

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Northeast Ohio)	
Natural Gas Corp. for an Increase in Gas)	Case No. 18-1720-GA-AIR
Distribution Rates)	
)	
In the Matter of the Application of Northeast Ohio)	Case No. 18-1721-GA-ATA
Natural Gas Corp. for Tariff Approval)	
)	
In the Matter of the Application of Northeast Ohio)	Case No. 18-1722-GA-ALT
Natural Gas Corp. for Approval of Alternative)	
Regulation)	

**DIRECT TESTIMONY
OF
KEVIN DEGENSTEIN**

**ON BEHALF OF
NORTHEAST OHIO NATURAL GAS CORP.**

<u> X </u>	Management Policies, Practices, and Organization
<u> </u>	Operating Income
<u> </u>	Rate Base
<u> </u>	Allocations
<u> </u>	Rate of Return
<u> X </u>	Rates and Tariffs
<u> X </u>	Other

January 11, 2019

TABLE OF CONTENTS

	Page
I. INTRODUCTION BACKGROUND AND EXPERIENCE	3
II. PURPOSE OF TESTIMONY	6
III. INTRODUCTION OF OTHER WITNESSES	6
IV. OVERVIEW OF APPLICATION	7
A. Rates need to be adjusted to provide a reasonable return.....	8
B. Rate design changes are necessary and appropriate.....	14
1. An increased customer charge is needed.....	14
2. NEO proposes to consolidate rates into two rate zones.....	16
C. The bill impact from NEO's proposal is reasonable.....	17
V. RIDER IRP WILL ENHANCE SAFETY AND RELIABILITY	18

1 **I. INTRODUCTION BACKGROUND AND EXPERIENCE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kevin Degenstein, 1 First Avenue South, Great Falls, Montana
4 59403.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Hearthstone Utilities, Inc. (“Hearthstone”) as Chief Operating
7 Officer and Chief Compliance Officer. I am also President and Chief Operating
8 Officer of Northeast Ohio Natural Gas Corp. (“NEO” or “Company”).

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

10 A. I am testifying on behalf of NEO.

11 **Q. WHAT COMMUNITIES DOES NEO SERVE?**

12 A. NEO provides natural gas service to 30 counties in north, central and eastern
13 Ohio, including: Holmes; Wayne; Tuscarawas; Stark; Carroll; Harrison;
14 Guernsey; Fairfield; Hocking; Trumbull; Franklin; Washington; Lake; Geauga;
15 Ashtabula; Cuyahoga; Mahoning; Portage; Summit; Ashland; Columbiana;
16 Coshocton; Crawford; Lorain; Marion; Medina; Richland; Waterford; Wood and
17 Wyandot.

18 **Q. PLEASE BRIEFLY DESCRIBE NEO’S CURRENT BUSINESS?**

19 A. NEO provides gas service to approximately 29,200 customers. Since 2004, the
20 last rate case, NEO has invested over \$65 million in its network of gas pipelines,
21 regulator stations, metering facilities and information (IT) systems that serve
22 customers throughout Ohio; providing natural gas to underserved communities
23 and areas not served by other natural gas distribution companies.

1 **Q. HOW DO NEO’S CURRENT SYSTEMS COMPARE TO THE SYSTEMS**
2 **AS OF THE 2004 RATE CASE?**

3 A. In 2004, NEO served approximately 10,600 customers, had 691 miles of
4 distribution main, and approximately 10,950 services. Today the NEO systems
5 have approximately 29,200 customers, 1,420 miles of distribution main, and
6 approximately 29,270 services. That is an increase of 175%, 106% and 167%
7 respectively.

8 **Q. PLEASE DESCRIBE THE VARIOUS SYSTEMS NEO OPERATES.**

9 A. In 2018, NEO requested approval from the PUCO to merge Brainard Gas Corp.
10 (“BGC”), Orwell Natural Gas Company (“ONG”), Spelman Pipeline Holdings
11 LLC (“SPH”), and Northeast Ohio Natural Gas Corp. companies into one
12 remaining entity, NEO. This approval was granted on January 3, 2019.¹ As a
13 result, the NEO systems consist of many small pockets of natural gas distribution
14 main throughout north, central and eastern Ohio that are strategically positioned
15 to provide service to customers that otherwise would not have the opportunity to
16 access and use natural gas.

17 The NEO systems have approximately 330 district regulating stations,
18 pipe ranging in diameter from 1 inch to 8 inches, and operates its distribution
19 systems from 7 inches water column (0.25 psi) to 300 psi. The systems consist of
20 multiple different piping materials, including all vintages of steel, all vintages of
21 Aldyl-A, and polyethylene (“PE”).

¹ Case No. 18-1484-GA-UNC, Finding and Order dated January 3, 2019.

1 NEO sources gas supply through Tennessee Gas Transmission, Columbia
2 Gas Transmission, Dominion East Ohio, Orwell Trumbull Pipeline, Cobra
3 Pipeline, and SPH and from local production. As a result, NEO must distribute
4 both pipeline quality gas and production gas.

