A Report by the Staff of the Public Utilities Commission of Ohio

Suburban Natural Gas Company
Case Numbers 22-1132-GA-ALT, 23-21-GA-AAM, 23-22-GA-ATA

July 19, 2023

Ohio | Public Utilities Commission

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Suburban Natural Gas Company for Approval of an Alternative Form of Regulation.	)))	Case No. 22-1132-GA-ALT
In the Matter of the Application of Suburban Natural Gas Company for Approval to Change Accounting Methods.	)))	Case No. 23-21-GA-AAM
In the Matter of the Application of Suburban Natural Gas Company for Approval to Establish Capital Expenditure Program Rider	)))	Case No. 23-22-GA-ATA

Jenifer French, Chair
Daniel R. Conway, Commissioner
Dennis Deters, Commissioner
Lawrence K. Friedeman, Commissioner
John D. Williams, Commissioner

To the Honorable Commission:

In accordance with the provisions of Ohio Administrative Code Section 4901:1-19-07, the Commission's Staff submits its investigation findings and recommendations within the Staff Report.

The Staff Report was prepared by the Commission's Rates & Analysis Department. The Staff Report is intended to present for the Commission's consideration the results of the Staff's investigation. It does not purport to reflect the views of the Commission, nor should any party to the above-captioned proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein. The Staff Report, however, is legally cognizable evidence upon which the Commission may rely in reaching a decision in this matter. (*See Lindsey v. Pub. Util. Comm.*, 111 Ohio St. 6 (1924)).

Respectfully submitted,

David Lipthratt
Accounting and Finance Division
Public Utilities Commission of Ohio

Suburban Natural Gas Company
Case No. 22-1132-GA-ALT
Case No. 23-0021-GA-AAM
Case No. 23-0022-GA-ATA

INTRODUCTION

R.C. 4929.05 governs approval of alternative rate plans for natural gas companies. Under R.C. 4929.05, a natural gas company may seek approval of an alternative rate plan by filing an application under R.C. 4909.18, regardless of whether the application is for an increase in rates. R.C. 4929.05 provides that, after an investigation, the Public Utilities Commission of Ohio (Commission) shall approve an alternative rate plan if (1) the applying natural gas company is in compliance with R.C. 4905.35 and is in substantial compliance with the state's policy found in R.C. 4929.02, (2) the natural gas company is expected to continue to be in substantial compliance with R.C. 4929.02 after the implementation of the alternative rate plan, and (3) the natural gas company's proposed alternative rate plan is just and reasonable. The natural gas company has the burden of proof to show that its proposed alternative rate plan meets all these requirements.

Under R.C. 4929.111, a natural gas company may file an application under R.C. 4909.18, 4929.05, or 4929.11 to implement a capital expenditure program (CEP) for any of the following: (1) any infrastructure expansion, infrastructure improvement, or infrastructure replacement program, (2) any program to install, upgrade, or replace information technology systems, or (3) any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction. In approving the application, the Commission shall authorize the natural gas company to defer or recover both of the following: (1) a regulatory asset for post-in-service carrying costs (PISCC) on the portion of the assets of the CEP that are placed in service but not reflected in rates as plant in service, and (2) a regulatory asset for the incremental depreciation directly attributable to the CEP and the property tax expense directly attributable to the CEP but not reflected in rates. A natural gas company shall not request recovery of the PISCC, depreciation, or property tax expense under R.C 4929.05 or R.C. 4929.11 more than once each calendar year.

R.C. 4929.111(C) requires the Commission to approve the application if the Commission finds that the CEP is consistent with the natural gas company's obligation under R.C. 4905.22 to furnish necessary and adequate services and facilities, which the Commission finds to be just and reasonable.

