

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Suburban Natural Gas Company for an)	Case No. 18-1205-GA-AIR
Increase in Gas Distribution Rates.)	

In the Matter of the Application of)	
Suburban Natural Gas Company for)	Case No. 18-1206-GA-ATA
Tariff Approval.)	

In the Matter of the Application of)	
Suburban Natural Gas Company for)	Case No. 18-1207-GA-AAM
Approval of Certain Accounting Authority.)	

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

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

2 A. My name is David C. Rinebolt. My business address is PO Box 1793, Findlay,
3 Ohio 45839-1793. I am Executive Director of Ohio Partners for Affordable
4 Energy ("OPAE") and I appear in these cases as a witness on its behalf.

5
6 Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS FOR
7 YOUR TESTIMONY IN THIS PROCEEDING.

8 A. My career has covered a broad spectrum of activities in human services
9 programs and the energy industry including policy analysis and program
10 management at both the federal and state levels. I served as Deputy Director of
11 the State of Minnesota Washington Office from 1983 through 1985, focusing on
12 human services, energy and environmental issues. Between 1985 and 1988 I
13 served as Senior Research Associate for Energy with the Coalition of
14 Northeastern Governors Policy Research Center, focusing on low income energy
15 assistance programs, new energy technologies, and wholesale markets and
16 regulation. I was Director of Research for the National Wood Energy Association
17 and Counsel to the Solar Energy Industries Association from 1988 through 1990,
18 working on research and development, regulatory issues, and siting and
19 permitting of renewable energy projects. I also served as Legislative Director for
20 Representative Collin Peterson of Minnesota from 1991 through 1993, and was
21 Director of Programs for the National Association of State Energy Officials from
22 1994 through 1996. I became executive director of Ohio Partners for Affordable
23 Energy (OPAE) in 1996. After leaving OPAE in at the end of June 2016, I served

1 as the Program Manager for the Weatherization Assistance Program at the U.S.
2 Department of Energy. I rejoined OPAE in June 2018 and became executive
3 director once again May 1, 2019.

4
5 I have a Bachelor of Liberal Studies from Bowling Green State University and a
6 Juris Doctor degree from the Columbus School of Law at The Catholic University
7 of America (1981). My professional career has focused on policy advocacy, the
8 development, operation and funding of demand side management (DSM)
9 programs – particularly low income energy assistance programs -- and
10 renewable energy development programs, and utility regulation, including rate
11 design, cost of service, forecasting, and related issues. These concentrations
12 have required a broad-based knowledge of the energy and utility sectors of the
13 U.S. economy and related regulatory regimes.

14
15 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE OHIO PUBLIC UTILITIES
16 COMMISSION (“PUCO” OR “COMMISSION”)?

17 A. Yes. I testified on behalf Ohio Partners for Affordable Energy in litigation
18 involving Duke Energy Ohio, Case No. 11-3549-EL-SSO, The Dayton Power and
19 Light Company, Case Nos. 12-426-EL-SSO, et.al., Case No. 14-1297-EL-SSO,
20 which involved the FirstEnergy distribution companies, Case No. 15-1046-EL-
21 USF, a proceeding to set the Universal Service Fund Rider, and Case Nos. 18-
22 298-GA-AIR, et al., Vectren Energy Delivery.

23

1 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

2 A. The purpose of my testimony is to demonstrate that the Stipulation and
3 Recommendation filed May 23, 2019 in these cases (“Stipulation”) fails to meet
4 the requirements of the three-part test used by the Commission to evaluate
5 stipulations. The Signatory Parties to the Stipulation are Suburban Natural Gas
6 Company (Suburban) and the Staff of the Commission (Staff). They contend
7 that: 1) the Stipulation is a product of serious bargaining among capable,
8 knowledgeable parties, 2) the Stipulation, as a whole, benefits customers and the
9 public interest; and 3) the Stipulation does not violate any important regulatory
10 principle or practice. Stipulation at 13. I disagree with the Signatory Parties that
11 the Stipulation satisfies this three-part test used by the Commission to determine
12 the reasonableness of settlements.

13

14 Q. IS THE SETTLEMENT THE PRODUCT OF SERIOUS BARGAINING AMONG
15 CAPABLE, KNOWLEDGEABLE PARTIES?

16 A. The Staff’s witness testifying in support of the Stipulation states that “the
17 Stipulation represents a comprehensive compromise of the issues raised by the
18 parties with diverse interests.” Testimony in Support of the Stipulation of David
19 M. Lipthrott at 8.