5 **Q. CAN YOU BRIEFLY DESCRIBE THE CURRENT ORGANIZATIONAL**
6 **STRUCTURE OF NEO?**

7 A. Yes. NEO is a direct, wholly owned subsidiary of PHC Utilities, Inc. (“PHC”).
8 PHC is a direct, wholly owned subsidiary of Hearthstone.

9 **Q. HOW LONG HAVE YOU BEEN ASSOCIATED WITH NEO?**

10 A. I have been associated with NEO for many years as Chief Operating Officer for
11 Gas Natural Inc., the former parent entity for NEO. More recently, I have served
12 on the board of directors for both NEO and PHC since 2016. I became NEO’s
13 President and Chief Operating Officer in August of 2018. My responsibilities
14 include driving strong safety performance by ensuring public and employee
15 safety, managing NEO’s operations, maintaining a strong corporate culture, and
16 ensuring we have the skilled employees required to accomplish these goals. I am
17 responsible for monitoring adherence with the Pipeline and Hazardous Material
18 Safety Administration (“PHMSA”) and the Public Utility Commission of Ohio
19 (“PUCO”) regulations while also providing service at fair and reasonable rates.

20 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND**
21 **PROFESSIONAL ASSOCIATIONS.**

22 A. I earned a B.S. degree in Civil Engineering in 1982 from North Dakota State
23 University. I worked for Nicor Gas in various positions for over 19 years,
24 beginning in 1982. From 2000-2001, I was Chief Engineer at Nicor. From 2002-

1 2006, I worked for EN Engineering, and was responsible for all gas distribution
2 design activities as well as customer contracts. In 2006, I joined Energy West,
3 Incorporated (“EWI”) as Senior Vice President of Operations. I have also served
4 as the Chief Executive Officer of EWI and the President of Energy West
5 Montana, Inc. (“EWM”). I am a licensed professional engineer in the State of
6 Illinois and the State of Montana.

7 **II. PURPOSE OF TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

9 A. I provide background information about NEO and introduce the witnesses in this
10 proceeding. My testimony also addresses several key elements of this
11 proceeding, including why a rate increase is justified, the benefits of consolidating
12 rates, system reliability and safety, customer service, and the proposed
13 infrastructure replacement program rider, Rider IRP.

14 **III. INTRODUCTION OF OTHER WITNESSES**

15 **Q. PLEASE BRIEFLY SUMMARIZE THE TESTIMONY OF THE OTHER**
16 **WITNESSES SUPPORTING THE JOINT APPLICATION.**

17 A. In addition to my testimony, NEO is providing direct testimony from four other
18 witnesses:

- 19 • Mr. Jed D. Henthorne, Vice President Finance and Administration for
20 Hearthstone. Mr. Henthorne describes the basis for the test period and the
21 adjustments needed to present a normalized test year, the components of
22 the Company’s cost of capital, the comparison of revenues at current and
23 proposed rates and the typical bill comparisons.

- 1 • Mr. Charles E. Loy is a Principal with GDS Associates, Inc. Mr. Loy
2 presents the Company’s proposed cost of service and rate design as well as
3 our proposed Infrastructure Replacement Program (“IRP”) for NEO.
- 4 • Mr. Gregory E. Scheig is a Principal with ValueScope, Inc. Mr. Scheig
5 addresses the cost of equity (also referred to as the “return on equity” or
6 “ROE”) for NEO. Based on market evidence, Mr. Scheig recommends the
7 appropriate ROE for NEO’s revenue requirement. He also shows the
8 calculation for NEO’s rate of return on rate base based on the historical
9 book value of capital and rates of return on equity and debt.
- 10 • Ms. Stephanie A. Patton is Chief Administrative Officer for NEO. Ms.
11 Patton will attest to the Company’s rational for proposing replacement of
12 its entire existing Tariff, “Rules, Regulations and Rates Governing the
13 Distribution and Transportation of Gas”, describe portions of the
14 Company’s Miscellaneous Revenues and describe the competition in the
15 Company’s service territory.

16 **IV. OVERVIEW OF APPLICATION**

17 **Q. PLEASE PROVIDE AN OVERVIEW OF THE KEY ITEMS NEO IS** 18 **ADDRESSING IN THIS FILING.**

19 A. There are three key items in this proceeding:

- 20 1. Setting an appropriate level of revenue that meets the Company’s
21 requirements along with a rate design that permits consistent collection of
22 the approved amounts and enables the Company to continue expanding the
23 availability of natural gas service to both served and unserved areas by

1 lowering connection costs while providing existing customers increased
2 support at competitive cost. The revenue requirement portion of the filing
3 is based on actual and projected 2018-2019 data normalized and adjusted
4 for known and measurable changes through June 30, 2019.

