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Proponent Testimony on House Bill 142
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Chairman Holmes, Vice Chairman Klopfenstein, Ranking Member Glassburn and Members of the House Energy Committee, my name is Bob Heidorn, and I am President and COO of Columbia Gas of Ohio. Columbia Gas provides safe and reliable natural gas distribution service to more than 1.5 million customers across 61 of Ohio's 88 counties. I am here today on behalf of Columbia to provide proponent testimony on House Bill 142, which reduces regulatory lag and enables economic development.

Columbia is a critical partner with JobsOhio and other regional economic development agencies working together to attract new business. On February 5, the Ohio Business Roundtable (OBRT) submitted its Energy Competitiveness Study emphasizing Ohio's opportunity to attract economic development and lead in energy development, including securing new gas generation. The study recommends modernization of regulatory processes to reduce regulatory lag.

So, what is regulatory lag? For gas utilities, regulatory lag is the time delay between when a utility invests capital and when it recovers those costs in approved rates.

Why does this present a problem for Ohio? Columbia Gas annually invests over $500 million dollars in its pipeline system. Extending our system to serve new large customers will require even more investment. These dollars must come from investors who compare Columbia to other investment opportunities—regulatory lag makes us a less attractive investment, diminishes cash flow and financial performance, resulting in increased borrowing at higher interest costs ultimately paid for by our customers.

Moreover, Columbia Gas competes with our sister utilities in Pennsylvania, Indiana and Kentucky for finite capital dollars. Those states acted many years ago to reduce regulatory lag meaning that every dollar invested in pipeline systems there yields better cash flow and better returns compared to dollars spent in Ohio. All House Bill 142 accomplishes is leveling this playing field by providing a regulatory framework like the ones already in use in those neighboring states. This bill modernizes existing Ohio regulation without completely replacing that regulation with a new construct such as Multi-Year Rate Plans. This is appropriate for the gas industry which needs regulatory certainty given we cannot count on growth like electric utilities and lack their scale. There is nothing cutting edge here—the proposed regulatory mechanisms are relied upon in these and many other states and, after being in place for many years, states have not moved backward to the stale test years and long rate case durations currently experienced in Ohio. Attached to my testimony is a map demonstrating that Ohio ratemaking is behind the times.[1]

I can tell you based on personal experience in these states, when a regulatory framework exists that provides certainty, timely recovery of costs and efficient regulatory processes, utilities file more frequent, smaller rate cases, thereby providing stakeholders with the opportunity to review the costs to serve customers, eliminating larger increases to customer bills, and reducing the cost and time associated with ratemaking. For investors, they see a regulatory process that provides more certainty and supportive cash flow.

In terms of the need for new gas generation, due to grid congestion Data Centers have plans to secure behind-the-meter gas generation to serve their needs. Development of this generation represents a huge win for Ohio because over time it will be connected to the grid and provide a local source of electricity. House Bill 142 paves the way to secure these large customers and the accompanying gas generation.

Specifically, House Bill 142 modernizes Ohio ratemaking in four ways:

1. **Adoption of a Forward Test Year.** Ratemaking should produce new rates that support the level of costs the utility will incur to serve customers. Use of a forward test year provides timely cost information to be used to avoid outcomes where a utility obtains new rates based on outdated operating costs. House Bill 142 strikes an appropriate balance by safeguarding customers so that the utility only recovers costs based on used and useful plant that is in-service and has been audited by the Ohio Commission.

2. **Rate case outcomes in one year.** Today, rate cases in Ohio last 18 months or longer—this lag makes Ohio ratemaking far less favorable than surrounding states that issue orders within 7-12 months. This delay leads to the need to finance increasing levels of capital at a time of rising interest rates directly impacting our customers. To address regulatory lag, House Bill 142 requires that rate case orders must be issued within one year.

3. **Framework for approval of Special Contracts.** Data centers and other very large customers have energy requirements that often require major system

improvements. Today, the Ohio Commission has no time limit to approve negotiated contracts. Under House Bill 142, the legislature steps in to provide an expedited process for Commission review of special contracts and protects existing customers from financial risk. Ohio's gas utilities are empowered to negotiate positive economic development contracts and Ohio can market its positive regulatory environment to these large customers who prioritize speed to market.

