

Public Utilities Commission of Ohio
Todd A. Snitchler, Chairman

Senate Finance Committee
2012-2013 Biennial Budget

May 5, 2011



Chairman Widener, members of the committee, thank you for the opportunity to testify today in support of the Public Utilities Commission of Ohio (PUCO) budget request.

PUCO Organization and Oversight

As you may know, the PUCO is governed by a chairman and four commissioners, who are appointed by the governor to staggered, five-year terms. The governor's selection is made from a list of names submitted by the PUCO Nominating Council, a broad-based 12-member panel charged with screening candidates for the position of commissioner.

The PUCO is a non-General Revenue Fund (GRF) agency funded through assessments to the utilities, as well as through fees generated by motor carrier registrations and federal program assistance. By statute, our utility assessment must equal our appropriations and thus, PUCO appropriations have no negative impact on the GRF and are not available for general use.

Although the PUCO is a non-GRF agency, we are still sensitive to budgetary constraints and are subject to cuts to our budget in this budget cycle. We also understand that the public-at-large may not know about such things as "non-GRF." Therefore, we make adjustments in our spending consistent with prudent management techniques. In addition, it is important to note that the PUCO regularly contributes to the GRF from civil forfeitures and penalties assessed against utilities that are not in compliance with Ohio's regulations. The PUCO contributed \$4.7 million to the GRF in the last biennium.

The executive version of the budget decreased the PUCO budget from FY10 appropriation levels (5.5% in FY12 and 18.1% in FY 13). In addition, the House made changes to the PUCO budget by requiring the Ohio Consumers' Counsel (OCC) to forward all customer complaint calls to the PUCO call center. Although the PUCO is able to accommodate this change, additional funding to assist with the increased workload was not allocated. OCC has testified that more than 45,000 calls are received each year and we understand that their call center costs nearly \$1 million a year to operate.

Before the changes made in the House version of the budget, we believed we could operate without increased spending primarily due to staff reductions through retirements and vacancies. Our annual operating budget is approximately \$53 million, and that includes more than \$8 million in federal funding available each year. However, due to the additional call center duties, the PUCO requires additional funding to continue to provide a high level of service to ratepayers.

The House version of the budget also added statutory language requiring the PUCO to recalculate public utilities' rates for utilities that pay the Office of Consumers' Counsel (OCC) assessment. The provision ensures that any reduction in the amount appropriated to the OCC is returned to utility customers rather than being retained by the utility. If the Senate maintains this language, the PUCO would like to provide alternative language to enable a more simplified and streamlined process. This could allow more dollars to be returned to ratepayers instead of spent on costly proceedings.

The PUCO is also responsible for collecting Ohio's Wireless Enhanced 9-1-1 (E9-1-1) surcharge from wireless telephone carriers to distribute to eligible counties for the provision of enhanced wireless 9-1-1. You will note that in FY13 the PUCO budget is slated to decrease by \$18.5 million when the 28 cent per month wireless E9-1-1 surcharge that the PUCO administers and passes through to counties in Ohio is scheduled to sunset. Ohio's E9-1-1 Fund was created in 2005 to assist local emergency response organizations upgrade facilities and equipment to enable them to receive information transmitted when a 9-1-1 call is made from a wireless phone. The PUCO has already been contacted about a possible extension or renewal of this surcharge.

On average, more than 1,500 cases of all types are filed at the PUCO each year. These cases include formal complaint proceedings, certifications for operating authority, rulemakings, tariff filings and other cases. Attached to my testimony is a flow chart illustrating how a complaint case and a rulemaking proceeding becomes a finalized

Commission order. We often get questions about our process as it more closely resembles a legal proceeding than the legislative process of a bill becoming law.

Commercial transportation companies in Ohio are public utilities under the jurisdiction of the PUCO. The PUCO registers motor carriers and ensures they adhere to state and federal safety standards. In 2010, Ohio's Motor Carrier Safety Assistance Program (MCSAP) received an award from the Federal Motor Carrier Safety Administration (FMCSA) for being the most effective compliance review program among large states.

The PUCO supports local first responders by annually approving nearly \$700,000 in hazardous materials training funds directed at incident response. Cleveland State University receives \$400,000 annually to support a program that develops and provides training to government and private industry in the safe handling of hazardous materials.

The PUCO is responsible for evaluating Ohio's public grade crossings to determine the need for installing active warning devices. Over the past 20 years, the annual number of train-motor vehicle crashes in Ohio has decreased significantly, from 326 in 1990 to 66 in 2010. This improvement has been achieved during a period of steady increase in the amount of train traffic and in the number of registered motor vehicles and licensed drivers in Ohio. Each year, the PUCO authorizes funding for the installation of lights and gates at grade crossings across Ohio.