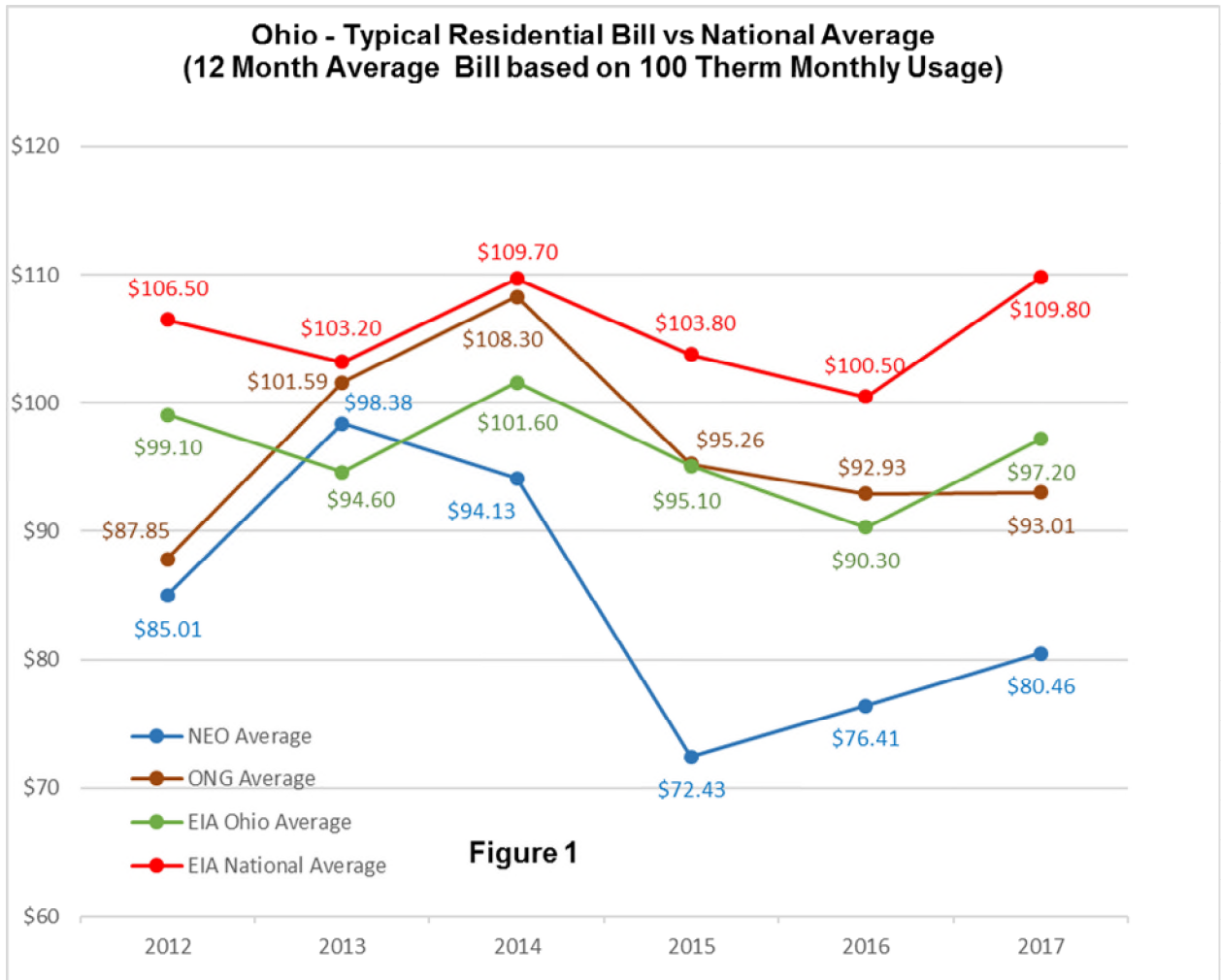
5 2. The restructuring of base rates to more closely align recovery of the fixed
6 portion of the customer's bill with the fixed costs of operating the utility

7 3. Enhancing pipeline safety and reliability by implementing an
8 infrastructure replacement mechanism to allow NEO to more rapidly
9 invest in needed replacements of distribution assets while receiving a cash
10 flow that makes it possible to sustain the ongoing program.

11 **A. Rates need to be adjusted to provide a reasonable return.**

12 **Q. WHY DID NEO INITIATE THIS PROCEEDING?**

13 A. The Commission established the existing NEO rates approximately 15 years ago.
14 Since that time, our customers benefitted from rate stability while NEO provided
15 safe and reliable service to our customers. As shown in Figure 1 below, NEO's
16 residential customers total bills have stayed well below the national average and
17 the average in Ohio.



Source: Company rate history files, EIA's U.S. Price of Natural Gas Delivered to residential customers

NEO's 12-month average residential bill based on 100 therm monthly usage would be \$80.46. This is well below the 2017 EIA Ohio residential average of \$97.20 and the EIA National residential average of \$109.80. In addition, the Orwell area average residential bill based on 100 therm monthly usage would be \$93.01. This is also below the 2017 EIA Ohio residential average of \$97.20 and the EIA National residential average of \$109.80. Over the period from 2004-2017 (NEO's last rate case) the average normalized use per residential customer

1 declined by approximately 18%. However, stable rates with declining usage did
2 not mean we could stop making investments in our systems. We added
3 approximately \$54 million in net change in plant for mains, services, meters and
4 related investment, 18,630 customers, 18,320 services and 729 miles of
5 distribution main. NEO's customers per mile of main has increased from 15.3 in
6 2004 to 20.6 in 2017. Over this time, NEO continued to provide natural gas to
7 underserved communities and areas not served by other natural gas distribution
8 companies in an effort to provide service to customers that otherwise would not
9 have the opportunity to use natural gas, receiving the benefits of access to more
10 convenient supply and lower energy costs.

