Natural Gas

Introduction and Overview

The Office of the Ohio Consumers' Counsel's (OCC) advocacy for natural gas consumers in 2011 included efforts to improve proposed legislation (see Government Affairs section, pages 27 and 28) that changed the ratemaking process for natural gas utilities and case efforts regarding the transition of Ohio's natural gas industry from a wholesale-market to a retail-market approach.

All four major investor-owned natural gas utilities filed requests with the Public Utilities Commission of Ohio (PUCO) to raise their charges to customers for repair and replacement of their pipeline infrastructure. The OCC intervened in each case to review each utility's costs and protect the interests of residential consumers.

Although wholesale natural gas prices remained relatively low, many residential consumers continued to experience difficulty paying their natural gas bills because of the ongoing economic downturn in Ohio. The OCC continued working with its low-income advocacy partners to maintain and increase customer awareness of assistance programs such as the Percentage of Income Payment Program (PIPP Plus) and the Low-Income Home Energy Assistance Program (LIHEAP).

Natural gas customers who sought information about competitive retail offers continued receiving the OCC's updates on price offers, posted weekly at www.pickocc.org. This outreach helped consumers make more informed choices about whether to purchase their natural gas from an independent supplier or remain with their local distribution company.

Wholesale auction lowers costs for Columbia customers; PUCO lets utility move to retail auction in 2012

Residential customers of Columbia Gas of Ohio saved an estimated $48.6 million following the utility company's second wholesale auction, held in February 2011.

The individual customer's yearly bill decreased by about $4.30 after the Public Utilities Commission of Ohio (PUCO) approved the auction's low bid, 18.8 cents per hundred cubic feet (Ccf). The result was 10 percent lower than the winning bid during Columbia's initial wholesale auction in 2010. This cost was added to the monthly wholesale price listed on the New York Mercantile Exchange (NYMEX) beginning April 1.

In the wholesale auction, bidders competed for the right to provide natural gas to Columbia for resale to its customers. Portions of Columbia's supply were awarded to the seven winning bidders. Sixteen bidders took part in the auction. Columbia retained responsibility for natural gas delivery, pipeline maintenance and repair and other billing and customer service functions.

The auctions were originally established as a result of a 2009 agreement reached among the OCC, Columbia, the staff of the Public Utilities Commission of Ohio (PUCO) and others. According to the agreement, the wholesale auction would be replaced by a retail natural gas auction in 2012 unless any of the parties filed an objection to the change. A retail auction allows independent marketers to bid for the right to serve Columbia customers and to have their company name listed on customers' bills. The low bid is added to the monthly NYMEX price and becomes the company's Standard Choice Offer (SCO).

In April, Columbia filed a revised program with the PUCO, which included a request to transition to the SCO, effective in 2012. The OCC filed its objection to this request in May, citing concerns the SCO would result in higher costs to customers and cause confusion because retailers' names would be on the bills.

In testimony filed at the PUCO, the OCC asserted the existing Standard Service Offer (SSO) rate provided tangible benefits to customers by providing a lower-cost alternative to the Choice program due to a lower tax rate. The OCC submitted testimony documenting that the SSO rate was generally lower than fixed-rate offers made by retailers. The OCC further noted that a majority of Columbia's customers continue to purchase their natural gas directly from the utility rather than an independent supplier.

The PUCO issued its Sept. 7 order allowing Columbia Gas to transition to the retail auction beginning in 2012. The first SCO auction was held in early 2012, with the SCO rate scheduled to take effect April 1, 2012.

Case No. 08-1344-GA-EXM

Dominion, Vectren natural gas auctions provide reduced rates for customers

Residential customers of Vectren Energy Delivery of Ohio (Vectren) and Dominion East Ohio Gas (Dominion) saw decreases to the cost of their natural gas supplies following competitive auctions which set the price of the commodity. Both local distribution utility companies use the Standard Choice Offer (SCO) to determine the price of natural gas charged to their customers.

Vectren

Vectren's residential customers saved an estimated $13.6 million and saw their natural gas bills decline by an average of $18 per year. The rate was in effect from April 1, 2011 through March 31, 2012.

The new SCO was determined at a retail auction which resulted in a low bid of $1.35 per thousand cubic feet (Mcf) set as the retail price adjustment to the wholesale price calculated each month on the New York Mercantile Exchange (NYMEX). The amount determined at the auction was 20 cents lower than the previous retail price adjustment established in a similar auction held in January 2010. The retail price adjustment reflects the supplier's non-gas cost of doing business.

