened with reviewing the programs unless there are problems identified by the collaborative.

Q. SHOULD THERE BE ADDITIONAL FUNDING FOR LOW INCOME WEATHERIZATION PROGRAMS?

A. Yes, is time to increase funding for low income weatherization funding available to Vectren consumers. I recommend an increase of $1.5 million per year for Vectren Weatherization Program I (VWP I).

The Vectren service territory continues to have a high percentage of low income customers. All of the current programs -- VWP I and Vectren Weatherization Program II (VWP II) -- have operated at the same funding level since 2007. VWP I, which serves customers with incomes below 200% of the federal poverty line (FPL) can readily deliver additional services. The program is generally combined with the Home Weatherization Assistance Program and the Smart Energy Community Program funded by Dayton Power and Light Company. The combination of the programs, also known as braiding, is considered a best practice for low income programs. Combining programs has a synergistic impact, yielding savings beyond what an individual program can provide. The nonprofit agencies in the Vectren service territory have the capacity to perform

this service and there is more than enough customer need to justify expansion of the program, which improves payment performance, reduces bad debt, and stabilizes housing stock. Recent evaluations by the federal government also indicate that comprehensive weatherization has a positive impact on the health of the families whose homes receive service in the form of fewer illnesses, fewer doctor visits, and fewer missed days of work. The value of these health improvements is estimated to exceed $14,000 per unit over the life of the measures.

EXITING THE MERCHANT FUNCTION

Q. PLEASE EXPLAIN WHAT CONSTITUTES AN EXIT FROM THE MERCHANT FUNCTION?

A. Ohioans can currently purchase natural gas at retail in three different ways: 1) they can choose to purchase from a marketer that has been certified by the Public Utilities Commission of Ohio (PUCO); 2) they can choose to purchase through a governmental aggregation; or, 3) they can choose to purchase natural gas through the Standard Choice Offer (SCO), where the price is established through an auction conducted by the local distribution company (LDC) and overseen by the Commission. An exit from the merchant function would eliminate the right of customers to choose the SCO. In its purest form, the SCO or any regulated commodity service is completely eliminated when there is an

exit from the merchant function, but in practice every utility continues to offer some form of standard offer service. If a utility has exited the merchant function, this service may only be available to new customers for a limited period of time, to payment-troubled customers, or to any other customers that are not eligible to choose a marketer or purchase through a governmental aggregation.

Ohio has chosen to offer an SCO, which provides customers the option of purchasing commodity service at a rate set by an auction. Essentially, customers choosing the SCO are aggregated and the right to serve them is bid out in the market in a transparent fashion overseen from the PUCO. Customers that are ineligible to choose a supplier – customers with a disconnection notice or PIPP Plus customers – also receive the SCO rate. In addition, new customers are placed on the SCO for at least two months but can enroll with a marketer, join a governmental aggregation, or choose to remain on the SCO. There are variations on this model among the Ohio utilities, but this is the approach used in the Vectren service territory.

Q. WHAT TYPES OF NEGATIVE IMPACTS WOULD EXITING THE MERCHANT FUNCTION HAVE ON CUSTOMERS?

A. Ohio's regulatory framework encourages competition among supply options. Exiting the merchant function would eliminate one competitive option for CHOICE-eligible customers. The SCO is developed through a transparent

process, so customers can easily see how the rate was developed. It is readily understandable, a simple adder to the monthly NYMEX closing price. And, because it does not include marketing costs, it tends to be one of the lower variable rates available to customers; I consider it a 'no frills' offer. The SCO also offers customers that do not have access to a governmental aggregation a supply option that provides the benefits of aggregation, which allows small customers to join together so they have more leverage in the market. In addition, energy services are essential to modern life, unlike a television for example. If you want a television, you need to shop to buy it. However, customers that are intimidated by the idea of choice, including elderly customers and those with mental impairments that make it difficult to shop – vulnerable customers -- can choose not to choose and continue to receive essential natural gas service at a transparent market price. Finally, anecdotal information gleaned from intake workers at OPAE-member agencies indicates that door-to-door marketers often target low income neighborhoods and the elderly. The SCO provides a refuge to customers that find competitive options difficult to understand.

Q. SHOULD A RIDER BE CREATED TO RECOVER THE COSTS OF PROVIDING THE STANDARD CHOICE OFFER UPON CUSTOMERS TAKING SERVICE UNDER THE STANDARD CHOICE OFFER?

A. No. Even if Choice-eligible customers were denied access to the SCO, the utility would still need some sort of default service. It is an inherent component of

regulated distribution service. The costs of offering the SCO to ratepayers are minimal and would not go away. And, all customers benefit from an SCO. It provides a benchmark price that ensures that other market prices are reasonable. It is available to all customers. Any customer could become payment-troubled or need an affordable rate program such as PIPP Plus, and there are always new customers that need to establish service on the SCO before they can shop.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, but I reserve the right to supplement the testimony as necessary.

CERTIFICATE OF SERVICE

A copy of the foregoing Testimony of David C. Rinebolt will be served electronically by the Commission's Docketing Division upon the persons identified below who are electronically subscribed to these cases on this 7th day of November, 2018.

/s/Colleen Mooney
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Colleen L. Mooney

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Summary: Testimony of David C. Rinebolt electronically filed by Colleen L Mooney on behalf of Ohio Partners for Affordable Energy