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THE PUBLIC UTILITIES COMMISSION OF OHIO

PUCO

IN THE MATTER OF THE APPLICATION)
 OF THE CINCINNATI GAS & ELECTRIC) CASE NO. 01-1228-GA-AIR
 COMPANY FOR AN INCREASE IN GAS)
 RATES IN ITS SERVICE AREA)

IN THE MATTER OF THE APPLICATION)
 OF THE CINCINNATI GAS & ELECTRIC)
 COMPANY FOR APPROVAL OF AN) CASE NO. 01-1478-GA-ALT
 ALTERNATIVE RATE PLAN FOR ITS)
 GAS DISTRIBUTION SERVICE)

IN THE MATTER OF THE APPLICATION)
 OF THE CINCINNATI GAS & ELECTRIC) CASE NO. 01-1539-GA-AAM
 COMPANY FOR APPROVAL TO CHANGE)
 ACCOUNTING METHODS)

REBUTTAL TESTIMONY OF

WILLIAM A. GINN

ON BEHALF OF

THE CINCINNATI GAS & ELECTRIC COMPANY

March 22, 2002

- Management policies, practices, and organization
- Operating income
- Rate base
- Allocations
- Rate of return
- Rates and tariffs
- Other

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REBUTTAL TESTIMONY OF WILLIAM A. GINN

Q. Please state your name.

A. My name is William A. Ginn.

Q. Are you the same William A. Ginn who previously submitted testimony in this proceeding?

A. Yes.

Q. What is the purpose of your Rebuttal testimony?

A. My testimony rebuts certain objections and supporting testimony to the January 18, 2002 Staff Report of Investigation filed by The Ohio Consumers' Counsel (OCC)(OCC objections). Specifically, my testimony rebuts OCC objections III.1 through III.3 (OCC's rate design objections) and the supporting testimony filed by OCC witness Pamela J. Archer. My testimony also rebuts OCC objections IV.3 through IV.4 (OCC's main extension policy objections) and the supporting testimony filed by OCC witness James D. Williams.

Q. Please summarize OCC's rate design objections and the supporting testimony by Ms. Archer.

A. The rate design phase in a utility rate case comes into play after total revenue requirements, cost of service, and cost allocation issues have been resolved. The OCC witnesses offer little input into the issues of overall revenue requirements, cost allocations, or even rate design. Rather, Ms. Archer focuses on the narrow issue of how much cost should be recovered through the customer charge component of the residential rate, while ignoring the larger issue of how much of the overall revenue requirement should be assigned for recovery from the residential class.

1 **Q. What does Ms. Archer recommend regarding the appropriate level of fixed**
2 **monthly charge for the residential class?**

3 A. Ms. Archer recommends that CG&E's residential customer charge be kept at its
4 current level, which is \$5.24 per month. This recommendation comes despite
5 evidence provided by the Company, Staff and Ms. Archer herself that CG&E's actual
6 monthly cost to serve residential customers is much higher. CG&E's cost of service
7 study established that its monthly cost to serve residential customers is \$16.71, as
8 discussed in my direct testimony. As Mr. Freeman's rebuttal testimony indicates,
9 CG&E's cost of service calculation is quite conservative. The Staff's cost of service
10 study established that CG&E's monthly cost to serve residential customers is \$9.11.
11 Ms. Archer's own cost of service analysis suggests that CG&E's monthly cost to
12 serve residential customers is \$6.86 per month.

13 **Q. How does Ms. Archer support her recommendation that the monthly fixed**
14 **charge should be kept at the current level of \$5.24 per month?**

15 A. Ms. Archer makes three arguments to support her recommendation. First, she offers
16 the principle of gradualism. Second, she argues that increasing the customer charge
17 would be detrimental to customers who want to lower their usage and, therefore,
18 their bills. Third, she argues that a higher fixed charge exacerbates the plight of
19 customers who are currently having problems paying their bills.

20 **Q. Please respond to Ms. Archer's argument that CG&E's residential customer**
21 **charge should not be changed due to gradualism considerations.**

22 A. Ms. Archer defines gradualism as follows: "The principle of gradualism in this case
23 is that changes in rate design should be adopted slowly and in small increments in

1 order not to disrupt customers' obligations." I accept her definition of gradualism,
2 but not her subsequent logic. Her recommendation that the customer charge should
3 remain unchanged, despite her definition of gradualism, is illogical. Although Staff
4 failed to move far enough, logic would suggest that Ms. Archer would have
5 embraced Staff's recommended charge of \$6.50, since it is less than that produced by
6 her calculation and fits her definition of "gradualism." Yet Ms. Archer reasons that
7 "...my calculation of the customer charge at \$6.86 does not justify any increase from
8 the current charge" (Archer direct at page 14). This recommendation provides no
9 movement in the customer charge and is inconsistent with the principle of
10 gradualism.

11 Further, CG&E's monthly residential customer charge was \$3.20 in 1976
12 and is \$5.24 today. This is an increase of only \$2.04 over the last 26 years, or about
13 eight cents a year. This is taking the principle of gradualism too far. Yet, Ms.
14 Archer has chosen to recommend no increase in the customer charge because it
15 would disrupt customers' ability to pay. In my opinion, it is more disruptive to our
16 customers' ability to satisfy their payment obligations by loading so much of the
17 Company's fixed cost into the usage component, because higher usage charges
18 makes it more difficult for customers to pay their bills during periods of peak
19 consumption. The winter of 2000-2001, when gas commodity prices rose
20 dramatically, confirms this fact. Loading a more reasonable level of fixed customer
21 charges into the customer charge would have helped mitigate some of the impact of
22 those high commodity charges.

