BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Northeast Ohio Natural Gas Corp. For Approval of Alternative Regulation.	)))	Case No. 20-1427-GA-ALT

OBJECTIONS TO NEO GAS' NEW CHARGE AND TO PUCO STAFF REPORT
BY
OFFICE OF THE OHIO CONSUMERS' COUNSEL

It certainly should be understood that consumers of smaller utilities are deserving of as much state (PUCO) protection as consumers of larger utilities. Here, the consumers of Northeast Ohio Natural Gas Corp. ("NEO Gas" or "Utility") need that PUCO protection regarding a proposed new charge that would increase typical bills by nearly $43 annually. And NEO Gas's proposed rate increase comes at a time of the financial crisis of the pandemic.

NEO Gas wants to collect a return of (depreciation) and on (profit, etc.) associated with its October 2019 purchase of the Orwell-Trumbull Pipeline Company, LLC ("OTP"). NEO Gas is proposing this rate increase as a single-issue charge under alternative regulation. It has not filed a general rate case where its profit (return on equity) and other ratemaking factors are considered (that may offset some of the proposed increase). The proposed charge will also include ongoing expenses to operate and maintain the newly acquired pipeline.

I. BACKGROUND

By Finding and Order in Case No. 19-1921-PL-ATR[1] on December 4, 2019, the PUCO approved the transfer of certain utility property and other non-cash items for OTP to NEO Gas

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[1] *In the Matter of the Joint Application of Northeast Ohio Natural Gas Corp. and Orwell-Trumbull Pipeline Company, LLC for Approval of an Asset Transfer and Related Authority*, Finding and Order (Dec. 4, 2019).

("Purchased Assets"). The PUCO noted that NEO Gas planned to collect the costs for the Purchased Assets from customers in a future proceeding. The PUCO also approved the recording the Purchased Assets as $13,310,881, with a depreciation reserve of $4,100,921 as of September 1, 2019, subject to Staff conducting a used and useful test.[2]

NEO Gas asserts its new Infrastructure Acquisition Adjustment Rider ("IAAR") is just and reasonable because the Purchased Assets enabled it to deliver safe and reliable service, without interruption, to over 10,000 customers that are served by the former OTP pipeline.[3] NEO Gas also maintains that creation of the IAAR is reasonable outside of a base rate case because it completed a rate case as recently as September 2019.[4]

NEO Gas proposes valuation and the related accrued depreciation for the Purchased Assets be the amounts approved by the PUCO as of June 30, 2020.[5] The utility proposes an April 1, 2020 through March 31, 2021 test year for expenses. NEO Gas proposes an annual revenue requirement of $1,558,041 and IAAR rates for residential customers with a fixed charge of $1.88 per month and a volumetric charge of $0.1696 per month. Together, these charges would raise a typical residential consumer's annual charges paid to NEO Gas by approximately $43.

Under the traditional ratemaking that OCC recommends for consumer protection (instead of the singe-issue approach of this alternative regulation case), NEO Gas' shareholders would not earn a return on the Purchased Assets until the assets are added to NEO Gas' rate base in its next rate case.

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[2] *Id*.

[3] NEO Gas Application (Sept. 29, 2020) at 9.

[4] *Id*.

[5] *See*, Case No. 19-1921-PL-ATR, which approved the Purchased Assets transfer.

The PUCO Staff filed its Staff Report in this case on March 30, 2021. The Staff confirmed the used and usefulness of the Purchased Assets and removed assets that could not be confirmed to be used and useful from NEO Gas' proposed rate base. The Staff made related adjustments to the accumulated depreciation reserve, normalized NEO Gas' reported revenues, and made adjustments to several of NEO Gas' reported expenses. With these adjustments, the PUCO Staff recommends that the PUCO approve NEO Gas' Application. The PUCO Staff's recommendations result in an adjusted revenue requirement of $1,471,211 and a proposed $1.77 per month fixed charge plus a $0.1601 per Mcf volumetric charge. Under Staff's adjustments, a residential customer using an average of 10 Mcf per month would pay approximately $40 per year under the new Rider.