Dominion

Dominion held two separate auctions in February to determine its natural gas price. A retail auction was held to set the retail price adjustment for non-choice customers who preferred to purchase their natural gas supply from the utility rather than an independent retailer. These customers are assessed the SCO rate. A wholesale auction determined the Standard Service Offer (SSO) price for customers on the Percentage of Income Payment Plan (PIPP Plus) and for customers otherwise ineligible to participate in a natural gas choice program.

The results of both auctions were exactly the same. The low bids of $1 per thousand cubic feet (Mcf) were set as the retail price adjustments to the wholesale price. As a result, Dominion's residential customers saved an estimated $36.3 million, an average $20 decrease per year per individual, for their natural gas supply.

Case Nos. 07-1285-GA-EXM, 07-1224-GA-EXM

Dominion pipeline replacement costs limited; OCC disagrees with way to expand program

The Office of the Ohio Consumers' Counsel (OCC) reached an agreement in 2011 with Dominion East Ohio Gas to again keep pipeline replacement costs below an agreed-upon cap. But OCC disagreed with a decision to expand the program for another 10 years.

The October agreement among the OCC, Dominion and the Public Utilities Commission of Ohio (PUCO) Staff allowed the utility to increase its monthly pipeline replacement charge to customers from $1.58 to $2.22. In comments filed in September, the OCC advocated for a charge that was nearly 6 percent lower than the $2.29 charge Dominion originally requested. In the compromise agreement, the OCC accepted a rate that still was 3 percent lower than the utility's first request.

The original 2008 agreement established a five-year cap on increases to the pipeline replacement charge that allowed Dominion a monthly increase of $1.12 followed by an additional $1 in each of the following four years. In the past two years, the OCC was able to negotiate to keep this charge below the agreed-upon cap.

In another filing, Dominion sought to extend the length of the original agreement and replace an additional 1,454 miles of pipeline it said is defective. The OCC said Dominion should comply with its original agreement that included a study to assess the progress of the infrastructure replacement program prior to moving forward with changes.

An agreement was signed by Dominion, the PUCO Staff and other parties in July and approved in August that added 10 years to the original 25-year replacement program. The OCC did not oppose the agreement to replace the additional pipeline because it is Dominion's responsibility to provide safe and reliable service. However, the OCC believed the cost of the additional pipeline replacement should not be charged under the original program, but that Dominion should instead seek recovery of these costs through a traditional rate case where a fuller review of costs would occur.

Case Nos. 11-3238-GA-RDR, 08-0169-GA-ALT, 11-2401-GA-ALT

Columbia increases fees for pipeline replacement program

Despite efforts by the Office of the Ohio Consumers' Counsel (OCC), residential customers of Columbia Gas of Ohio had a small increase in their monthly bills in 2011 after the Public Utilities Commission of Ohio (PUCO) allowed an increase in the utility's infrastructure replacement program.

Columbia filed its application to increase the fee in late 2010. The OCC intervened and argued the savings to customers from the pipelines Columbia fixed were inadequate. As Columbia replaces the leakiest pipes in its distribution system, it should require less maintenance expense in the future to repair leaks, the OCC said.

In comments filed in February 2011, the OCC urged the PUCO to re-emphasize that such savings are a goal of the program and to require Columbia to explain why the level of savings declined substantially, as compared to a similar application the utility filed in 2010. The OCC also argued Columbia should produce a more appropriate methodology in future cases to give customers the benefit of savings from the repaired infrastructure.

Additionally, the OCC asked the PUCO to eliminate cost recovery for the replacement of plastic pipes because the utility failed to provide data supporting the costs.

The April agreement among the OCC, PUCO Staff, Columbia and other parties allowed the utility to increase the monthly pipeline replacement fee to $2.63 per month, an increase of $1.01 per month. The charge was still lower than the maximum amount negotiated in an agreement that resolved Columbia's 2008 rate case.

Case No. 10-2353-GA-RDR

OCC, Duke agree to faster end of pipeline replacement program

Duke Energy Ohio's pipeline infrastructure replacement will be completed as early as 2016, two years sooner than expected, following an April agreement among the Office of the Ohio Consumers' Counsel (OCC), Public Utilities Commission of Ohio (PUCO) Staff and Duke.