20 Suburban’s witness in support of the Stipulation states that the Stipulation was
21 provided to all parties before it was filed and another settlement meeting was
22 scheduled to determine if common ground could be reached with the other
23 parties, the Office of the Ohio Consumers’ Counsel (OCC) and OPAE.

1 Testimony of Andrew J. Sonderman in Support of Stipulation at 16. He states:
2 “Unfortunately, OCC and OPAE called a halt to their participation in the
3 settlement discussions and rejected any further settlement meetings.” Id. He
4 further states that all of the issues raised by the parties “were resolved during the
5 settlement negotiations.” Id. He continues: Therefore, the Stipulation
6 represents a balance of the diverse interests presented in this proceeding and is
7 a reasonable compromise of those interests and the issues raised.” Id.

8
9 In fact, there is a lack of diversity among the Signatory Parties as only Suburban
10 and the Staff are signatories. No organization representing customers, be they
11 rich or poor, residential or small commercial, is a party to the settlement. In
12 addition, contrary to the statement of Suburban’s witness, after the Staff and
13 Suburban had reached their settlement, OPAE saw no point in further
14 participation in a settlement process, because the process had substantially
15 concluded. The “halt” in the settlement process occurred when Suburban and
16 the Staff came to an agreement, which was when OPAE recognized that further
17 settlement negotiations would be futile. Our issues with the Straight Fixed
18 Variable (SFV) rate design were not ‘resolved’; they were ignored.

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20 Q. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT RATEPAYERS AND
21 THE PUBLIC INTEREST?

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23 A. No, it does not.

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Staff witness Liphtratt cites “key benefits” of the Stipulation. These are the phase-ins to Suburban’s rate base of the Del-Mar Pipeline Extension, the updating of customer counts at the time of the phase-ins, Suburban’s commitment to file a new base rate application by October 31, 2025, a fixed monthly customer service charge of \$33.84 in the first year, one free meter test every three years for each residential customer, and no fixed monthly customer service charge when a customer uses service for less than eight days during a billing period. Liphtratt at 9-10.

Suburban witness Sonderman also states that the Stipulation benefits ratepayers and the public interest. He states that the Stipulation results in a reduction of Suburban’s request for a rate increase from its original application. He cites the three phase-ins of the Del Mar Pipeline Extension and the updates of the customer counts with the phase-ins. He states that the transfer of the pipeline to Suburban’s ownership and its inclusion in Suburban’s rate base avoid the pipeline’s lease payments flowing through the Gas Cost Recovery Rider (GCR). He cites the free meter tests. He states that Suburban has “agreed to the steps necessary to provide customers with all relief to which they are entitled under the Tax Cuts and Jobs Act of 2017” [TCJA]. Sonderman at 18, 25.

None of the Stipulation provisions cited by the Staff and Suburban mean that the Stipulation benefits consumers and the public interest. Whether a rate increase

1 occurs via a settlement or through a litigated proceeding, the impact of the
2 increase is the same. The fact that the Stipulation reduces the revenue
3 requirement and rate increase requested in the original application is no surprise,
4 given the conclusions of the Staff Report of Investigation. The stipulated rate of
5 return was also foreshadowed by the Staff Report. Likewise, a stipulation
6 provides no benefit to ratepayers and the public interest merely by allowing a
7 utility to provide safe and reliable service, a legal obligation of a public utility
8 under any circumstances. The three-year phase-in to rate base of the Del-Mar
9 pipeline is also no benefit to ratepayers if the pipeline was not used and useful at
10 date certain, in which case there should be no phase-in at all. The issue
11 concerning the pipeline should be resolved through a litigated process in which
12 the Commission makes the determination based on the evidence of record. To
13 the extent the Stipulation avoids the Commission's responsibility to develop
14 factual and legal findings in making this determination, the Stipulation does not
15 benefit ratepayers and the public interest.

16
17 The refund to ratepayers for over-payments associated with the TCJA has not
18 been settled by the Stipulation. The refund will be dealt with in a separate
19 proceeding, so the Stipulation provides no benefit to customers in this matter.
20 And the issue is the *refund* of ratepayer's money that was *overpaid* to Suburban.
21 To suggest that a return of ratepayer's own funds is a benefit of a stipulation is
22 improper. Suburban has essentially been holding these funds in escrow for the
23 customer since January 2017. This is no bargain or advantage to the ratepayer.