Under Ohio Adm.Code 4901:1-19-07(C), Staff of the Commission must "file a written report which addresses, at a minimum, the justness and reasonableness of the proposed alternative rate plan." This report provides Staff's conclusions and recommendations to the Commission regarding Suburban Natural Gas Company's (Suburban or Company) proposed alternative rate plan as filed in Case No. 22-1132-GA-ALT, *et al.*

BACKGROUND

Suburban provides natural gas service to approximately 19,000 residential, commercial, and industrial customers spread across two distinct distribution systems located in northwest and central Ohio. The northwest Ohio system (which Suburban refers to as "CORE") serves approximately 4,200 commercial, industrial, and residential customers located in Henry, Lucas, and Wood Counties. Suburban maintains an operations and customer service center in Cygnet. Suburban's central Ohio system (which Suburban refers to as "SCOL") serves approximately 15,000 commercial, industrial, and residential customers in Delaware and Marion Counties. Its headquarters, operations center, and an administrative office are in Lewis Center, Ohio.

On December 8, 2022, Suburban filed a notice of intent to file an application for approval of an alternative rate plan under R.C. 4929.05, R.C. 4929.11, R.C. 4929.111, and R.C. 4909.18.

On January 10, 2023, Suburban filed an application (Application) for approval to implement an alternative rate plan to establish a capital expenditure program, to establish the associated Rider CEP, and for approval to implement corresponding accounting methods.

On February 9, 2023, Staff filed a consolidated review and recommendation in each of the above-referenced case dockets. Therein, Staff found Suburban's Application to be in substantial compliance with the filing requirements of Ohio Adm.Code 4901:1-19-06, but not technical compliance. Additionally, Staff objected, in part, to Suburban's motion for waivers. Staff stated that upon Suburban providing the information in certain sections of the standard filing requirements (SFRs), the Application would then comply with the requirements of Ohio Adm.Code 4901:1-19-06.

On February 10, 2023, Suburban filed correspondence stating that it did not object to providing Staff with the additional information responsive to the SFRs in Chapter III, Sections B, C, D, and E, except for a cost of service study (COSS), which Suburban believed would be best filed in its next distribution rate case.

On February 22, 2023, Suburban filed a second response to Staff's review and recommendation. Attached to this filing is the additional information required under the SFRs in Chapter III, Sections B, C, D, and E. Suburban stated that, consistent with Ohio Adm.Code 4901:1-19-07(A)(3), this filing of the requested information placed the Application in technical compliance and that the Application should be deemed to have been filed and accepted as of January 10, 2023.

On February 24, 2023, Staff filed a letter in accordance with Ohio Adm.Code 4901:1-19-07(A) stating that Staff found that the Application filed on January 10, 2023, as supplemented by the February 22, 2023 filing, was in technical compliance with the SFRs for alternative rate plan applications in Ohio Adm.Code 4901:1-19-06, provided that Staff's recommendations as to requested waivers are adopted by the Commission.

On March 8, 2023, the Commission found that the Application was deemed to have been filed as of January 10, 2023.

OVERVIEW OF SUBURBAN'S PROPOSED ALTERNATIVE RATE PLAN

Suburban proposes to establish an initial CEP and Rider CEP to be effective upon the issuance of an order in this proceeding. Suburban proposes that the CEP and Rider CEP continue until new rates become effective in Suburban's next base rate case proceeding.[1]

Suburban is also requesting accounting authority on a going forward basis to (1) account for the deferral of depreciation expense on all investments between the dates the property is placed into service and the date recovery of each investment commences through Rider CEP, (2) defer property taxes on all investments between the dates the property is placed into service and the date recovery of each investment commences through Rider CEP, and (3) defer PISCC on all investments between the dates the property is placed into service and the date recovery of each investment commences through Rider CEP. Under Suburban's proposal, deferred expenses such as deferred depreciation, deferred property taxes, and deferred PISCC would be amortized over the life of the associated assets using the current depreciation rate. Amortization would not begin until Suburban begins recovering the associated expense through Rider CEP.