Duke agreed to complete the original pipeline replacement program by Dec. 31, 2015, and file an application by February 2016 to collect the final costs for all pipeline scheduled for replacement. In return, Duke was allowed to include an additional 33 miles of pipeline in its replacement program. Duke also will continue to utilize operation and maintenance savings to offset the higher cost of replacing the extra pipeline to be collected from customers.

Duke will continue to charge customers the monthly costs originally agreed to in the 2008 rate case. By 2016, customers could pay up to $10.20 monthly for the pipeline replacement charge.

The OCC had originally opposed Duke's proposal to replace additional pipeline and complete the project on an accelerated basis. The OCC argued Duke failed to support its claim that leaks on certain larger diameter cast iron pipes were increasing at an unacceptable rate. Additionally, Duke failed to specify how long the replacement would take or how much it would cost, the OCC said.

Prior to the agreement, the OCC asked the PUCO to consider ordering an earlier completion time and require Duke to file another rate case for a fuller review of its proposal to accelerate recovery from its customers for replacing additional pipeline. The program had originally been scheduled for completion in 2018, with the monthly charge to customers increasing by $1 each year. Continuing the program through its original completion date could have increased the charge up to $12.20 per customer per month.

Case Nos. 10-2788-GA-RDR, 10-2789-GA-ATA

Vectren increases pipeline replacement charge

An August agreement between the staff of the Public Utilities Commission of Ohio (PUCO) and Vectren Energy Delivery of Ohio resulted in an increase to the pipeline replacement fee that customers pay on their monthly natural gas bills. The agreement increased the utility's monthly fee from 64 cents to $1.27.

Because the increase amount did not exceed an agreed-upon cap originally established in Vectren's 2008 distribution rate case, the Office of the Ohio Consumers' Counsel (OCC) did not oppose the agreement. However, the OCC also did not sign the settlement after filing its initial objections in the case.

The OCC said Vectren's proposal failed to produce baseline savings for customers by reducing the utility's cost to repair service leaks and maintain pipelines. In addition, the OCC asked the PUCO to reject Vectren's request to charge customers for the replacement of plastic pipes. The OCC said the original 2008 rate case agreement establishing the pipeline replacement program did not specify that costs for replacing plastic mains could be collected from customers through this charge, but rather a rate case would be required.

Finally, the OCC asked the PUCO to notify Vectren that the proposed pipeline charge was not in compliance with terms originally agreed to by all parties in the previous rate case settlement. The OCC expressed concerns that Vectren had replaced less pipeline than it originally agreed to in the stipulation, reducing the amount of savings customers are entitled to receive.

Case No. 11-2776-GA-RDR

OCC helps secure refunds for Orwell customers

Customers of the Orwell Natural Gas Co. will receive more than $1 million in refunds after they were overcharged by the utility. An agreement, including terms for the refund, was reached in August among the Office of the Ohio Consumers' Counsel (OCC), Public Utilities Commission of Ohio (PUCO) Staff, the Northeast Ohio Gas Corp. and Orwell.

The PUCO Staff issued an audit in November 2010 of gas cost recovery mechanisms used by both Northeast and Orwell during a 24-month period between 2008 and 2010. The OCC testified in April 2011 that Northeast and Orwell had collected costs that were not just and reasonable and their purchasing practices and contractual agreements harmed residential customers. The OCC recommended the PUCO take the following measures:

- Order refunds to customers who had been overcharged;
- Terminate Orwell's and Northeast's contracts with their affiliates made during the audit periods; and

- Limit future contracts between both companies and their affiliates and require that they be openly bid and include non-affiliated companies among possible service providers.

The August agreement among the parties stipulated to the following issues, among others:

- Orwell would refund, without interest, $964,410 to customers over a 24-month period, for over-collected amounts;
- Northeast would collect the undercollected amount of $1,100,635 from its customers over a 24-month period, at an annual rate of 10 percent on the unrecovered balance. This represented less of an increase than Northeast customers would have experienced had no audit taken place;
- Orwell, Northeast and their affiliated company (Brainard Gas Corp.) would terminate identified contracts for purchases of local gas production and the arrangement of purchases of interstate natural gas with affiliated companies; and
- Proposals would be designed to invite and receive competitive bids to manage interstate transportation and storage capacity assets, and procure the gas requirements of GCR customers of Northeast, Orwell, and Brainard in the local and interstate markets. The OCC and PUCO Staff will help design and implement the proposals and develop selection criteria that identify services to be provided by the successful bidder.