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It is also no benefit of the Stipulation that Suburban is no longer making lease payments for a pipeline that Suburban now owns and no longer passes non-existent lease payments through its GCR.

The free meter tests are a small benefit that do not outweigh the harm of the Stipulation. Likewise, the stipulated provision that customers must have at least nine days of service before having to pay the whole monthly customer service charge does not outweigh the harm because if the customer charge was set at a reasonable level it would not need to be waived based on an arbitrary trigger.

The Settlement would have benefited ratepayers and the public interest if it had reversed the Commission’s precedent of approving a rate design that allows a very high fixed monthly service charge for all distribution service. This is harmful to ratepayers and the public interest.

Q. WHY IS THE SETTLEMENT HARMFUL TO RATEPAYERS AND COUNTER TO THE PUBLIC INTEREST?

A. Probably the most harmful impact of the Stipulation is the reduction in the cost savings from energy efficiency investments. It is the policy of the State of Ohio to “[e]ncourage innovation and market access for cost-effective supply- and demand-side natural gas services and goods”. Ohio Revised Code (RC)

1 4929.02(A)(4). Establishing high fixed charges sends a price signal that
2 undermines investments in efficiency by reducing the potential bill savings and
3 thus the cost-effectiveness of DSM programs. That is harmful to ratepayers. It is
4 also counter to State policy as articulated in RC 4929.02(A)(12): to [p]romote an
5 alignment of natural gas company interests with consumer interest in energy
6 efficiency and energy conservation. The high fixed charge is the opposite of
7 aligning interests because it establishes a huge barrier to energy efficiency given
8 the diminution of the payback from energy efficiency investments. It also makes
9 conservation almost meaningless; customers are faced with large bills in the
10 summer, when they are using the minimum amount of gas.

11
12 Under the Stipulation, the customer charge will be \$33.84 per month in the first
13 year for each residential and small commercial customer regardless of usage.
14 Customers' bills should reflect their usage in order to encourage conservation
15 and efficiency, consistent with State policy. When customers cannot reduce the
16 bill by becoming more efficient, customers will be frustrated that their efforts are
17 futile. Moreover, customers are likely to react negatively to receiving high bills in
18 the summer when they are using little to no natural gas.

19
20 Customers taking steps to disconnect from the gas system during months when
21 heating is not necessary is a possibility. Duke Energy Ohio, which has a very
22 high customer charge of \$33.03 per month, filed an Application in Case No. 16-
23 862-GA-ATA (May 2, 2016) to modify its tariffs to require a customer that

1 voluntarily disconnects service and requests reconnection within 8 months of that
2 disconnection to pay the fixed service charges for the months the service was
3 disconnected. This filing indicates that Duke was seeing a revenue erosion as a
4 result of its high fixed charges. It is impossible to determine how many
5 customers were leaving the system temporarily because the Commission chose
6 to take no action on Duke's application, but it is certainly not in the public interest
7 to establish a rate design that encourages customers to leave the system
8 because of an unnecessary and inequitable pricing scheme.

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10 Q. DOES THE SETTLEMENT PACKAGE VIOLATE ANY IMPORTANT
11 REGULATORY PRINCIPLE OR PRACTICE?

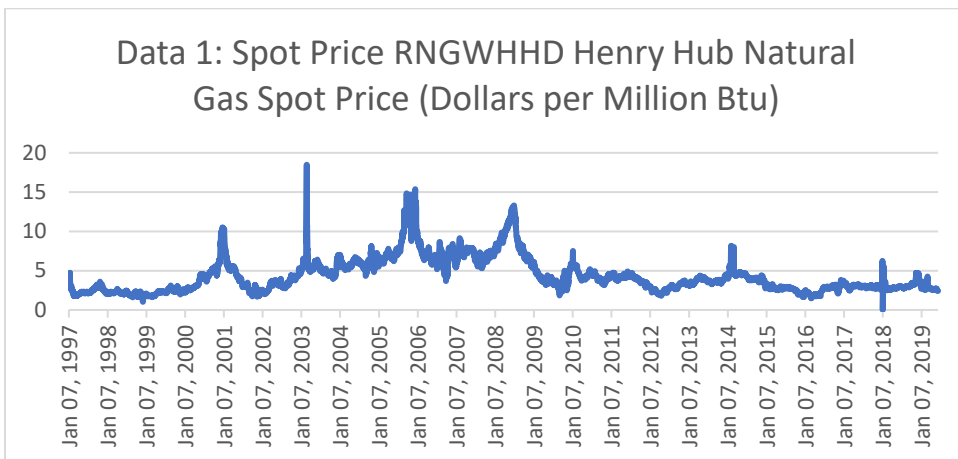
12 A. Yes, it does.