Suburban proposes to establish Rider CEP as a fixed monthly charge, adjusted each year to recover costs associated with the prior year's CEP investments and CEP deferral. Annually, by August 31st, Suburban intends to file to adjust Rider CEP rates to collect from customers the costs associated with the CEP investments, updated regulatory asset balances, and related deferrals for the proceeding twelve-month period. Each annual rider adjustment filing will contain schedules based on twelve months of actual data from the prior twelve-month period. The rate of return used to develop the revenue requirement in each such filing will be based on the capital structure and cost of capital authorized by the Commission in Suburban's most recent base rate case, Case No. 18-1205-GA-AIR, *et al.*[2]

Suburban also proposes to defer expenses associated with new CEP investments until recovery begins on the underlying assets. After review of the CEP investments for the prior twelve-month period, Suburban proposes that Staff file a report each year. The new Rider CEP rate will become effective with bills rendered on or after November 1st of each year unless Staff finds Suburban's adjustment filing to be unjust and unreasonable, or any other party granted intervention by the Commission files an objection within fifteen days of the issuance of the Staff Report. If no objections are filed within such period, Suburban's CEP will be deemed approved. Suburban proposes to recover any costs incurred for the CEP audit through the CEP rider.

Attachment E of the Company's application addresses compliance with R.C. 4905.35 and 4929.02. Suburban states that it complies with R.C. 4905.35. Suburban will not make or give any undue or unreasonable preference or advantage to any person, firm, corporation, or locality or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage. Suburban offers its regulated services to all similarly situated consumers. Suburban does not condition or limit the availability of any regulated services or goods or condition the availability

---

[1] Under the stipulation approved in Suburban's last rate case, Suburban committed to file an application for an increase in base rates by October 31, 2025. *See In re Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates*, Case No. 18-1205-GA-AIR, *et al.*, Opinion & Order ¶ 141 (Sept. 26, 2019), Opinion & Order on Remand (Feb. 23, 2022).

[2] *See id.*, Opinion & Order (Sept. 26, 2019).

of a discounted rate or improved quality, price, term, or condition for any regulated services or goods, on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from Suburban. Suburban states that its Application is consistent with R.C. 4929.02 regarding state policy on natural gas services and goods. Suburban states that its proposed alternative rate plan is just and reasonable.

STAFF'S INVESTIGATION

Staff investigated Suburban's Application, exhibits, and testimony supporting the establishment of the CEP and Rider CEP. Staff reviewed the schedules supporting the Rider CEP revenue requirement and proposed rider rates. Staff conducted its investigation through a combination of data requests, interviews with Company personnel, site visits, and document review.

STAFF'S COMMENTS AND RECOMMENDATIONS

Staff recommends approval of the CEP program and Rider CEP with the following modifications.

1. The audit period should be adjusted so that 12 months of plant is filed on August 31st and the rate goes into effect on March 1st instead of Suburban's proposal for rates to go into effect November 1st. This increases the audit period from the Company's proposed two months to six months. The Company's proposed 60-day period is highly accelerated for a CEP rider. The additional audit period will allow Staff time to adequately review the annual filing. A CEP rider audit includes a comprehensive review of all asset categories and a review for accuracy of deferrals, rate design, and offsets. All other CEP rider programs take between six and eight months to audit. Staff supports the Company's proposal that the rate goes into effect automatically, subject to over/under reconciliation, but on Staff's modified date of March 1st.

2. The revenue requirement formula for the period July 1, 2022 going forward should be modified to include an incremental revenue offset. This is consistent with other CEP programs and would match as an offset to the deferrals. The formula for the offset should mirror other CEP rider formulas and is as follows:

[(Current Month's Customers - Baseline Customers) x (Cost Portion of Rate)] + [(Consumption by non-SFV customers directly attributable to program investment) x (Cost Portion of Rate)] + (Other revenues directly attributable to program investment)

All other deferral calculations (PISCC, property tax, depreciation expense) should follow the standard formula:

PISCC
[(Previous Month's Cumulative Gross Plant Additions) – (Previous Month's Cumulative Retirements) – (Previous Month's Accumulated Depreciation)] x [(Long Term Debt Rate) / (12 Months)]

Depreciation Expense
[(Current Month CEP Gross Plant Additions) – Current Month CEP Retirements)] x [(Depreciation Rate / 12 Months) x ½) + [(Prior Month-end Cumulative CEP Gross Plant Additions – Cumulative Prior Month CEP Retirements) x (Depreciation Rate / 12 months)]

Property Tax Expense
[(Previous Year's Cumulative Gross Plant Additions) - (Previous Year's Cumulative Retirements)] x (Percent Good Adjustment) x [(Effective Property Tax Rate) / (12 Months)]

3. Audit costs should be borne by the Company. This is consistent with all other CEP programs' structure.[3]

4. The Company should include a schedule in its annual filing that includes plant-in-service by investment category as outlined in its Application, including the following categories:

- Replacement/public improvement/betterment
- Acquisitions
- Growth
- Support services
- Information technology

If there is a change to these categories in the future, the Company should identify these changes in the annual rider filing.

5. The Company should include in the annual filing a detailed budget for the next year and actual spending for the current year by the five categories identified above.

6. Staff agrees with Suburban that this CEP rider will sunset when a subsequent order is issued in Suburban's next base distribution rate case proceeding and new rates become effective in that proceeding.

7. Staff recommends applying a CEP rider rate cap for the Small General Service (SGS) rate. After the first year, the SGS monthly rate shall not increase by more than $0.20 per year. Any capital spending above the cap would not be eligible for deferrals. The Company says it does not have a formal three-year capital spending budget and its capital expenditures are dependent on customer growth and expansion.[4] However, the Company provided projected revenue requirements,[5] and these caps comport with the estimates.

[3] The Company has the opportunity to include annual O&M expenses, including any costs pertaining to the audit, in the test year of its next rate case filing. Staff reserves the right to review any such costs in the process of investigating any future rate case and takes no position at this time on whether they would be recoverable.
[4] *See* Staff Data Request 2.
[5] *See* Staff Data Request 3, Attachment B.

8. Revenue Requirement

Overview

In its Application, Suburban is proposing to recover net plant-in-service, which includes gross capital investments placed in service since the date certain of its last rate case through June 30, 2022 (the date certain in the Application), adjusted for retirements, transfers and adjustments, and offset by accumulated depreciation, including depreciation expense, retirements and transfers, and adjustments (*e.g.,* excluding costs recovered through Rider IRP). Suburban has also included an offset for accumulated depreciation that has occurred on existing assets in rate base since the last rate case through June 30, 2022 (Depreciation Offset). Additionally, the Company has included an offset for Accumulated Deferred Income Taxes (ADIT) because it represents a non-investor source of funds, resulting from differing treatments of tax and book expense. Lastly, the Company includes the annualized depreciation and property tax expense calculated for the test year for the twelve months ending June 30, 2022.

The Application includes a net rate base of $5,532,638 and applies a pre-tax rate of return on rate base of 8.56%, which is the approved pre-tax rate of return from Suburban's most recent base rate case, Case No. 18-1205-GA-AIR, et al.[6] This calculation produces an annualized return on rate base of $473,587. The annualized operating expenses (depreciation and property tax) of $498,063 is added to produce a proposed revenue requirement of $971,649. Using an estimated number of annual bills issued of 231,649 and Suburban's proposed rate design, the estimated monthly rate impact is $4.20 for all customer classes.