11 While making these investments, NEO has absorbed the increased cost of
12 providing natural gas services, including higher costs for operating, maintaining,
13 and administering our systems, with the only corresponding increase in revenue
14 due to customer growth. Note that during this period, the overall inflation index
15 has increased 37%. As a result of all these factors, the overall cost of providing
16 service has now increased to a level that now requires us to file for a change in
17 our natural gas delivery service rates in order to recover our costs of providing
18 service and earn a fair and reasonable return.

19 **Q. SINCE THE COMMISSION LAST APPROVED RATES, CAN YOU**
20 **EXPLAIN SOME OF THE CAPITAL INVESTMENTS IN NEO'S**
21 **SYSTEMS?**

22 A. Yes. During the last 15 years, the Company has made significant expenditures to
23 extend our systems where customers have needed us, improve system reliability
24 and diversify our supply portfolio. The Company has installed PE mains and

1 services to serve customers, including residential, commercial, industrial and
2 transport customers. These customers are in areas larger utilities have chosen not
3 to serve, and without NEO being willing to extend its distribution system, would
4 not have had the opportunity to realize lower energy costs through the use natural
5 gas. These new customers and conversion customers now save significant dollars
6 using natural gas for heating, cooking, grain drying, electrical generation and
7 industrial processing.

8 The Company has re-established pipeline interconnections to Dominion
9 East Ohio and expanded its distribution system and service area along the SPH
10 pipeline. These connections provide increased system security and stability by
11 allowing delivery of supplies from several different sources. The connections
12 also allow NEO and its customers to take advantage of price differences between
13 various sources of supply.

14 **Q. SINCE 2004 HOW HAS THE OPERATIONS OF NEO CHANGED.**

15 A. The Company's operational footprint has expanded significantly. The NEO
16 distribution systems are widespread, covering approximately 300 miles north to
17 south and 100 miles east to west. NEO now serves customers in 30 counties and
18 added 18,630 customers and 729 miles of distribution main. In 2004, the number
19 of customers per employee was approximately 216 and today it is 465. NEO is
20 effective and significantly more productive under the current organizational
21 structure. This corporate structure has provided financing, lines of credit, cash
22 management, regulatory support, engineering support, access to capital and the

1 processes required to ensure compliance with operational safety and regulatory
2 statutes.

3 **Q. CAN YOU PLEASE EXPLAIN THE FACTORS DRIVING THE**
4 **REQUESTED INCREASE IN REVENUES?**

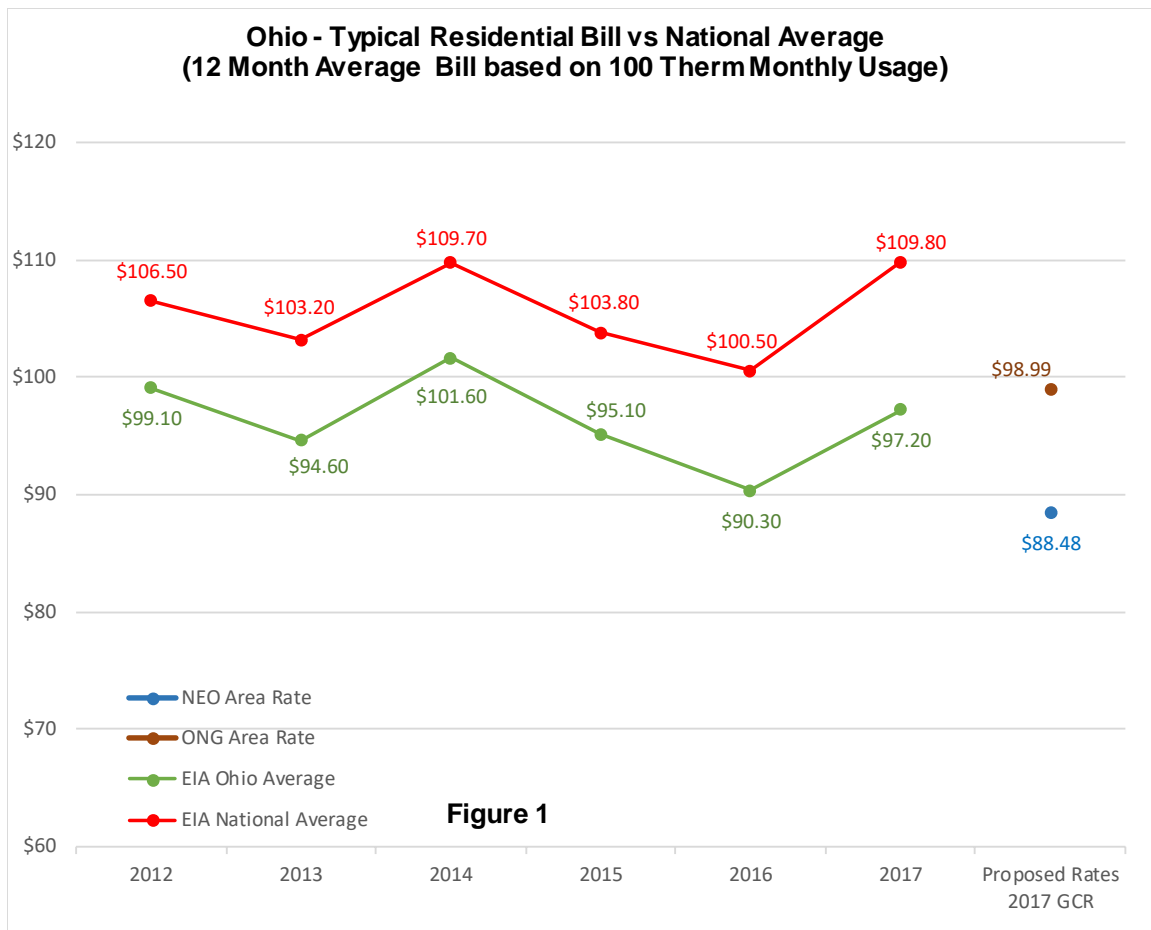
5 A. Yes. There are several factors driving the requested increase in revenues for
6 NEO. First, we have experienced growth in the actual physical plant used to
7 provide service to NEO's customers. This additional plant was not a part of the
8 rate base used to establish the NEO current rates. As I mentioned earlier, NEO
9 has added 18,630 customers, 18,320 services and 729 miles of main. These assets
10 are included in rate base in this filing, and just and reasonable rates should
11 provide an opportunity to recover our investment in and earn a fair return on these
12 used and useful assets. In addition, increased rates and an updated rates design
13 will allow the Company to continue to expand into unserved or underserved areas
14 and to replace aging infrastructure in a timely manner in a cost-efficient manner.

