

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**SUPPLEMENTAL DIRECT TESTIMONY
OF
KEVIN DEGENSTEIN

ON BEHALF OF
NORTHEAST OHIO NATURAL GAS CORP.**

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

JULY 25, 2019

1 **I. INTRODUCTION, BACKGROUND, AND PURPOSE OF TESTIMONY**

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

3 A. My name is Kevin Degenstein, and I am employed by Hearthstone Utilities
4 (“Hearthstone”) as Chief Operating Officer and Chief Compliance Officer. I am also
5 President and Chief Operating Officer of Northeast Ohio Natural Gas Corp. (“NEO”). My
6 business address is 1 First Avenue South, Great Falls, Montana 59403.

7 **Q. ARE YOU THE SAME KEVIN DEGENSTEIN WHO FILED DIRECT**
8 **TESTIMONY ON BEHALF OF NEO IN THIS PROCEEDING ON JANUARY 11,**
9 **2019?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

12 A. My supplemental testimony is intended to support NEO’s objections to the
13 recommendations made by the Staff of the Public Utilities Commission of Ohio (“Staff”)
14 in its Report of Investigation (“Staff Report”) filed in this proceeding on June 25, 2019. In
15 particular, I will address NEO’s objection related to the proposed Infrastructure
16 Replacement Program (“Rider IRP”). In addition, my testimony describes NEO’s
17 objection to Staff’s recommendation to replace “Ohio law” with certain inapplicable Ohio
18 Administrative Code sections.

19 **II. STAFF’S RECOMMENDATION TO DENY APPROVAL OF RIDER IRP**

20 **Q. WHAT IS RIDER IRP?**

21 A. Rider IRP is a rate mechanism that would authorize NEO to recover the cost of accelerated
22 capital investment in replacing or upgrading aging infrastructure, including but not limited

1 to aging bare steel mains and services, plastic (Aldyl-A) mains and services, risers prone
2 to failure, advanced meters, etc.

3 **Q. WHY IS NEO PROPOSING THE CREATION OF RIDER IRP?**

4 A. While NEO will continue replacing and upgrading infrastructure to address immediate,
5 urgent operational concerns (e.g., leaks), NEO seeks approval of Rider IRP to adopt a more
6 proactive and diligent approach to its system needs before an incident occurs or before
7 serious problems arise. Like many other regulated natural gas utilities in Ohio, NEO seeks
8 approval of an infrastructure development rider like Rider IRP to reduce the need to file
9 potentially dramatic, substantial rate increases necessary to fund immediate, emergency
10 infrastructure replacement measures. As other natural gas utilities have recognized,
11 infrastructure development riders like Rider IRP ultimately *reduce* a utility's replacement
12 and upgrade costs, as it remains less costly to plan and replace than to merely react in times
13 of emergency to address immediate, urgent infrastructure-related problems. Further, Rider
14 IRP will not only benefit ratepayers in the form of reduced costs and enhanced reliability,
15 it will also benefit the Commission insofar as Rider IRP, as proposed by NEO, will
16 circumvent the need to file successive applications for rate increases to fund emergency
17 infrastructure replacement projects. In short, Rider IRP is designed to be a proactive,
18 sensible, cost-effective, and time-efficient regulatory mechanism that will benefit
19 everyone, including ratepayers, Staff, and the Commission.

20 **Q. WHAT DID STAFF RECOMMEND WITH RESPECT TO NEO'S PROPOSAL**
21 **TO CREATE RIDER IRP?**

1 A. Staff claims that NEO failed to show that Rider IRP, as proposed, is just and reasonable.¹
2 Staff also asserts that Rider IRP is not necessary to accomplish NEO’s stated objective to
3 prioritize and replace or upgrade certain aging infrastructure.²

4 **Q. DID THE STAFF REPORT EXPLAIN WHY STAFF BELIEVED RIDER IRP**
5 **WAS NOT JUST, REASONABLE, OR NECESSARY TO ACCOMPLISH NEO’S**
6 **INFRASTRUCTURE REPAIR/REPLACEMENT GOALS?**