OCC agrees with and supports the Staff on the following:

- The PUCO Staff properly recommended that it will confirm that NEO Gas properly removed gas supply costs associated with the Purchased Assets from its Gas Cost Recovery ("GCR") rates in NEO Gas' next GCR filing.[6]

- The PUCO Staff properly recommended that $191,089 be removed from NEO Gas' proposed rate base because the Staff could not confirm that the associated assets were still in service and used and useful in providing utility service to customers.[7]

- The PUCO Staff properly recommended that NEO Gas' accumulated depreciation reserve be adjusted by $59,192 to recognize the Staff's recommended rate base adjustment.[8]

- The PUCO Staff properly accepted NEO Gas' proposed normalization adjustments to reduce test year revenue by $19,343.[9]

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[6] Staff Report at 3.

[7] *Id.*

[8] Staff Report at 3-4.

[9] *Id*. at 4.

- The PUCO Staff properly recognized NEO Gas' adjustment to remove $6,796 in telemetering expense that had previously been paid to OTP.[10]

- The PUCO Staff properly recommended that NEO Gas' initial request for $6,000 for incremental communication and cell phone expenses should be reduced by $4,200 to $1,800 to reflect actual versus budgeted expenses during the test year.[11]

- The PUCO Staff properly recommended that NEO Gas' entire request for $6,000 for National Association of Corrosion Engineers professional certifications be eliminated because the certifications and their related costs were not incurred during the test year.[12]

- The PUCO Staff properly recommended that NEO Gas' proposed distribution maintenance expenses be reduced by $53,889 to $6,111 per year to reflect the actual distribution maintenance expenses incurred during the test year.[13]

- The PUCO Staff properly recommended that NEO Gas should continue to use the authorized accrual rates from its most recent rate base rate case (Case No. 18-1720-GA-AIR) for book depreciation purposes, concurrent with customer rates from this case.[14]

- The PUCO Staff properly noted that NEO Gas used an incorrect accrual rate for account 396 Power Operated Equipment in its Application. Staff properly recommended that the utility should apply the correct authorized rate of 6.15 percent and that the resulting depreciation expense reduction be included as a flow-through calculation.[15]

- The PUCO Staff properly recommended that NEO Gas' $3,411 normalization adjustment to recognize property tax expenses for the Purchased Assets should be eliminated because the utility was unable to provide Staff sufficient support for the adjustment.[16]

- The PUCO Staff properly accepted NEO Gas' adjustment to remove $146 for gross receipts taxes to reflect actual expenses incurred.[17]

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[10] *Id*.

[11] *Id*.

[12] Staff Report at 4-5.

[13] Staff Report at 5.

[14] *Id*.

[15] *Id*.

[16] Staff Report at 6.

[17] Staff Report at 6.

- The PUCO Staff properly recommended an adjusted test year federal income tax expense of $34,804 that reflects Staff's recommended adjustments.[18]

OCC objects to PUCO Staff's recommendation allowing NEO Gas to collect a return of and on the Purchased Assets and related operating and maintenance expenses through an alternative rate proceeding rather than a traditional distribution rate case. OCC objects to NEO Gas' Application to create a rider. It would be better for consumers if NEO Gas files a base rate case to seek collection of the Purchased Assets. To protect NEO Gas' customers, OCC recommends that the PUCO adopt the following OCC objections to the Staff Report.

II. OBJECTIONS

Objection 1. The PUCO Staff should have recommended that NEO Gas use traditional ratemaking to collect return of and on the Purchased Assets and the expenses to operate and maintain the newly acquired assets.

NEO Gas filed its Application in this case under Revised Code 4909.18 and 4929.05.[19] R.C. 4929.05 sets forth the requirements for natural gas utilities to file an application for an alternative rate to establish mechanisms such as a rider to collect charges from customers for a single issue. Single-issue alternative rate filings are in contrast to the traditional ratemaking approach where changes to factors affecting a utility's revenue needs (such as changes in revenue, all expenses, equity costs and risks, debt costs, taxes, etc.) would be considered simultaneously in order to set just and reasonable rates that customers pay. Single-issue ratemaking lacks the consumer protections found in traditional ratemaking because the impact of all of the utility's revenues and expenses are not reviewed. NEO Gas should seek to collect a

[18] *Id.*

[19] Application at 3.

return of and on the Purchased Assets and the related expenses in a distribution base rate case rather than through an alternative ratemaking proceeding.