15 Second, the utility has experienced increased costs due to general inflation
16 from 2004 to 2018. The utility has seen an increase in operating costs, which
17 include items like payroll, benefits, insurance, utility bills, building maintenance,
18 and other associated costs of running a utility, including increased regulatory
19 activities driven by PHMSA.

20 Third, since 2004, through energy efficiency programs and new
21 equipment, NEO has seen a decrease (per customer) in natural gas consumption,
22 similar to the nationwide average of approximately 18% for residential customers.

1 **Q. WILL THE REQUESTED INCREASE IN REVENUE CAUSE NEO'S**
2 **RATES TO BE HIGHER THAN THE STATE OR NATIONAL**
3 **AVERAGE?**

4 A. If the Commission approves the increase as requested, using the 2017 GCR cost
5 for comparison. The NEO area rate for residential bills would be approximately
6 9% below the 2017 EIA Ohio average and approximately 19% below the 2017
7 National average and the Orwell area rate for residential bills would be
8 approximately 1.8% higher than the 2017 EIA Ohio average and approximately
9 10% below the 2017 National average, as represented in Figure 1 below.



Source: Company rate history files, EIA's U.S. Price of Natural Gas Delivered to residential customers

1 **B. Rate design changes are necessary and appropriate.**

2 **1. An increased customer charge is needed.**

3 **Q. IS NEO PROPOSING A CHANGE TO ITS RATE DESIGN AND**
4 **CUSTOMER CHARGE?**

5 A. As discussed in detail by witnesses Henthorne, Patton, and Loy, NEO is
6 proposing a change to its rate design to increase the fixed customer charge. NEO
7 is proposing a customer charge of \$20 per month for Small General Service
8 ("SGS"). This compares to the previous fixed charge of \$6.30 and \$9.00 for the
9 NEO and Orwell areas respectively.

10 **Q. CAN YOU PLEASE EXPLAIN THE FACTORS DRIVING THE**
11 **PROPOSAL TO RECOVER ADDITIONAL FIXED COSTS THROUGH**
12 **THE FIXED PORTION OF CUSTOMERS' BILLS?**

13 A. This change is appropriate because NEO's customers will receive long-term
14 benefits from a monthly bill that is less weather sensitive. This will reduce large
15 variability and spikes in winter bills while still giving customers the opportunity
16 to control costs by reducing consumption.