7 A. No.

8 **Q. WHY DOES NEO OBJECT TO STAFF’S RECOMMENDATION TO DENY**
9 **APPROVAL OF RIDER IRP?**

10 A. Without any explanation from Staff, NEO is left to speculate about the basis (or bases) of
11 Staff’s recommendation to deny approval of Rider IRP. Staff’s recommendation is
12 particularly perplexing given that Rider IRP, as proposed by NEO, is similar to other
13 natural gas utilities’ infrastructure development riders approved by the Commission. For
14 instance, Rider IRP, as proposed by NEO, is designed to recover the costs to
15 replace/upgrade bare steel and plastic mains and services, as well as the replacement of
16 certain risers prone to failure and regulators and regulating stations. As illustrated below,
17 the Commission previously approved other natural gas utility infrastructure development
18 riders that provided cost recovery for the same type of investments:

- 19 • Vectren Energy Delivery of Ohio, Inc. (“Vectren”) - Distribution Replacement
20 Rider (“DRR”);³

¹ Staff Report (June 25, 2019), at 21.

² *Id.*

³ See *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters, et al.*,

- 1 • Columbia Gas of Ohio, Inc. (“Columbia”) – Infrastructure Replacement Rider
2 (“Columbia Rider IRP”);⁴
3 • The East Ohio Gas Company d/b/a Dominion Energy Ohio (“Dominion” –
4 Pipeline Infrastructure Replacement (“PIR”) program;⁵ and
5 • Duke Energy of Ohio, Inc. (“Duke”) – Accelerated Main Replacement Program
6 (“Rider AMRP”).⁶

7 Further, Rider IRP, as proposed by NEO, seeks cost recovery for the installation of
8 advanced meters in select locations. Once again, the Commission has previously

Case No. 07-1080-GA-AIR, *et al.*, Opinion and Order (Jan. 7, 2009); *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan for Continuation of its Distribution Replacement Rider*, Case No. 13-1571-GA-ALT, Opinion and Order (Feb. 19, 2014).

⁴ See *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of Tariffs to Recover Through an Automatic Adjustment Clause Costs Associated with the Establishment of an Infrastructure Replacement Program and for Approval of Certain Accounting Treatment, et al.*, Case No. 07-478-GA-UNC, Opinion and Order (April 9, 2008); *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Distribution Service, et al.*, Case No. 08-72-GA-AIR, *et al.*, Opinion and Order (Dec. 3, 2008); *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 11-5515-GA-ALT, Opinion and Order (Nov. 28, 2012).

⁵ See *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for Its Gas Distribution Service, et al.*, Case No. 07-829-GA-AIR, *et al.*, Opinion and Order (Oct. 15, 2008); *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Modify and Further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs*, Case No. 11-2401-GA-ALT, Opinion and Order (Aug. 3, 2011); See *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Form of Regulation to Extend and Increase Its Pipeline Infrastructure Replacement Program*, Case No. 15-362-GA-ALT, Opinion and Order (Sept. 14, 2016).

⁶ See *In the Matter of the Application of The Cincinnati Gas & Electric Company for an Increase in Rates, et al.*, Case No. 01-1228-GA-AIR, *et al.* (“Duke AMRP Case”), Opinion and Order (May 30, 2002); Duke AMRP Case, Second Opinion and Order (Apr. 29, 2003); Duke AMRP Case, Third Opinion and Order (Apr. 21, 2004); Duke AMRP Case, Fourth Opinion and Order (Apr. 20, 2005); Duke AMRP Case, Fifth Opinion and Order (Apr. 19, 2006); Duke AMRP Case, Sixth Opinion and Order (Apr. 18, 2007); *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Rates, et al.*, Case No. 07-589-GA-AIR, *et al.*, Opinion and Order (May 28, 2008); *In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in its Natural Gas Distribution Rates, et al.*, Case No. 12-1685-GA-AIR, *et al.*, Opinion and Order (Nov. 13, 2013).

1 approved cost recovery for advanced meters or other advanced meter reading (“AMR”)
2 technology as but one component of an infrastructure development rider like Rider IRP.
3 Specifically, the Commission approved cost recovery for the installation of automated
4 meter reading devices on all residential and commercial meters served by Columbia as
5 part of Columbia’s Rider IRP,⁷ which Staff expressly supported.⁸

6 **Q. HOW ELSE IS RIDER IRP, AS PROPOSED BY NEO, SIMILAR TO OTHER**
7 **NATURAL GAS INFRASTRUCTURE DEVELOPMENT RIDERS APPROVED**
8 **BY THE COMMISSION?**

9 A. Not only does the scope of Rider IRP, as proposed by NEO, mirror those of other natural
10 gas infrastructure development riders, it would also impose rate caps like other
11 Commission-approved infrastructure development riders.