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14 Suburban's witness Sonderman states that the Stipulation fosters regulatory
15 continuity through the continued employment of the SFV rate design. He states
16 that OPAE's arguments against the rate design "are not new and have been
17 repeatedly rejected in cases involving natural gas companies over many years".
18 Sonderman at 25. He also claims that the Stipulation promotes the energy policy
19 of the State of Ohio as set out in RC 4929.02(A)(1) that it is the policy of the
20 State to promote the availability to consumers of adequate, reliable, and
21 reasonably priced natural gas services and goods. Id. at 26.

22

1 Mr. Sonderman refers to past Commission precedent in adopting the SFV rate
2 design as a basis to claim that the Stipulation conforms to the important
3 regulatory principle of “regulatory continuity”.

4
5 However, it is important for the Commission to recognize when conditions have
6 changed so drastically that a reversal of past precedent is necessary to confront
7 new circumstances. When the Commission first adopted the SFV rate design
8 over ten years ago, the gas commodity portion of a customer’s bill was the
9 biggest driver of the amount of the bill. This is no longer true:



10 https://www.eia.gov/dnav/ng/ng_pri_fut_s1_d.htm

11
12
13 The Commission’s assumption that gas usage would still have the biggest
14 influence on the price signal received by customers has turned out to be false.
15 Case No. 07-829-GA-AIR, Opinion and Order at 24 (October 15, 2008). The
16 price of gas is currently both lower and more stable than when the Commission
17 originally adopted the SFV rate design in 2008 rendering the premise on which
18 the Commission based its ruling now incorrect.

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Under the Stipulation, all customers will pay the fixed monthly charge for distribution service of \$33.84 per month regardless of usage. In the summer months, the fixed monthly charge may be the only price a consumer receives. A low use customer may be forced to consider leaving the system rather than pay high monthly fixed charges for a service the customer barely uses.

In addition to the problem that past precedent may no longer be valid, the Stipulation ignores the regulatory concepts of cost causation and gradualism by adopting a rate design that assigns nearly all the rate increase to low-use customers. The 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. In the Stipulation, the entirety of Suburban’s distribution charge is the fixed monthly customer charge with no variable component. Funds are recovered irrespective of customer usage.

The SFV concept 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 classification of costs behind the SFV is incorrect.

All distribution systems have a Design Day, which is used to plan for system capacity. The Design Day is a function of customer usage. If customers used

1 less, a smaller system could be designed. This should be true of the Suburban
2 system, where reductions in heating load for residential and small commercial
3 customers will reduce the capacity needed to safely serve customers. However,
4 those who use more than the average force the system to be larger than it would
5 be otherwise, so higher usage translates into higher costs for all.

6
7 The SFV rate design does not recognize the variations in demand customers
8 impose on the distribution system. This distorts the price signal because high-
9 demand and low-demand customers are paying the same amount of fixed costs
10 though the demand they impose on the system is different.

11
12 In addition, a fixed customer charge at \$33.84 per month for each residential and
13 small commercial customer regardless of usage is difficult to understand. Public
14 understanding and acceptance are also a fundamental regulatory principle.

15 Customers expect bills to reflect their usage. When customers cannot reduce
16 the bill by becoming more efficient, customers will be confused. Moreover, they
17 are likely to react negatively to receiving high bills in the summer when they are
18 using little to no natural gas.

19
20 SFV sends a price signal that promotes additional consumption. The SFV also
21 serves as a disincentive to conservation because investments to reduce usage
22 generate a lower return on the investment. These problems with the SFV rate
23 design violate important regulatory principles and practices.

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Q. PLEASE DESCRIBE OTHER PROBLEMS OF THE STRAIGHT FIXED VARIABLE RATE DESIGN IN TERMS OF REGULATORY PRINCIPLES AND PRACTICES.

A. There are significant inequities inherent in an SFV rate design. The SFV rate design significantly assigns the rate increase to the lowest use customers, as evidenced by the Small General Service (SGS) Typical Bill Comparison attached to the Stipulation. (See Schedule E-6 Page 1 of 3 Attached to the Stipulation).