After reviewing evidence provided by the OCC and PUCO Staff demonstrating that purchase agreements and contracts submitted by both Northeast and Orwell were badly drafted and showed bias favoring their affiliate companies, the PUCO modified the settlement agreement. It required Orwell to complete the refunds within one year and with 10 percent interest, to be paid to customers.

In December, the PUCO denied a request from both Orwell and Northeast to rehear the case.

Case Nos. 10-209-GA-GCR, 10-212-GA-GCR, 10-309-GA-UEX, 10-312-GA-UEX

OCC asks PUCO to establish collection standards

Natural gas customers of Ohio's four major investor-owned utilities paid between 125 percent and 254 percent more in 2011 than they did in 2003 to cover uncollectible debts. According to joint comments the Office of the Ohio Consumers' Counsel (OCC) and other advocacy groups filed at the Public Utilities Commission of Ohio (PUCO) in February 2011, the utilities' failures to collect bad debt has resulted in higher rates for consumers.

Findings were filed in the case by Northstar, an independent auditing company appointed by the PUCO to examine the collection policies of Dominion East Ohio Gas, Columbia Gas of Ohio, Duke Energy and Vectren Energy Delivery of Ohio. Based on the findings, the OCC said the utilities are shifting the burden from themselves to consumers by not adequately collecting bad debt. Instead, the utilities recover bad debt from all customers on a dollar-for-dollar basis through the uncollectible expense rider (UEX).

The OCC further said the four utilities have failed to implement any of the improvements suggested by Northstar in its 2009 report. As a direct result of these business decisions, the OCC said, the UEX rider failed to decrease in proportion to a decline in natural gas prices since the UEX was first established in 2003.

As a remedy to this issue, the OCC and its advocacy partners urged the PUCO to establish credit and collection benchmarks to balance the bad-debt recovery risk in a more equitable way. In asking Northstar to review the utilities' collection practices, the PUCO had asked for the development of measurable performance standards. In its comments, the OCC asked the PUCO to enforce benchmarks so that the utilities would rely less on automatic mechanisms like the UEX rider and more on their own credit and collection policies.

In December, the PUCO issued a ruling in the case. While specific benchmarks were not established, the PUCO did issue the following findings, among others:

- The PUCO Staff was directed to use metrics suggested by Northstar, to develop reporting requirements for the utilities that would monitor how much is collected from customers through the UEX rider. The utilities were directed to collect debt through means including, but not limited to, receivership and bankruptcy;
- Additional costs associated with debt-collection activities will not be collected through riders;
- The PUCO directed its staff to pursue solutions to this issue with the utilities; and
- The PUCO Staff will continue monitoring the utilities' collection policies and practices, taking appropriate action when necessary.

Case No. 08-1229-GA-COI

OCC reaches agreement to improve Columbia Gas energy efficiency programs

Cost-effective energy efficiency programs continued to be among the options available to residential Columbia Gas of Ohio customers to lower their natural gas use after the Office of the Ohio Consumers' Counsel (OCC) and others reached an agreement with Columbia Gas in November.

Under the agreement, Columbia Gas will expand its existing energy efficiency programs between 2012 and 2016. The programs are expected to save residential and business customers $300 million throughout the life of the energy efficiency conservation measures.

The OCC was an instrumental part of developing and introducing energy efficiency programs for Columbia Gas customers. Since 2009, the utility has offered customers low-cost home energy audits and rebates for installing cost-effective home energy improvements such as high-performance showerheads and programmable thermostats.

Both of these residential programs, along with an energy efficient homes construction program, were continued and four new efficiency programs were added in January 2012. The new residential programs are:

- Online Energy Audit – An online audit that helps customers determine how efficient their homes are and provides information on appropriate low-cost actions and available rebates for energy efficiency;
- High-Efficiency Heating System Rebates – A program that provides rebates to landlords or rental property owners who replace natural gas heating systems with high-efficiency natural gas models;
- Home Energy Report – High-usage customers are provided, under this program, with information about their monthly natural gas consumption along with ways to increase their savings; and
- Energy Efficiency Education for Students – A program that offers energy efficiency education to up to 18,000 students per year. Participating students in grades 5-12 will receive an energy efficiency kit as part of the curriculum.

Also, an additional 1,000 customers per year will be able to receive whole house weatherization through Columbia Gas' WarmChoice program. The increased funding for the program will serve 2,600 customers per year who are at or below 150 percent of the federal poverty level ($33,525 for a four-person household).

Case No. 11-5028-GA-UNC