12 **Q. WHAT TYPE OF RATE CAP IS NEO PROPOSING FOR RIDER IRP?**

13 A. As explained in NEO’s Application in these proceedings, Rider IRP costs would never
14 exceed \$2 million per year; but if it did, NEO would be authorized to defer those costs on
15 its books in any subsequent year, after which it could recover said costs provided that
16 doing so did not cause NEO to exceed the \$2 million annual cap.⁹ In so doing, the costs
17 of infrastructure investments would not be collected from customers immediately as NEO
18 makes the investments, but instead spread over the useful life of the investments, thereby

⁷ *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Authority to Amend Filed Tariffs to Increase the Rates and Charges for Gas Distribution Service, et al.*, Case No. 08-72-GA-AIR, *et al.*, Opinion and Order (Dec. 3, 2008), p. 8 (expanding Rider IRP to include the installation, over a five-year period, of automatic meter reading devices (“AMRD”) on all residential and commercial meters served by Columbia).

⁸ *Id.*, Staff Report (Aug. 21, 2008), p. 30 (“Staff believes the benefits of the AMRD program justify recovering its costs through Rider IRP.”).

⁹ *See* Application, Alternative Rate Plan Exhibits, pp. 20-22.

1 moderating the corresponding impact to customers’ bills and guarding against “rate
2 shock” to customers. The Commission approved similar rate caps on Vectren, Columbia,
3 Dominion, and Duke’s infrastructure development riders – all of which were designed to
4 insulate customers from substantial, immediate rate increases. NEO proposes Rider IRP
5 rate caps at a minimum of \$.15 per month and a maximum of \$5.00 per month over the
6 life of the Rider IRP program – a far more restrictive rate cap than those imposed on
7 other natural gas utilities in Ohio with similar infrastructure development-related riders.¹⁰
8 In short, NEO is seeking similar regulatory treatment as other regulated natural gas
9 companies in Ohio because Rider IRP, as proposed by NEO, is consistent with and
10 similar to other infrastructure development riders approved by the Commission over the
11 last two decades.

12 **III. STAFF’S RECOMMENDATION TO MODIFY TARIFFS BY REPLACING**
13 **REFERENCES TO “OHIO LAW” WITH SPECIFIC CODE SECTIONS**

14 **Q. WHAT DID STAFF RECOMMEND WITH RESPECT TO REPLACING “OHIO**
15 **LAW” WITH SPECIFIC OHIO ADMINISTRATIVE CODE CITATIONS?**

16 A. The Staff Report recommends that the Commission replace references to “Ohio law” in
17 certain NEO tariffs with specific citations to applicable sections of the Ohio
18 Administrative Code.¹¹

19 **Q. DOES NEO OBJECT TO STAFF’S RECOMMENDATION?**

20 A. While NEO does not object to replacing references to “Ohio law” in its tariffs with
21 citations to code sections, NEO has identified two specific code sections proposed by

¹⁰ See *supra* notes 3-6.

¹¹ Staff Report, pp. 18-19.

1 Staff that are inaccurate. First, Staff recommends that the reference to “Ohio law” in
2 Original Sheet No. 17, Section IV, No. 12, 2nd paragraph be replaced with O.A.C.
3 4901:1-18-03.¹² But O.A.C. 4901:1-18-03, which provides reasons for disconnecting
4 residential service, is not the correct administrative code citation; instead, O.A.C. 4901:1-
5 18-06, which governs disconnection procedures, is the correct citation for this particular
6 tariff provision. Second, for Original Sheet No. 21, Section V, No. 20, 2nd sentence,
7 Staff recommends that “Ohio law” be replaced with O.A.C. 4901:1-18-04, which
8 concerns delinquent bills.¹³ Again, Staff cites the wrong administrative code section.
9 The specific tariff provision in question refers to available extended payment plans,
10 which is governed by O.A.C. 4901:1-18-05, not O.A.C. 4901:1-18-04.

11 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

12 A. Yes. I reserve the right to further supplement this testimony.

¹² *Id.* at 18.

¹³ *Id.* at 19.

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Summary: Testimony Supplemental Direct Testimony of Kevin Degenstein electronically filed by Mr. Mark T Keaney on behalf of Northeast Ohio Natural Gas Corp.