17 NEO is extremely weather sensitive and, as such, is a "cold weather"
18 driven utility. Based on an annual usage per residential customer of 90 MCF, the
19 NEO and Orwell areas current fixed portion of the bill are 25% and 27%
20 respectively. This leaves approximately 75% of the revenue requirement
21 dependent on weather. Because the utility provides only natural gas delivery
22 service, we do not have an opportunity for increased revenue due to hot weather
23 (e.g., by selling electricity to power air conditioners). As a result, additional off-
24 season revenues generated by a larger fixed monthly fee can be used to cover the

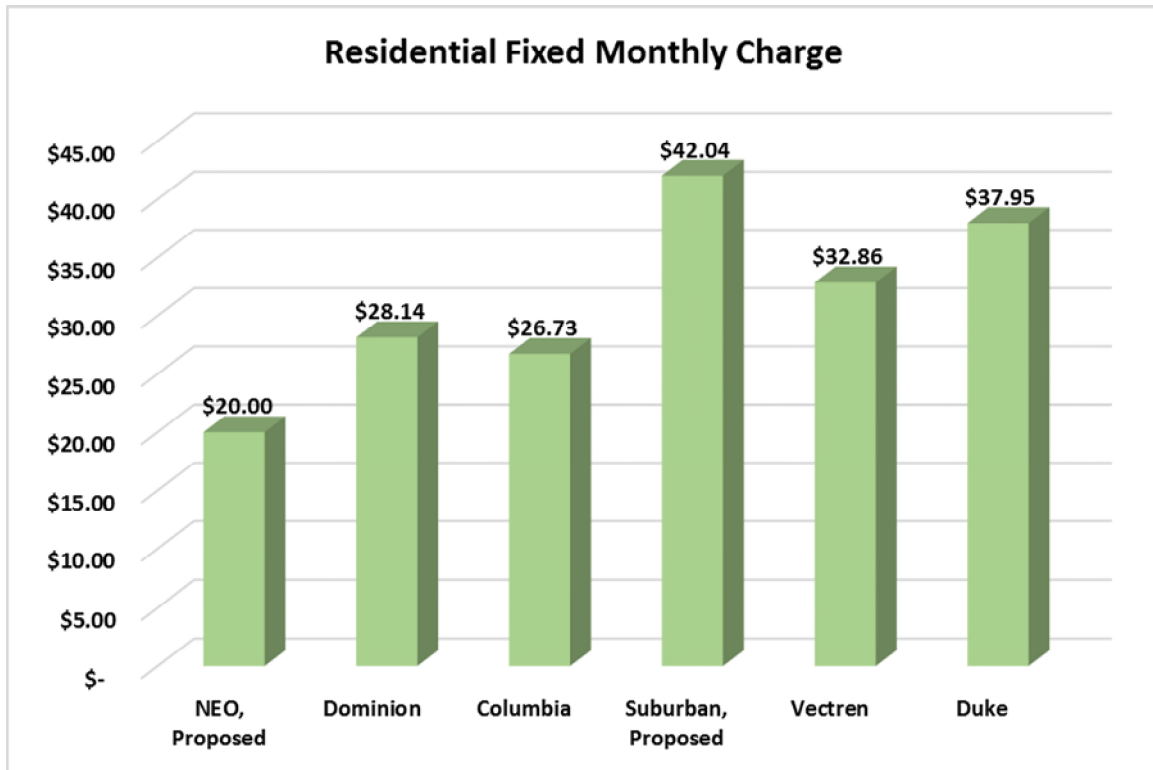
1 cost of operating the utility during the non-winter months and give the utility an
2 opportunity to better match when the expenses are actually incurred, to serve
3 customers, and to earn a fair and reasonable return throughout the year.

4 Additionally, NEO will be better positioned to use its line of credit to
5 manage gas costs (pipeline storage) rather than paying normal operating bills.
6 Using the line of credit to pay operating bills not only increases interest costs but
7 also can put a strain on line of credit capacity during periods of higher gas costs.
8 By ensuring enough revenue during the non-winter months, NEO will be
9 positioned to more effectively use its borrowing capabilities for storage gas while
10 keeping interest costs lower.

11 Finally, our customers should receive service from a utility that is
12 financially stable, which allows NEO to focus on customer service, reliability, and
13 safety. A rate structure designed to better match expenses further protects NEO
14 from weather-driven volatility in earnings, and this stability improves the overall
15 financial health of the utility. Being financially healthy benefits NEO and the
16 customers we serve by providing fair and reasonable rates that are not as heavily
17 dependent on weather.

18 **Q. HOW DOES THE FIXED CHARGE PROPOSED BY NEO COMPARE TO**
19 **THE CUSTOMER CHARGE IMPOSED BY OTHER GAS UTILITIES?**

20 A. After the rates are adjusted, NEO's customer charge will still be below the fixed
21 monthly charges of other comparable Ohio gas utilities. See table below.



2. NEO proposes to consolidate rates into two rate zones.

Q. WHAT OTHER CHANGES IS NEO PROPOSING?

A. NEO is proposing to consolidate charges across the entire system. Two separate rate zones are proposed: one rate zone for customers formerly on the NEO and Brainard systems and another rate zone for those customers on the Orwell system.

Q. DO YOU BELIEVE THAT NEO'S RATE ZONE PROPOSAL IS APPROPRIATE?

A. Yes. Consolidating charges into two rate zones provides several benefits. Consolidating charges will simplify rates for customers, Staff and the Company. This consolidation is also consistent with NEO's revised corporate structure.

While consolidation of rate zones is in the long term best interest of all concerned, NEO is aware that shifting immediately to a single rate zone could

1 cause some customer bills to change significantly. Accordingly, NEO has
2 proposed shifting to two rate zones to avoid rate shock by gradually consolidating
3 rates. NEO is also providing customers with significant notice of its intention to
4 eventually consolidate into a single rate zone, thereby providing customers with
5 ample time to plan. Additionally, the NEO system changes have occurred over
6 many years, and therefore changing rates gradually is reasonable.

