March 19, 2025
Before the Senate Public Utilities Committee
Proponent Testimony on Senate Bill 103
Robert E. Heidorn, President & COO – Columbia Gas of Ohio, Inc.

Chairman Wilkin, Vice Chairman Reineke, Ranking Member DeMora and Members of the Senate Public Utilities 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 Senate Bill 103, 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 Senate Bill 103 accomplishes is leveling this playing field by providing a regulatory framework like the ones already in use in those neighboring states. 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. Senate Bill 103 paves the way to secure these large customers and the accompanying gas generation.

Specifically, Senate Bill 103 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. Senate Bill 103 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 approximately 18 months—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, 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 Senate Bill 103, 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 assure safety. As an example, Columbia is

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, Senate Bill 103 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, Senate Bill 103 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 Senate Bill 103. 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.

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