4. **Recovery of Mandated Compliance Costs.** Pipeline safety regulations mandate that Columbia improve its system via projects often spanning years and driving large investments to achieve compliance and ensure safety. As an example, Columbia is currently replacing its entire system built in the 1950s that serves over 800,000 customers in the Columbus area. To better support cost recovery for this type of compliance work, House Bill 142 establishes a mandate rider. The PUCO has up to a year to approve a compliance plan and then the utility proceeds to execute the plan over the period of years needed to achieve compliance. The PUCO audits each request for cost recovery under the approved Plan. Gas utilities would have greater certainty of recovery of these mandated costs over time until the Plan is completed.

In summary, House Bill 142 moves Ohio ratemaking to where other states already are in terms of reducing regulatory lag, thereby supporting infrastructure improvements and economic development at a time when natural gas plays a critical role for new and existing customers. With a modernized regulatory framework, the Ohio Commission will provide orders in a timely manner that supports the policy goals of the state. As set forth in the OBRT Study, at this critical time when the region is facing a potential energy shortfall, instituting policies that enhance infrastructure development is paramount.

Today, you will receive testimony from two national experts on the merits of House Bill 142. Greg White recently retired as the Executive Director of the National Association of Regulatory Commissioners, and he also served as a Michigan Commissioner. John Quackenbush worked for many years at two Midwestern Commissions and served as Managing Director of UBS Financial, a national investment firm where he focused on utility stocks.

Mr. Quackenbush's testimony will include a discussion on the importance of credit ratings which impact the financing costs paid by gas utilities and our customers as we fund investments in infrastructure. I want to make the Committee aware of recent public events related to Enbridge East Ohio, a peer gas utility serving over 1.2 million gas customers in Ohio. On April 25, Enbridge East Ohio's credit was downgraded by Fitch and placed on Negative Outlook by Moody's. These actions were taken due to uncertainty created by Enbridge's pending rate case. Enbridge is awaiting an Order from the PUCO in that rate case and understandably is limiting its public discussion of the case. Given the extraordinary actions of the Credit Rating Agencies and their negative impact on Ohio customers, as the Committee considers the policy issues embodied in House Bill 142 and the need to close the gap compared to other states, it is important to highlight some of the significant public information related to that rate case.

Enbridge filed its request for its first base rate increase since 2007 on October 31, 2023, seeking an increase of $212 million. Enbridge's rates are the lowest in Ohio. On June 26, 2024, PUCO Staff issued its Report recommending a $238 million rate decrease to Enbridge's existing 2007 rates.

Staff's recommendation is primarily based on its position that Enbridge should offset its operating budget by $180 million by accessing dollars in Enbridge's employee pension trust. Staff's recommendation would require Enbridge to violate federal law, known as ERISA, which is designed to protect employee pensions by preventing companies from using pension trust dollars to fund operations and Staff has not refuted the applicability of these regulations. The proposed $180 million decrease would cut Enbridge's Annual Operating Budget almost in half.

Because Enbridge will not accept Staff's regulatory recommendations which would require them to violate federal law, Enbridge testified that to address the impact of the Staff's decrease, it would consider terminating at least 300 employees or 20% of its 1,500-person workforce. Even after taking these drastic steps, Enbridge would still need to find other ways to reduce its Ohio operations to make up for a remaining $160 million deficit. Enbridge also stated the obvious—that Staff's recommended outcome would have a chilling effect on its ability to continue to invest in Ohio. Notably, by having a fully funded pension for many years, Enbridge has avoided including any pension costs in customer rates, but now, it is essentially being punished for maintaining a healthy pension trust.

The Enbridge rate case is an important reminder that Wall Street observes what happens at State Commissions and will act when it sees deterioration in the supportiveness of the regulatory environment. The Legislature has a timely opportunity to modernize gas ratemaking and thereby send a clear message to investors that Ohio will be positioned to compete for capital and will support the financial health of its gas utilities. The recent actions of the credit rating agencies underline the imperative to improve the Ohio regulatory landscape.

I would be happy to answer any questions that you have. Thank you.

Addendum

Figure 1: Gas Policy to Make Ohio More Competitive with Surrounding States