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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PUCO

In the Matter of Gas Technology Institute : Docket No. RP04-378-000
:

**COMMENTS
OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

Pursuant to the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rule 211 *Rules of Practice and Procedure* 18 C.F.R. 385.211, the Public Utilities Commission of Ohio (PUCO) hereby submits these Comments. The PUCO appreciates this opportunity to submit comments supportive of Gas Technology Institute's ("GTI") Research, Development and Distribution ("RD&D") funding proposal and the opportunities it creates for voluntary industry participation.

Communications

All pleadings, correspondence, and other communications related to this proceeding should be addressed to the following persons:

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Introduction

As an important adjunct to its regulatory oversight role, the PUCO endorses active and ongoing research and development ("R&D") programs and the capabilities and contributions of industry participants in those important efforts. Funded collaborative R&D efforts into such matters and areas as transmission and distribution functions, end-use efficiency, renewables and environmental purposes contribute to and significantly benefit our citizens, ratepayers – indeed our society as a whole. Utility-sponsored research has contributed largely to these efforts.

The PUCO continues to support ongoing collaborative efforts to identify and develop new fundings and governance mechanisms based upon certain key principles:

- The public receives important net benefits from public purpose R&D;
- Public purpose R&D should be better defined and communicated so the public will understand its benefits and costs as well as its relationship to public policy goals;
- Public purpose R&D should continue to be performed by institutions such as national labs, and other State-level and national-level entities;
- State and/or Federal governments should intervene in markets to the extent needed to continue public purpose R&D;
- Public purpose R&D should be administered by institutions with governance responsive and accountable to their funders; and
- In addition to voluntary support, funding for public purpose R&D should be provided, to the extent needed, by some combination of mechanisms, including, but not limited to: taxes, tax credits, and/or non-bypassable system charges.

Background

Prior to 1998, a significant amount of research for the natural gas industry was provided by the Gas Research Institute ("GRI") through a cost recovery mechanism resulting in a charge of \$0.0174 per dekatherm (or \$0.0179 per Mcf) to all qualifying natural gas customers ("FERC-approved program"). The FERC-approved program was collected by the interstate pipeline industry. In 1998, a decision by the Commission resulted in incrementally decreasing this FERC-approved program over a period of seven years, and will cease to provide any research revenues beyond 2004.¹ During the 1998-2004 period, the FERC-approved program funds were targeted specifically to: (1) enhance environmental quality; (2) enhance health and safety; (3) lower operating and maintenance costs; (4) improve reliability and integrity; (5) increase efficiency; and (6) increase gas supply from emerging resources.

Since 1998, through the "Delta" program, the Gas Technology Institute has provided an opportunity for the natural gas industry to voluntarily invest research dollars in programs that are tailored specifically for State and regional local distribution company ("LDC") customer requirements. Under the "Delta" program, as approved by State public utility commissions, local natural gas distribution utilities collect a charge to fund

¹ The PUCO notes and applauds the efforts of groups, particularly NARUC's Gas Committee, which has been actively involved in seeking an equitable solution for funding GRI's R&D program since 1992. As the gas industry transitioned toward becoming a more competitive industry, funding for GRI from 1994 through 1997 was via an interim mechanism established in a FERC-approved Settlement and Agreement ("S&A"). Pursuant to the 1998 S&A, funding for GRI's R&D program through FERC-approved surcharges collected by interstate pipelines rapidly declined from 1998 through 2000, and terminate during 2004. *Gas Research Institute*, 83 FERC ¶61,093 (1998), *rehearing denied*, *Gas Research Institute*, 83 FERC ¶61,331 (1998). The S&A provided that, subsequent to 1994, GRI would be funded through other sources, none of which is subject to the Commission's jurisdiction. The Commission's approval of the 1998 GRI settlement brought to an end many years of heated and highly contentious discussion surrounding GRI and its customer-funded research program. During this same period, GRI and the Institute of Gas Technology joined forces to form the Gas Technology Institute.

ongoing natural gas research programs for distribution cost reduction and increased efficiency end-use applied R&D. Currently, the "Delta" program produces funds totaling \$17 million annually. However, the "Delta" programs have only yielded a fraction of the funding that industry participants believe is necessary for research into essential subjects such as gas supply, T&D safety, reliability, and efficiency. It is notable that the "Delta" program has complemented the FERC-approved program by focusing on research programs that are of specific interest while the FERC-approved program has focused on national and more basic research issues.

As the FERC-approved funding comes to an end in 2004, there is recognition that a new mechanism that will assure the continued emphasis on national and basic research projects is in the public interest. Also, in light of GTI's application in this docket, it is now time to reexamine the need for collaborative public interest R&D.

The Application

On July 1, 2004, the Gas Technology Institute filed an application with the Commission requesting approval of the following: (1) a Five-Year Collaborative Research, Development and Demonstration Plan, (2) a 2005 Collaborative RD&D Program, and (3) advance rate approval for collection of funding of its RD&D activities for 2005, pursuant to Section 154.401 of the Commission's regulations under the Natural Gas Act. GTI's application for the 2005 Collaborative RD&D Program was submitted on behalf of the gas industry to address T&D cost reduction, gas utilization, and gas supply research projects. GTI's application calls for a new, independent board of trustees to oversee the program in order to provide input and guidance on RD&D priorities, funding

levels and program execution as well as sector-specific committees addressing supply, T&D, and utilization.

GTI's 2005 Collaborative RD&D Program will be funded through a voluntary \$0.0056 per dekatherm (or \$0.0058 per Mcf) surcharge on specified interstate pipeline volumes. The commodity surcharge will be charged by those pipelines voluntarily electing to do so, and will be discountable. This cost recovery mechanism will support a \$ 48 million annual RD&D program in four categories, respectively – gas supply (\$7 million), gas transmission (\$11 million), gas distribution (\$19 million), and gas utilization (\$7 million). Another \$ 4 million will go towards program management and administration.

When implemented, GTI's 2005 Collaborative RD&D Program will complement GTI's "Delta" program by providing a continuation of the national and basic research programs made possible by the previous FERC-approved program. GTI's 2005 Collaborative RD&D Program and its "Delta" program mechanisms will be developed with a modest single discountable commodity surcharge of 0.56 cents per decatherm to be applied to specific transportation services by natural gas companies who support and participate. GTI's two programs together will continue to provide LDCs with opportunities to invest in individual projects that would benefit their own customers.

The PUCO recognizes the benefits of GTI's "Delta" program and GTI's 2005 Collaborative RD&D Program, and, accordingly, it supports funding for these programs.

Conclusion

The Public Utilities Commission of Ohio submits these comments in support of the RD&D proposals submitted by Gas Technology Institute. We respectfully request that FERC give studied consideration to these comments in their deliberations upon GTI's application.

Respectfully submitted,

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PROOF OF SERVICE

I hereby certify that the foregoing have been served in accordance with 18 C.F.R. Sec. 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/William L. Wright

William L. Wright

Assistant Attorney General

Dated at Columbus, Ohio this August 6, 2004.