The PUCO oversees the service quality of telephone companies in Ohio with about 7.5 million telephone lines. The PUCO ensures that, regardless of competitive market conditions, the quality of telephone services in Ohio, for both residential and business customers, is adequate and reliable.

The natural gas industry is a complex network of companies that produce, transport and distribute natural gas. In Ohio, more than three million people use natural gas. The PUCO oversees more than 54,000 miles of distribution lines which provide natural gas to individual users, as well as more than 6,000 miles of transmission lines.

PUCO Staff

The PUCO is the *only* state agency charged with ensuring that essential utility services are safe, reliable and adequate. The PUCO employs a staff of about 380 professional accountants, auditors, engineers, economists, investigators and attorneys who assist us in meeting our goals and serving the public. Our expert staff regularly inspects utility facilities around the state to ensure that utility wires, pipes and equipment are safe and well-maintained. PUCO staff is critical in providing commissioners with industry background, research and data, along with consumer perspectives and impacts that we need to address in the issues we tackle each day.

The PUCO oversees public utility industries, including electric, natural gas, pipelines, landline telephone, water, railroad, hazardous material carriers and commercial transportation carriers, including ferryboats, buses, towing companies and household goods carriers.

The PUCO serves all customer classes -- commercial, industrial and residential -- and sets service standards to protect utility customers from such things as poor service quality, unfair denial or disconnection of service, or long waits for repair or installation of service. The PUCO staff monitors compliance with these standards through customer complaints and on-site inspections. When violations are found, the PUCO is the only body that can order corrective action to be taken and can fine utilities for non-compliance.

The PUCO assists more than 300,000 Ohioans each year through the issuance of the Winter Reconnect Order. This plan allows natural gas and electric customers to reconnect their service for \$175 plus a reconnection fee. In addition, the PUCO recently updated rules for the Percentage of Income Payment Plan (PIPP Plus), a low income energy assistance program, to encourage regular monthly payments among enrollees, thereby reducing the burden on other ratepayers.

Consumer Services

The PUCO Consumer Call Center is our direct link to the public. Each day consumers seeking assistance with utility issues call or email PUCO representatives. We are able to answer questions, offer suggestions and mediate disputes between customers and utility companies. PUCO investigators have saved individual Ohio residential and business customers anywhere from \$5 to nearly \$30,000. From July 1, 2009 through today, the PUCO has saved consumers more than \$1.4 million.

The PUCO learns a great deal from customers that call with questions and complaints. These contacts are used to ensure that companies engage in fair and reasonable practices, and identify trends or problem areas which may require attention with the filing of litigation, as well as, assist the PUCO in formulating appropriate rules and regulations.

The call center is an invaluable asset to the PUCO and is housed in our Service Monitoring and Enforcement Department. This department has more than 80 staff members who focus on a variety of utility customer issues everyday. They analyze reliability and service quality information, conduct investigations and audits of utilities and include field staff that regularly inspects utility facilities and reviews plant operating practices to ensure Ohioans receive safe, reliable, and quality utility service.

The PUCO publishes its *Apples to Apples* charts weekly to aid consumers shopping for an alternative supplier. The charts are the only comparisons in the state in which certified suppliers are required to provide accurate and up-to-date information about their latest offers. The charts are routinely the most sought after information on our Web site and were downloaded more than a half million times in 2010. Currently, more than two million customers now purchase their natural gas from a competitive supplier.

Economic Development

The PUCO is an active partner with other state agencies, utilities, and private companies to further economic development in the state. Attached to my testimony is detailed

information about these programs and funds. In general these programs provide financial assistance to new and existing industries for expansion, for creating and retaining jobs and for generating new investment. In 2008, Senate Bill 221 provided the PUCO with the ability to work with industry on reasonable rate arrangements or discounted rates that are tied to project investment and job retention or creation benchmarks. Mercantile or industrial customers now have the ability to file an application with the PUCO for a reasonable rate arrangement.

Ohio Power Siting Board

As chairman, I also act as the agency's director and chair the Ohio Power Siting Board, which reviews all applications for building major utility facilities in Ohio. Since 1998, 16 new electric generating facilities have become operational adding 8,014 megawatts (MW) of generating capacity in Ohio. There are presently three facilities under construction that will create an additional 1,480 MW of generating capacity within the next two years. In total, the Ohio Power Siting Board has approved more than \$11 billion investment dollars for Ohio over the past 12 years.

Ohio's unique power siting process is possible because all eleven entities involved with approving any siting application are seated at the same table: the chair of the PUCO; the director of the Ohio Environmental Protection Agency, the Ohio departments of Agriculture, Development, Health, and Natural Resources; and a public member. Four members of the Ohio General Assembly also serve as non-voting members of the Board.

