Before
The Ohio Senate Finance Committee

Testimony Regarding Amended Substitute House Bill 487

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Good afternoon Chairman Widener, Vice-Chairwoman Jones, Ranking Member Sawyer, and members of the Senate Finance Committee. I am Bruce Weston, the Ohio Consumers' Counsel. Thank you for allowing me to appear before you today to discuss a specific section of Amended Substitute House Bill 487 ("HB 487" or "the Bill") and its potential impact on Ohio's residential utility consumers. The Office of the Ohio Consumers' Counsel ("OCC") is the statutory representative for residential utility consumers and regularly appears on their behalf before the Public Utilities Commission of Ohio ("PUCO" or "Commission").

The omnibus amendment to HB 487 included a provision related to regulated natural gas distribution utilities (for ORC Section 4929.041). OCC has concerns about the amendment's impact on natural gas consumers. I will briefly explain the amendment, our concerns, and some recommendations for improvement. OCC encourages this Committee to remove this provision and allow it to be considered on its own merits in separate legislation.

Some natural gas utilities are well-positioned to transport the dry and wet natural gas that will result from Ohio's shale plays, based on the location of these utilities' existing gas pipelines. The customers of these utility companies have paid for the construction and maintenance of this natural gas pipeline infrastructure for decades. Under regulatory ratemaking, the revenues produced from utility assets that are in service can help to lower or moderate charges to customers by offsetting utility costs.

HB 487 removes this potential benefit from consumers, with regard to natural gas gathering pipelines. Gathering lines are the lines used to collect natural gas from production wells and transport it to the distribution system.

The Bill would enable natural gas utilities to strategically pick their assets involving natural gas gathering pipelines for transfer out of regulated service and into a private entity. Once that transfer occurs, the revenue generated by the newly unregulated facilities would benefit the utility's shareholders and not its customers. The utility's customers, after years of paying for the construction and maintenance of the pipelines, would receive no benefit after the transfer when the utility would re-dedicate the lines to a more profitable use. Under the Bill, the utility's regulated facilities that are in service to Ohio customers could become a lucrative source to utility shareholders, enabling them to avoid the tremendously higher capital costs of new construction in the market.

There are important questions and issues the Bill leaves unanswered:

- Should revenues from the converted pipeline be used to reduce rate case costs or to fund future gas pipeline infrastructure improvements? Under the proposal, a utility could file a rate case for millions of dollars in rate increases, while at the same time it could be earning many more millions of dollars in unregulated revenues from the converted pipeline.
- Will converting the gas pipelines negatively impact the distribution system's reliability for customers or negatively impact the ability for low-cost Ohio dry gas to come onto the system and benefit Ohio customers?
- How long will customers continue to pay for these pipelines that are in utility rates while the utilities exclusively benefit from the higher profits?
- Are utility customers paying for the repair and replacement of the same infrastructure to be transferred? If so, how will customers be compensated?
- How will the transfer of assets impact natural gas rates for customers in Ohio?
- Will customers be asked to rebuild a new pipeline, at a much higher cost, at some point in the future to replace the transferred pipeline?

Recommendations

OCC encourages the Committee to remove this amendment from HB 487 and allow this issue to be considered in separate legislation by all of the interested parties.[1] More time is needed for the development of testimony and recommendations in this process.

Also, OCC recommends that the Committee allow the PUCO to exercise its discretion with regard to ratemaking issues involving the pipelines. The PUCO's authority should include the discretion to set a value for customers to receive for the assets that are proposed for transfer. And the PUCO should have the discretion to remove the costs of the assets from the rate base at the time the assets are transferred, without waiting for the utility to file a rate case.

Some states, such as Colorado, Indiana, Michigan, Pennsylvania and others, require utilities to file an application with the state regulator prior to removing pipelines from customers' use. Such an application would allow the PUCO to hear evidence on the issues, and to make a determination balancing the interests of consumers, the utility, and other interested parties.

Customers should receive the benefit of a fair value on revenue-producing assets that are transferred from regulated service. And customers should be protected from continuing to pay for the costs of the pipeline assets after the utility is receiving the exclusive benefit of the revenues from the assets.

Thank you for the opportunity to testify today with regard to this specific issue in HB 487.

[1] The amendment includes all of the changes to section 4929.041