23 **Q. Please respond to Ms. Archer's argument that increasing the fixed charge**

1 **negates customers' opportunities to reduce their bills through conservation.**

2 A. This argument has no merit. Schedule E-4.1, Page 2 of the Company's filing
3 indicates total customer charge revenues under existing rates of \$19,748,124.
4 CG&E recovers only 6.5% of the current residential revenue requirement through
5 the fixed charge component of the rate (\$19,748,124/\$303,534,105). In other words,
6 93.5% of residential customers' bills can still be impacted by conservation efforts. I
7 performed the same calculation based upon the Company's proposed revenue
8 requirements of \$37,687,260 (Schedule E-4.1, Page 1) and the proposed fixed
9 charge revenues of \$322,041,098 (based on the \$10.00 customer charge that the
10 Company has proposed). This calculation shows that, even if the Commission
11 would grant the Company's rate increase in full, CG&E would only recover 11.7 %
12 of the residential revenue requirement through the customer charge such that
13 customers could still have a substantial impact on their gas charges through
14 proactive conservation efforts.

15 **Q. Please respond to Ms. Archer's final argument that a higher fixed charge**
16 **exacerbates the plight of customers who are having problems paying their bills.**

17 A. In my opinion, the opposite is true. In my opinion, customers are better able to pay
18 utility charges that are spread out more evenly over the course of the year, as with a
19 fixed charge, than charges concentrated during the five winter months, as with usage
20 charges. This problem is exacerbated by the fact that commodity prices also increase
21 during the winter months.

22 **Q. Please summarize your opinion on this issue.**

23 A. A fundamental principle of utility rate design is that, after the Commission

1 determines the return that an LDC is authorized to earn, the Commission must
2 approve rates that will allow the LDC the opportunity to earn that return. By
3 allowing CG&E to recover a higher proportion of its fixed costs in the customer
4 charge components of rates, the Commission can assist in reducing the risk that
5 weather conditions will cause customers to experience higher winter bills than might
6 otherwise occur. Furthermore, such a rate structure will assist in mitigating the risk
7 that the utility will experience substantial volatility in its revenues even though most
8 of the utility's non-commodity costs and expenses are fixed. A more appropriate
9 method of recovering these fixed costs is through the fixed, monthly customer
10 charge.

11 **Q. Do these issues also apply to the charges that CG&E will recover through
12 Rider AMRP?**

13 A. Yes. Rider AMRP affords the Commission an excellent opportunity to correct the
14 problems I described above by gradually shifting costs to the fixed monthly charge
15 through the rider's annual adjustments (except Rate IT, for which I have proposed
16 a usage charge).

17 **Q. Please summarize the OCC's main extension policy objections and the
18 supporting testimony filed by Mr. Williams.**

19 A. OCC objects to the Company's proposed changes to its Rider X, Main Extension
20 Policy, on two bases. First, OCC objects that CG&E is changing from a clear
21 standard (100 feet free in all cases) to a vague policy that can be implemented
22 arbitrarily. Second, OCC objects that Staff failed to recommend that reasonable
23 payment arrangements be made by CG&E for customers who apply for main

1 extensions and are required to pay deposits for the main extensions.

2 **Q. What is the purpose of a main extension policy?**

3 A. In my opinion, main extension policies are designed to address the equity issue
4 between new and existing customers regarding how the Company recovers its cost
5 for adding new customers on its system. The main extension policy resolves this
6 equity issue by requiring some level of equivalence between the investments that
7 the Company makes today to add new customers versus what the Company spent
8 to add its existing customers.

9 **Q. Please summarize the changes that CG&E proposes to make to its main
10 extension policy.**

11 A. CG&E proposes to maintain the 100-foot free rule. CG&E would propose,
12 however, that the tariff be modified to reflect that, if the costs to extend the main
13 100 feet to serve an individual customer are extraordinary, then the customer
14 would be required to deposit the amount of the cost in excess of CG&E's normal
15 cost to extend the main 100 feet. CG&E also proposes to reduce the deposit
16 requirement and to liberalize the opportunities for customers to obtain refunds of
17 their deposits. CG&E proposes to extend the time for crediting new customer
18 additions along these main extensions from six years to ten years, thus enhancing
19 customers' opportunities to obtain refunds of their deposits. Further, customers
20 would receive credit against their deposit for any excess allowable investment
21 within a subdivision. Customers would also receive refunds based on the excess
22 allowable investment from subsequent connectors, as additional phases of the
23 subdivisions or developments unfold within the ten- year period.

1 **Q. Please respond to OCC's concern that CG&E's proposed change to its main**
2 **extension policy is vague and may be implemented arbitrarily?**

3 A. I disagree. CG&E will evaluate all proposed main extension projects in the same
4 manner.

5 **Q. Please respond to the OCC's objection that Staff failed to require reasonable**
6 **payment arrangements for customers who pay deposits for main extensions?**

7 A. CG&E enters into reasonable payment arrangements with residential customers
8 who have arrearages, in order for the customers to establish or continue service.
9 CG&E should not, however, be required to enter into payment arrangements for
10 main extensions. Capital expense projects that private parties undertake are more
11 properly financed by banks, which specialize in capital markets, than by public
12 utilities.

13 **Q. How do you respond to the Staff's recommendation at page 42 of the Staff**
14 **Report regarding the need for uniformity across certain rate schedules**
15 **addressing operational flow orders and interruption of service?**

16 A. The Company will follow the Staff's recommendation that the operational flow
17 orders and the terms and conditions associated with interruption of service be
18 made uniform, and that those terms and conditions exclude economic-related
19 conditions, when it files its final tariffs for Commission review at the conclusion
20 of this proceeding.

21 **Q. Does this conclude your Rebuttal testimony?**

22 A. Yes

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