7 **Q. DOES NEO INTEND TO CONTINUE SEPARATE RATE ZONES**
8 **INDEFINITELY?**

9 A. No. NEO anticipates eventually seeking Commission approval to eliminate the
10 two area rates and have rate classes that serve the entire service area in a future
11 proceeding.

12 **C. The bill impact from NEO's proposal is reasonable.**

13 **Q. WHAT IMPACT WILL THE REQUESTED INCREASE IN RATES HAVE**
14 **ON NEO'S CUSTOMERS?**

15 A. NEO is requesting an annual increase in its natural gas utility service revenue of
16 \$3,526,053. The requested revenue requirement for NEO will result in an
17 increase of approximately \$8.00 to a typical residential customer's monthly bill,
18 which is a 9.5% increase to the total bill.

19 **Q. HOW DOES NEO PROPOSE TO LOWER CONNECTION COSTS AND**
20 **INCREASE CUSTOMER SUPPORT?**

21 A. NEO has proposed to eliminate previous costs applied to main extensions and
22 customer service lines. This is a significant improvement in customer
23 convenience and cost. We are also proposing to take responsibility of existing
24 customer service lines under certain circumstances. We are expanding the

1 Percentage of Income Payment Plan to all customers and are maintaining the
2 lower miscellaneous charges from the merger case. These items are covered in
3 more detail in Ms. Patton's testimony.

4 **V. RIDER IRP WILL ENHANCE SAFETY AND RELIABILITY**

5 **Q. WHAT IS THE IRP?**

6 A. The IRP is a rate mechanism that would allow NEO to recover the cost of
7 accelerated capital investment with limited regulatory lag while avoiding the need
8 for more frequent rate cases. Mr. Loy, Mr. Henthorne and Ms. Patton discuss
9 additional details of our proposed IRP in their direct testimony.

10 **Q. WHAT FACTORS ARE DRIVING THE REQUEST FOR AN IRP?**

11 A. Like every utility in Ohio, NEO is a company with aging infrastructure. The
12 Company has approximately 24 miles of bare steel pipe, 11 miles of Aldyl-A
13 pipe, approximately 2,300 bare steel and or mechanically coupled services and
14 approximately 1,000 flex service risers. We also have two distinct low-pressure
15 delivery systems (7 inches water column) where there is no overpressure
16 protection device at the customer meter set. These are all items identified in each
17 utility's Distribution Integrity Management Program ("DIMP"), as required by
18 PHMSA. The current DIMP plan also identifies additional items that should take
19 priority when evaluating and maintaining our system for public safety. PHMSA
20 has identified items like bare steel pipe, Aldyl-A pipe and mechanical coupling as
21 higher risk items and is also currently evaluating low-pressure systems.

22 **Q. ARE YOU CURRENTLY REPLACING THIS HIGHER RISK**
23 **INFRASTRUCTURE IN NEO'S SYSTEMS?**

1 A. Yes. However, these items are being replaced as they experience operational
2 issues or leaks. Based on our historical replacement rates, and with current
3 staffing, it will take approximately 35 years to replace the distribution main and
4 over 100 years to replace the services.

5 **Q. DO YOU BELIEVE IT WOULD BE PRUDENT TO TAKE 35 YEARS AND**
6 **OVER 100 YEARS TO REPLACE FACILITIES THAT PHMSA**
7 **IDENTIFIED AS HIGHER RISK ITEMS?**

8 A. Based on the life expectancy of these facilities and notices issued by PHMSA,
9 eliminating these items from NEO's natural gas distribution systems over the
10 course of the next 10 to 15 years would be a prudent approach. If the leak rates
11 increase from the rate we are currently experiencing, or if PHMSA mandates
12 early replacement of these items, customers may see a large increase in rates all at
13 once. The IRP would allow us to accelerate the timing of replacement of this
14 higher risk infrastructure and replace the facilities systematically with incremental
15 rate adjustments, avoiding the potential for a large rapid and more risky
16 replacement program and the associated larger increases in rates. NEO
17 recognizes the need to begin replacing these items and has budgeted to eliminate
18 the Bowerston low-pressure delivery system and to replace part of the Millersburg
19 low-pressure delivery system in 2019. In 2019, the Company is expecting to
20 invest approximately \$541,000 on IRP materials.

21 **Q. WOULD THE IRP ALLOW NEO TO REPLACE HIGHER RISK**
22 **INFRASTRUCTURE AT AN ACCELERATED RATE THAN WHAT**
23 **WOULD TAKE PLACE WITHOUT A COST RECOVERY MECHANISM?**

24 A. Let me first say that safety is a primary consideration for NEO as it is for this
25 Commission. Over the past several years, we have demonstrated safe and reliable

1 service. Additionally, NEO carries very few class 3 leaks and routinely carry few
2 class 2 leaks (once identified, class 2 leaks are addressed in a timely manner and
3 within PHMSA requirements). This strong attention to leak identification and
4 repair shows how the utility is addressing operating issues without continually
5 coming in for rate recovery.