Through its investigation, Staff has found that the Company was able to provide detailed continuing property records to support its plant-in-service balances. For the work order / job detail that the Company provided in support of its capital additions, Staff selected for detailed transactional testing 24 out of a total 34 mains related jobs, of which $5,885,721 out of a total of $6,899,018 was selected for sampling. Staff also selected for transactional testing $943,736 out of a total $1,217,043 of non-mains account additions and $199,651 out of $803,402 of capitalized labor not assigned to a job number. For field inspections, Staff viewed the majority of the additions in the SCOL system during two different site visits and performed a desktop review for the CORE system capital additions. Staff found that all the work included in the work orders and jobs sampled are capital in nature, and the scope of work and cost detail coincided with the applicable FERC 300 accounts to which the work applies in accordance with the FERC Uniform System of Accounts. The projects were classified to the proper distribution and general equipment FERC accounts.

Capitalized Financial Incentives

In its plant-in-service investigation, Staff identified $10,000 as capitalized financial incentive.[7] Staff's position is that customers should not pay for capitalized financial incentives, and Staff recommends that all capitalized incentive compensation be excluded from Rider CEP.

---

[6] *See In re Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates*, Case No. 18-1205-GA-AIR, *et al.*, Opinion & Order (Sept. 26, 2019).
[7] *See* Staff Data Request 8.

Projects 788 and 859

Project numbers 788 and 859, which include accounts 376-Mains and 379-Measuring & Regulating Station Equipment, are pipeline projects that were capitalized in 2021 and 2022 totaling $1,238,219. These projects include approximately 1.96 miles of 4" and 6" mains pipeline on which no customers were being served as of the June 30, 2022 date certain. The Company explained that it expects these lines eventually to primarily serve a planned-for industrial park along State Routes 36 and 37. Because these pipelines were not serving customers as of the date certain, they were not benefitting customers and were not used and useful. Accordingly, it is inappropriate to include these capital projects in rate base for purposes of Rider CEP at this time, and Staff recommends that they be removed from the requested revenue requirement. Additionally, Staff recommends removal of the pro rata share of capitalized labor associated with these two projects, which totals $212,154.60. Staff reserves all rights with respect to its evaluation of these projects in future proceedings, should they become used and useful in the future and be included for recovery in a subsequent filing by Suburban.

The Del-Mar Pipeline Extension

In Suburban's most recent base rate case (Case No. 18-1205-GA-AIR), the Commission ruled that Suburban was allowed to include in rate base 2.0 miles of a 4.9-mile pipeline extension generally referred to as the Del-Mar extension. At the time, the Commission ruled that Suburban had not established that the remaining 2.9 miles was "used and useful" under R.C. 4909.15 as of the date certain in that case, February 28, 2019.[8] In the current Application, Suburban seeks to include the remaining 2.9 miles in its proposed Rider CEP.

Staff has done a thorough investigation to assess whether the remaining 2.9 miles of the Del-Mar extension were used and useful as of the date certain in the current case, June 30, 2022. Based on Staff's analysis of information provided through field visits, interviews with Company personnel, and responses to Staff data requests (included engineering analyses provided by Suburban's outside engineers), Staff recommends that the Commission find that the entire 4.9-mile Del-Mar extension was used and useful on June 30, 2022 and can be included in customer rates.[9]

Summary

With the exception of the proposed disallowances above, and subject to Staff's other recommendations in this Staff Report, Staff's investigation found that Suburban's capital investments were in service and beneficial to customers on the date certain. The investments are used and useful, and it is just and reasonable to include them in charges to customers under proposed Rider CEP (subject to Staff's other recommendations in this Staff Report, including but not limited to caps on Rider CEP for SGS customers).

Finally, Staff has reviewed the Depreciation Offset, ADIT, annualized depreciation expense, and property tax expense, and finds that they were accurately calculated as part of the Company's

[8] Case No. 18-1205-GA-AIR, Order on Remand (Feb. 23, 2022).
[9] *See, e.g.,* Staff Data Requests 7, 17, 18, 19, 20.

Application. As a result of Staff's adjustments as described above, there are associated flow-through impacts to these components, which are shown on Attachment A.

Staff's recommendations result in an adjusted revenue requirement of $739,375, as shown on Attachment A.