Competitive Markets

Utility markets continue to evolve, and today competition in utility sectors is present in trucking, natural gas, local telephone and electricity. Over the last few years, the PUCO has made great strides in the development of a number of these markets in Ohio while ensuring that service reliability remains a top priority.

In 2008, the PUCO implemented a new “levelized” residential distribution rate structure for Ohio’s four largest natural gas utilities (Columbia Gas of Ohio, Dominion East Ohio, Duke Energy Ohio and Vectren Energy Delivery of Ohio) that better reflects the fixed cost nature of delivering natural gas. The new rate structure more accurately reflects the cost of distribution service while lowering what had otherwise been added to the cost of the natural gas itself. At the same time, the new rate structure gives customers a more accurate reward for conservation measures.

The PUCO has approved applications allowing Columbia Gas of Ohio, Dominion East Ohio and Vectren Energy Delivery of Ohio to eliminate their gas cost recovery rates and price their natural gas supplies through a more market-based rate methodology. All three companies conduct auctions to purchase natural gas on behalf of their customers.

Since the implementation of Senate Bill 3 in 1999 which deregulated the generation of electricity, the PUCO has worked to ensure rate stability for customers, financial stability for electric utilities and promote further development of competitive markets. The PUCO also worked closely with lawmakers in 2008 on Senate Bill 221 that sought to stabilize electricity prices, create jobs and expand Ohio’s alternative energy industry. Presently, the Senate is holding hearings on the implementation and effects of SB 221 on Ohio’s electricity market.

Ohio’s energy law also requires electric utilities to meet energy efficiency/peak demand reduction benchmarks. The law allows electric utilities to include energy efficiency/peak demand resources committed by mercantile customers to be integrated into and counted toward the utilities’ benchmarks. In June 2009, the PUCO established a process for facilities seeking certification as a certified Ohio Renewable Energy Resource Generating Facility under the state’s Alternative Energy Portfolio Standard. Since that time, the PUCO has certified more than one thousand renewable energy facilities.

As we look to the future, the PUCO will continue to monitor the evolving utility markets that have become increasingly more complicated with competition. It is essential that the PUCO closely track utility activities to ensure that consumers are protected, state laws are enforced and an atmosphere conducive to furthering Ohio's economic development continues.

Thank you for the opportunity to appear before you today. We look forward to working with you to continually improve our service to the citizens of Ohio. Chairman Widener, if you or members of the committee have questions, I am happy to answer them.

PUCO and Economic Development

- **AEP Ohio Economic Development Rate Stabilization Plan Grant (RSP) Fund:** In 2006, the RSP Fund was created by PUCO order and was funded at approximately \$8 million. The grant program provides financial assistance to new and existing industries for expansion projects to create new jobs, retain existing jobs and generate new investment within the AEP Ohio service territory. These funds are designated to assist with the costs of utility infrastructure improvements. Project examples include new service facilities, upgrades, replacement and relocation of existing facilities. Since 2006, in coordination with the Ohio Department of Development, approximately 40 grants have been distributed ranging from \$6,000 - \$1,000,000 per project.
- **The Columbia Gas of Ohio Jobs Growth Fund:** Established in May 2010 by PUCO order, the fund, totaling \$1.55 million, was created to support economic development throughout Columbia Gas of Ohio's service territory. Grants from the Jobs Growth Fund may be utilized by an existing company or one looking to expand into the Columbia Gas service territory, and will be used to leverage other available grants and sources of funding. In its short existence, the Columbia Gas of Ohio Jobs Growth Fund has granted \$350,000 to four businesses in coordination with the PUCO and the Ohio Department of Development.
- **FirstEnergy Economic Development and Retention Program:** In 2010, an economic development and retention fund was established that will contribute \$3 million in stakeholder funds to support economic development and job retention activities within its service territories from June 2011 to May 2014. The funds may be used for, but are not limited to, customer-owned transformers, redundant feeds, and substations.
- **FirstEnergy Domestic Automaker Discount:** Established in 2010, domestic automaker facilities that use more than 45 million kilowatt hours (kWhs) annually at a single site in 2009, will receive a discounted rate for their electric usage from June 2011 to May 2014.
- **Reasonable Rate Arrangements:** Senate Bill 221 offers mercantile or industrial customers the ability to file an application with the PUCO for a reasonable rate arrangement. These rate arrangements are negotiated or litigated rates that provided a discount off tariffed rates. The discounted rates are tied to project investment and job retention or creation benchmarks. Prior to the passage of the law, only the utility was able to initiate this process.