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September 16, 2020

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

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

Dear Docketing Division:

Enclosed please find the Staff Recommendation in the Matter of the Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates, Case No. 18-1205-GA-AIR.

David Lipthratt
Chief, Accounting and Finance Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Suburban Natural Gas Company
Case No. 18-1205-GA-AIR

SUMMARY

On August 31, 2018, Suburban Natural Gas Company (Company) filed an application seeking Commission approval to increase its rates for gas distribution service, authorization of new charges and changes to existing charges, approval of requested tariff changes, and the approval of certain accounting authority.

On May 23, 2019, a joint stipulation and recommendation (Stipulation) was filed by the Company and Staff. On September 26, 2019, the Commission issued an Opinion and Order adopting the Stipulation, which recommended increasing Suburban's total revenue requirement annually over a three-year phase-in period.

The Stipulation states, "The recommended revenue increase for the second year after the Commission Order in this proceeding (Year 2) shall be $1,532,278 from current rates at the time of filling of the Stipulation." The Stipulation further states, "The revenue requirement for the second year after the date of the Commission Order approving rates in this matter and for one year (Year 2) shall equal $20,165,049." As approved by the Commission, the revenue requirement has been adjusted for rate case expenses, resulting in a revenue requirement for Year 2 of $20,206,802.

The Stipulation also states that "the 4.9-mile extension of the DEL-MAR pipeline shall be phased into rate base over a three-year period." During the second year of the phase-in, the rate base is to include "80% of the current book value of the 4.9-mile DEL-MAR pipeline extension, including depreciation and property tax." Additionally, the Commission ordered:

> At the time additional book value of the 4.9 mile DEL-MAR pipeline extension is added to rate base at the beginning of the second and third years following the Commission Order in this proceeding (Year 2 and Year 3), Suburban's established revenue requirement for each applicable year shall be allocated to the customers based upon the total number of customers, as evaluated by Staff and as approved by the Commission, at the time the additional book value is added at the same revenue distribution percentage, excluding gas costs, as established in Year 1.

On September 4, 2020, the Company filed a notice to implement Phase II of its rate increase. The Company's notice proposes a fixed customer charge of $34.41 for the small general service (SGS) class, a fixed customer charge of $180 with a volumetric charge of $0.2350 for the large general service (LGS) class and a fixed customer charge of $180 with a volumetric charge of $0.2356 for the large general service transport (LGST) class. Staff has reviewed the notice in accordance with the Stipulation and Staff's recommendations regarding the Phase II rate increase are detailed below.

STAFF REVIEW

Staff has reviewed the notice to implement Phase II of its rate increase and Staff is generally in agreement with the method the Company has proposed, but Staff has concerns with the Company's treatment of CCF sales within the LGS class. The Company has updated CCF sales based upon actual sales during the test year. This is a deviation from the forecasted CCF sales that were agreed upon in the Stipulation. Staff avers that the Stipulation as written did not contemplate updating CCF sales for any class of customers. The Stipulation only speaks to updating the total number of customers using the same revenue distribution percentage as established in Year 1.

The Company's rational for updating LGS CCF sales is based upon the premise that the forecasted additional LGS customers and associated CCF usage, that were agreed upon in the Stipulation, are unrealistic and the Company will ultimately collect less than the agreed upon revenue requirement.

Actual sales will always deviate from what is forecasted in a test year and a utility's revenue requirement is *not* guaranteed. However, due to the unique circumstances of phasing in a revenue requirement coupled with the forecasting of additional customer usage[1], Staff understands the Company's rational for proposing to update CCF sales for LGS customers.

STAFF RECOMMENDATION

Given that the plain language of the Stipulation only addresses an update to the customer count as a part of the phase-in, Staff avers that the Stipulation did not intend to update sales. Staff notes that decrease in usage would have occurred absent the phase-in. Therefore, Staff recommends a Phase II revenue requirement of $20,206,802 with no modification of the LGS CCF sales as proposed. This recommendation results in a fixed customer charge of $34.41 for SGS; a fixed customer charge of $178.95 with a volumetric charge of $0.21251 for LGS; and a fixed customer charge of $168.61 with a volumetric charge of $0.23817 LGST, as shown on Attachment A.

However Staff understands the uniqueness of a phased revenue requirement approach and should the Commission accept the Company's notice to implement Phase II of its rate increase as proposed, then it would result in a fixed customer charge of $34.41 for SGS and a fixed customer charge of $180 with volumetric charges of $0.235 and $0.2356 for LGS and LGST respectfully. Should the Commission adopt the Company's proposal, then Staff recommends that the Commission Order the same methodology for updating usage to be applied to Phase III next year.

[1] In the Stipulation, test year sales for the LGS class included forecasted sales for customers that were migrated from the SGS class to the LGS class. The migration occurred in the middle of the test year and therefore the forecast was incorporated to account for usage in the months prior to the migration.

ATTACHMENT A

SUBURBAN NATURAL GAS COMPANY
CASE NO. 18-1205-GA-AIR
PROPOSED
CLASS AND SCHEDULE REVENUE SUMMARY
FOR PHASE II OF RATE IMPLEMENTATION

SCHEDULE E-4

						Proposed Annualized			
Line No.	Rate Code (A)	Class / Description (B)	Customer Bills (C)	Sales CCF (D)	Proposed Rate (E)	Proposed Revenue Less Gas Cost Revenue (F)=(C)*(E)	% of Revenue To Total Exclusive of Gas Costs (G)	Annualized Gas Cost Revenue (H)	Proposed Revenue Total (I)=(F)+(H)
1	Small General Service								
2		Customer Charge	214,680		$34.41	$7,387,139			
3		Commodity Charge		14,725,402	0.00000	0			
4	Total Small General Service					$7,387,139	77.42%	$8,389,209	$15,776,348
5									
6	Large General Service								
7		Customer Charge	3,468		$ 178.95	$620,607			
8		Commodity Charge		4,366,683	0.21251	927,976			
9	Total Large General Service					$1,548,583	16.23%	$2,276,615	$3,825,198
10									
11	Large General Service Transport								
12		Customer Charge	324		$ 168.61	$54,631			
13		Commodity Charge		1,462,054	0.23817	348,212			
14	Total Large General Service Transport					$402,843	4.22%		
15									
16	Miscellanous Revenue					$202,608	2.12%		
17									
18		Total	218,472	20,554,139		$9,541,172	100%	$10,665,824	$20,206,802

(1) Excludes Gross Receipt Tax, MCF Tax, PIPP, IRP and Uncollectible Riders
(2) Assumes Gas Cost as Filed in the Staff Report