9. Rate Design & Allocation

The Company proposed a $4.20 customer charge per month for each customer across all customer classes. Staff recommends changes to Suburban's proposed allocation and rate design.

As discussed above, Suburban requested and was granted a waiver of the requirement that it provide a COSS in this proceeding. A COSS informs rate design. Generally, Staff supports a rate design for CEP riders that allocates revenues by class according to the total rate base allocation to the classes within the Company's most recent COSS. In the absence of a COSS, base revenues are the best available foundation for assigning costs to the rate classes and customers for the Company. Therefore, Staff recommends that Suburban's CEP rider allocate the rider's revenue requirement to each rate class in accordance with the base rates revenue allocation approved in Suburban's most recent base rate case, Case No. 18-1205-GA-AIR.

To effectuate this, Staff recommends a rate design that charges all customer classes a surcharge percentage of base rates. If the Company's billing system is unable to implement a surcharge, an alternative rate design would be to allocate revenues by customer class, then allocate each class's revenue requirement to a fixed charge and volumetric charge by replicating the rate design in Suburban's most recent base rate case. In the absence of a COSS, either of these rate design options will accomplish the objective of mirroring the last base rate case for future rider revenue recovery.

10. Compliance Tariffs

Staff's recommendations in this Report include disallowances of certain capital investments (and related adjustments made necessary by those disallowances), disallowance of capitalized financial incentives, and changes to Suburban's proposed allocation and rate design. If Staff's proposals are adopted, Suburban should be required to provide updated bill impacts and tariffs to Staff that are consistent with the Commission Order. Staff will review the new rates and verify that the tariffs are updated correctly. Staff also recommends that if the Company seeks to continue the CEP rider after its next base rate case, this rate design should be reviewed and altered according to the COSS filed within that base rate case.

CONCLUSION

Subject to the adoption of Staff's recommendations outlined in its investigation, Staff recommends that the Commission find that Suburban has met its burden of proving that its proposed alternative rate plan complies with R.C. 4905.35, is in substantial compliance with state policies under R.C. 4929.02, is expected to continue to be in substantial compliance with state policies under R.C. 4929.02 after implementation of the alternative rate plan, is just and reasonable in accordance with R.C. 4929.05, and is consistent with Suburban's obligations under R.C. 4905.22 to furnish necessary and adequate services and facilities. Accordingly, Staff respectfully recommends that the Commission approve Suburban's Application, as modified by Staff's recommendations made herein.

ATTACHMENT A

Line No.	Description	Cumulative through June 30, 2022
1	**Plant in-Service**	
2	Additions	$7,356,435
3	Original Cost Retired	(551,009)
4	Transfers and Adjustments	3,246,868
5	Total Plant in-Service	10,052,294
6	**Less: Accumulated Provision for Depreciation**	
7	Depreciation Expense	674,589
8	Original Cost Retired	(551,009)
9	Transfers and Adjustments	2,695,294
10	Total Accumulated Provision for Depreciation	2,818,874
11	**Subtotal: Net Capital Additions**	7,233,420
12	**Depreciation Offset**	(3,329,794)
13	**Net Plant in-Service**	3,903,626
14	**Accumulated Deferred Income Taxes**	
15	Accumulated Deferred Income Tax-Depreciation	(268,186)
16	Total Accumulated Deferred Income Tax	(268,186)
17	**Net Rate Base**	3,635,439
18	Approved Pre-tax Rate of Return	8.56%
19	**Annualized Return on Rate Base**	311,189
20	**Operating Expenses**	
21	Annualized Depreciation	227,037
22	Annualized Property Tax Expense	201,149
23	Total Annualized Operating Expenses	428,186
24	**Revenue Requirement**	$739,375

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

7/19/2023 11:08:54 AM

in

Case No(s). 22-1132-GA-ALT, 23-0021-GA-AAM, 23-0022-GA-ATA

Summary: Staff Report of Investigation electronically filed by Zee Molter on behalf of PUCO Staff.