Traditional ratemaking is fairer to NEO Gas' customers and should be used determine how much and when customers should pay for the Purchased Assets rather than the single-issue alternative rate plan approach recommended by the utility.

Objection 2. PUCO Staff should have recommended an end date for the rider created under the Application to protect customers from a protracted period between NEO Gas rate cases.

The Staff Report recommends that the PUCO approve NEO Gas' Application to create the new rider without any limitations on how long the new charge to consumers may be in effect. This lack of any limitation on the time period for the charge could contribute to a protracted period between rate cases for NEO Gas that could harm consumers.

The existence of single-issue riders and other policies favorable to gas utilities have led to excessively long periods between rate cases for several gas utilities. These protracted periods between rate cases benefitted the utilities at customers' expense. For example, Columbia Gas of Ohio filed its last rate case in Case No. 08-072-GA-AIR on March 3, 2008. And Columbia is not expected to file a new base rate case until June 20, 2021 – more than 13 years between rate cases. Similarly, Dominion East Ohio Gas filed its last rate case in 07-829-GA-AIR on August 30, 2007. Under a settlement agreement approved in Case No. 18-1908-GA-UNC, et al, Dominion will file a base rate case by October 2024.[20] – a full 17 years between base rate cases.

Utilities control when they file rate cases. They can file a rate case when they need to, and they can avoid filing a case when it is to their advantage. Avoiding rate cases has been very

[20] *In the Matter of the Application of the East Ohio Gas Company D/B/A Dominion Energy Ohio for Implementation of the Tax Cuts and Jobs Act of 2017.* Case No. 18-1908-GA-UNC *et. al.*, Finding and Order (Dec. 4, 2019).

advantageous to the larger gas utilities in Ohio for the past several years. For example, the utilities have instituted capital recovery riders that enable them to collect on rate base additions between rate case at excessively high rates of return that include outdated and inflated equity returns that no longer reflect current business risk and debt costs embedded in customer rates that are well above the utilities' actual debt costs.[21]

If the PUCO approves NEO Gas' Rider Application in this case (which it should not), then it should impose a termination date for the rider that is not more than five years after the date that the rider becomes effective. A firm termination date for the rider will help prevent an excessive time period between NEO Gas' rate cases and help protect consumers from continuing to pay the rider charges for a protracted period.

Objection 3. To protect consumers, the Staff Report should have recommended that customers not pay new charges until after the coronavirus emergency is over (and not pay new charges for a reasonable time after).

NEO Gas filed its request to add a new charge to customer bills during the midst of the coronavirus pandemic and ensuing health and financial emergency. The struggles that Ohioans are facing now and the struggles they will continue to face even after the formal declaration of emergency ends are well documented. The Staff Report makes no mention of the proposed rider's impact on customers due to the coronavirus. It should have.

If the PUCO approves any new charges in this case (whether they be the $1.77 per month fixed charge and $0.1601 per Mcf volumetric charge proposed in the Staff Report or some other numbers), it should not allow NEO Gas to start charging customers until a reasonable time after the pandemic ends. In this time of emergency due to the coronavirus—where consumers are

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[21] *See, e.g., In the Matter of the Application of the East Ohio Gas Company d/b/a Dominion Energy Ohio for Approval of an Alternative Form of Regulation*, Case No. 19-0468-GA-ALT.

dealing with lost jobs, lost wages, and associated challenges—increased charges should be deferred with minimal (if any) carrying charges until after the emergency ends and for a reasonable time after. This will help consumers to deal with the impact of the state of emergency and recover from the financial impact it has had and will continue to have for years to come.

III. CONCLUSION

New charges—nearly $43 per year—should not be added to customers' bills in the middle of the coronavirus pandemic and financial emergency. To protect consumers from paying unreasonable rates under NEO Gas' proposed new rider charge, the PUCO should adopt OCC's consumer protection objections.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Objections was served on the persons stated below via electronic transmission, this 29th day of April 2021.

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The PUCO's e-filing system will electronically serve notice of the filing of this document on the following parties:

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