6 However, given the current age and condition of certain parts of NEO's
7 infrastructure, and an increasing focus on long-term system safety and integrity,
8 we believe now is the time to address our current rate structure to allow for
9 accelerated replacement before these assets do require immediate attention. An
10 infrastructure replacement mechanism puts structure around activities that are
11 going to take place regardless of rate treatment, as may be mandated by PHMSA
12 or as leak rates dictate, and streamlines the process of getting plant into rate base,
13 which helps eliminate the need for frequent rate filings. This allows the utility to
14 focus on customer service, the primary "task at hand," and will reduce time and
15 resources spent on more frequent rate cases.

16 **Q. ARE THERE ANY OTHER BENEFITS ASSOCIATED WITH**
17 **ACCELERATED REPLACEMENT OF HIGHER RISK**
18 **INFRASTRUCTURE?**

19 A. Yes. By planning and systematically replacing, we will be more efficient and
20 should reduce replacement costs. It is less costly to plan and replace than it is to
21 react when these assets need immediate attention. Being able to earn as you go
22 can also help to accelerate the replacement of higher risk infrastructure, leading to
23 a reduced amount of overall spending for these projects. As explained by Mr.

1 Loy, the use of infrastructure replacement mechanisms is increasingly common in
2 the gas utility industry.

3 **Q. IS THERE ANYTHING ABOUT THE PROPOSED IPR THAT MAKES IT**
4 **UNIQUE RELATIVE TO OTHER INFRASTRUCTURE REPLACEMENT**
5 **MECHANISMS IN OHIO?**

6 A. I believe so. While I am not an expert on all of the existing infrastructure
7 replacement mechanisms in place in Ohio, I can speak to the differences being
8 proposed in order to minimize the time and administrative cost by simplifying the
9 IRP process. First, we propose to only recover the return of and return on the
10 qualified investments. Second, we are not looking to include potential changes in
11 operating and maintenance expenses. Third, we propose that NEO recover the
12 normal annual depreciation and return on investment of the accelerated
13 replacement after the actual investment happens, so the recovery occurs in the
14 next calendar year. We want to avoid the 9-month actual and 3-month estimate of
15 recovery of costs, which in my mind complicates the process. Fourth, by putting
16 the actual recovery in a customer charge for each customer class, not a volumetric
17 charge, and using the actual investments, makes for an annual rider with a simple
18 true-up process saving the Commission, Staff and the Company administrative
19 time and expenses.

20 **Q. PLEASE DISCUSS THE LOGISTICS OF THE IRP FILING EACH YEAR.**

21 A. By April 30 of each year, NEO would make the annual IRP cost recovery filing
22 for the Commission's information and review, with billing starting in the first
23 billing cycle beginning in the month of July. Any over or under collections can
24 be calculated for the previous calendar year, if needed, and would be used to

1 adjust the required revenue calculation in determining the surcharge for the next
2 12-month period. The details of the filing would be subject to Commission
3 review; however, the Company envisions the filings to be similar to what has
4 been presented in Exhibits CEL-2, and CEL-3 as further explained by Mr. Loy in
5 his direct testimony.

6 **Q. IN SUMMARY, WHAT BENEFITS WILL NEO CUSTOMERS SEE**
7 **BECAUSE OF THIS PROCEEDING?**

8 A. Our customers will receive service from a utility focused on customer service,
9 reliability, and safety and have greater financial stability. The utility's capital
10 investment and increased operating costs support the requested increase in rates,
11 and our customers will still be paying low rates that are fair and reasonable. The
12 IRP will allow us to accelerate the necessary investment to ensure NEO's systems
13 are safe and reliable for the long-term, while at the same time providing for
14 gradual rate increases to reflect that investment without requiring frequent rate
15 cases. As a result, the utility will be able to focus on its customers, the safety and
16 integrity of the distribution systems, and the long-term goal of providing safe and
17 reliable service at reasonable rates.

18 While Witness Patton addresses the tariff changes in detail, there is one
19 noteworthy fee reduction that I consider substantive. NEO is proposing to
20 eliminate the "tap fee" cost of \$950 and \$500 for the NEO area and the Orwell
21 area respectively. Instead, NEO will provide a "limited free extension" 100 feet
22 of distribution main and 100 feet of service at no cost to the customer. By
23 reducing this barrier to entry, NEO will be able to increase customer density in its

1 extremely large service territory by attracting customers who are unwilling or
2 unable to pay the current tap fees. This will also encourage the provision of
3 natural gas to underserved communities and areas not served by other natural gas
4 distribution companies.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

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Case No(s). 18-1720-GA-AIR, 18-1721-GA-ATA, 18-1722-GA-ALT

Summary: Testimony Direct Testimony of Kevin Degenstein electronically filed by Mr. Trevor Alexander on behalf of Northeast Ohio Natural Gas Corp. and Brainard Gas Corp. and Spelman Pipeline Holdings, LLC and Orwell Natural Gas Company