The SFV proposed by Stipulation assigns nearly all of the responsibility to pay the revenue increase to low-use customers. SGS customers using between 0 and 30 Mcf per month will see rate increases of 14.97% to 11.53% per month. On the other hand, large-use SGS customers using from 70 to 500 Mcf per month experience rate increases of only 8.57% to 2.51%. (See Schedule E-6 Page 1 of 3 Attached to the Stipulation). The Stipulation effectively punishes low use customers with higher bill increases, while high-use customers experience much lower bill increases. It is inequitable when the responsibility for revenue increases is assigned without regard to the benefits received by the customer. High-use customers receive more benefits from the system than low-use customers, but it is the low use customers who bear the burden of the increase, while high-use customers barely notice the increase at all. This inequity violates

1 regulatory principles where those who benefit from system should pay in relation
2 to their benefits.

3
4 There can be no doubt that the SFV harms low-use customers, including most
5 poor households who strive to use less gas but will see no benefit in doing so.

6 This exacerbates the heat or eat dilemma faced by the most vulnerable families. I
7 expect more low-income customers will be driven to turn off gas service and rely
8 instead on electric space heaters,

9
10 The SFV rate design appears to be a solution in search of a problem. For over a
11 century, utilities have prospered while charging volumetric rates. They have
12 recovered a reasonable return on investment and, as is the situation here, when
13 the current recovery is inadequate to cover costs the utility files a rate case.

14 This is Suburban's first base rate case in over 10 years, so Suburban was clearly
15 recovering adequately without the SFV rate design for a fair number of years.

16 Other rate design approaches can provide stable revenues without the negative
17 aspects of an SFV.

18
19 The Stipulation punishes low use and low income households and potentially
20 pushes more customers off the system. It also increases the disincentive to
21 invest in conservation. Finally, it exacerbates the overall inequity of the rate
22 structure and places the interest of the utility in guaranteeing recovery of the
23 revenue requirement over the interest of customers and especially low-use

1 customers who will no longer have control over their distribution bill. Ohio has
2 promoted competition to give customers more control over their energy usage.
3 The SFV rate design counteracts these innovations and gives customers far less
4 control over their usage.

5
6 Q. IS THE SFV RATE DESIGN APPROPRIATE FOR SMALL GENERAL SERVICE
7 COMMERCIAL CUSTOMERS?

8
9 A. No.

10 SGS commercial customers are not as homogeneous as residential
11 customers so a fixed rate is even less justifiable for these customers. Some
12 commercial customers put very small levels of demand on the system, while
13 others have a relatively large demand. Treating all these customers the same is
14 inequitable. Just because commercial customers are grouped in the same class
15 for purposes of determining the cost of service, their wide variations in usage
16 patterns does not justify a similar grouping for the purposes of rate design.

17
18 Q. WHAT ARE YOUR RECOMMENDATIONS?

19
20 A. I recommend that the Commission recognize the changes in gas markets since
21 the adoption of the SFV rate design and reverse its precedent that the SFV rate
22 design sends the correct price signal to consumers. The Commission should
23 also recognize the negative impact the SFV rate design has on energy efficiency

1 programs and consumers' efforts to control their bills. Therefore, the
2 Commission should adopt a rate design that consists of a reasonably low fixed
3 charge, with the remaining revenue requirement recovered through volumetric
4 charges.

5
6 At the least, in the alternative, the Commission should find that any revenue
7 increase approved in these cases should be recovered through a volumetric
8 charge. Instead of the stipulated fixed monthly customer charge of \$33.84 in the
9 first year, the current fixed charge of \$29.42 should be maintained, and the
10 revenue increase should be recovered through a volumetric charge.

11
12 The Commission should also require that Suburban determine the median gas
13 usage amount of its SGS customers. If a customer using 0 to 7 Mcf per month is
14 paying the exact fixed monthly customer charge as a customer using 100 to 500
15 Mcf per month, average usage figures may only mask the impact of the rate
16 design on most customers. It is necessary to know the median usage of
17 customers so that the Commission is aware of how many low-use customers are
18 experiencing the negative impact of the SFV rate design, and how many high-
19 use customers are benefiting from it.

20
21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22
23 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 21st day of June 2019.

/s/Colleen Mooney

Colleen L. Mooney

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Case No(s). 18-1205-GA-AIR, 18-1206-GA-ATA, 18-1207-GA-AAM

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