

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East)
Ohio Gas Company d/b/a Dominion East)
Ohio to Adjust its Automated Meter) Case No. 09-1875-GA-RDR
Reading Cost-Recovery Charge and Related)
Matters.)

ENTRY ON REHEARING

The Commission finds:

- (1) The East Ohio Gas Company d/b/a Dominion East Ohio (DEO) is a public utility under Section 4905.02, Revised Code, and a natural gas company as defined in Section 4905.03(A)(6), Revised Code. DEO supplies natural gas to approximately 1.2 million customers in northeast, western, and southeast Ohio (DEO Ex. 2 at 1).
- (2) By opinion and order issued October 15, 2008, in *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service*, Case No. 07-829-GA-AIR, et al., (DEO Distribution Rate Case) the Commission approved a stipulation that, *inter alia*, provided that the accumulation by DEO of costs for the installation of automated meter reading (AMR) technology may be recovered through a separate AMR cost-recovery charge (AMR charge). The AMR charge was initially set at \$0.00. The Commission's opinion contemplated periodic filings of applications and adjustments of the rate under the AMR charge. The stipulation, as approved by the Commission, also provided that DEO, Staff, and the office of the Ohio Consumers' Counsel (OCC) would "develop an appropriate baseline from which meter reading and call center savings would be determined and such quantifiable savings shall be credited to amounts that would otherwise be recovered through the AMR cost recovery charge."
- (3) By opinion and order issued May 6, 2009, in *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Automated Meter Reading Cost Recovery Charge*

and Related Matters, Case No. 09-38-GA-UNC (2008 AMR Case), the Commission approved a stipulation entered into by DEO, Staff, and OCC establishing DEO's current AMR charge, thereby allowing DEO to recover costs incurred during 2008. In its opinion, the Commission noted that the stipulation provided that, *inter alia*, the signatory parties agreed to a methodology for the AMR charge, as set forth on Attachment 1 to the stipulation. That attachment consisted of a spreadsheet detailing the revenue requirement for the AMR charge, and included a calculation of the reductions in call center and meter reading expenses for the years 2009 through 2013. For 2010 through 2013, the spreadsheet indicated that all values were estimated, and it reflected that no savings were estimated for call center and meter reading expenses for those years. The spreadsheet used calendar year 2007 as the baseline for measuring meter reading and call center expenses and savings. The stipulation, as approved by the Commission, also provided that the methodology for calculating the AMR charge should follow the methodology set forth in DEO's application in the 2008 AMR Case, as amended by Staff's recommendations with regard to property taxes, the amortization rate for the AMR installation cost, and the estimated reduction of DEO's total AMR plant additions and associated depreciation, post in-service carrying costs, property taxes, and related deferred taxes to reflect the exclusion of excess AMR devices. DEO's application in the 2008 AMR Case included a number of schedules demonstrating how the AMR charge was calculated.

- (4) In accordance with the AMR provisions of the stipulation in the *DEO Distribution Rate Case*, DEO filed its prefiling notice on November 30, 2009, in this case. On March 1, 2010, DEO filed its application, requesting an adjustment to the AMR charge to recover costs incurred during 2009.
- (5) A hearing was held in this matter on April 9, 2010. Following the hearing, DEO, OCC, and Staff filed briefs on April 20, 2010, and reply briefs on April 26, 2010.
- (6) By opinion and order issued on May 5, 2010, the Commission approved DEO's application to adjust its AMR charge and ordered that the new charge should be \$0.47 per month, per

customer. The Commission also required DEO, in its filing to recover AMR installation costs for 2010, to recalculate its 2009 call center costs to exclude six categories of expenses which DEO's witness testified were unrelated to the installation of AMR devices. If the revised 2009 call center costs show a reduction when compared with the 2007 baseline, the Commission instructed DEO to credit the resulting savings, plus a carrying cost of 6.5 percent interest, against the AMR installation costs incurred in 2010. The Commission further required DEO to exclude these six categories from its future calculations of call center expenses for its AMR charge, and ordered DEO to exclude any new call center expenses that are unrelated to the AMR program. Finally, the Commission ordered that any call center savings that are not related to the AMR program should not be considered in the calculation of call center costs and savings for the AMR charge.

- (7) Section 4903.10, Revised Code, states that any party who has entered an appearance in a Commission proceeding may apply for rehearing with respect to any matters determined in the proceeding by filing an application within 30 days after the entry of the order upon the journal of the Commission.
- (8) DEO and OCC each filed applications for rehearing on June 4, 2010. On June 14, 2010, DEO and OCC each also filed a memorandum contra the other party's application for rehearing.
- (9) In its application for rehearing, DEO set forth two issues for rehearing. In its first assignment of error, DEO contends that rehearing is required with regard to the Commission's determination that the calculation of call center operation and maintenance (O&M) costs and savings for 2009 and future years should exclude non-AMR activities (DEO Memo in Support of App. for Rehearing at 2). According to DEO, this determination conflicts with the Commission's order in the *2008 AMR Case*, where the Commission approved a stipulation that calculated call center expenses on an aggregate basis. DEO argues that it did not agree, in either the *DEO Distribution Rate Case* or the *2008 AMR Case*, to exclude non-AMR call center expenditures from the savings calculations, nor did it represent

that immediate call center savings would result from approval of the AMR program. (Id.) DEO states that, contrary to the findings in the Commission's order in this case, the fact that the stipulations in the previous cases did not separately list which categories of call center costs should or should not be included in the savings calculation does not reflect a lack of understanding or consensus concerning the agreed methodology for calculating savings. DEO claims that there was no need to separately list different categories of call center costs because the parties anticipated that all call center costs would be included in the savings calculation. DEO also argues that there is no evidence that immediate call center savings was a quid pro quo for approval of the AMR program. (Id. at 2, 5-6.) According to DEO, the May 5, 2010, opinion and order disregards the record evidence and rewrites the stipulations in the previous cases by requiring non-AMR call center expenditures to be excluded from the savings calculation (Id. at 2).

- (10) OCC responds to DEO's first assignment of error by stating that DEO unreasonably argues that there is no dispute regarding the record evidence that supports the use of aggregate call center costs. OCC argues that, because the Commission did not discuss how non-AMR related costs would be treated in the calculation of call center O&M cost savings when approving the stipulation in the *2008 AMR Case*, a dispute does exist as to whether non-AMR related costs should be excluded when calculating call center O&M cost savings. (OCC Memo Contra at 2-3.) OCC maintains that, because approximately \$1 million in inside meter reading expenses were excluded by DEO from the calculation of meter reading O&M cost savings in the *2008 AMR Case*, consistency and fairness require exclusion of non-AMR related expenses from the calculation of call center O&M cost savings (Id. at 3-4). OCC additionally argues that, contrary to DEO's contentions, call center O&M cost savings were a quid pro quo for the approval of the AMR program. OCC contends that DEO's argument that call center O&M savings were conditioned upon full deployment of the AMR program is undercut by the fact that the Commission has required an annual review of AMR expenditures and savings. (Id. at 5.)

- (11) As the Commission pointed out in the order in this case, we clearly articulated in the *DEO Distribution Rate Case* that call center savings were to be used to provide the customers a more immediate benefit of the cost reductions achieved from the AMR program. DEO's inclusion of non-AMR related costs in the calculation of call center expenses essentially negates any possibility that there would a realization of savings experienced by the call center as a result of the AMR program. Therefore, the Commission finds that DEO's argument that our May 5, 2010, order disregards the record evidence and rewrites the stipulations in the *DEO Distribution Rate Case* or the *2008 AMR Case* by requiring non-AMR call center expenditures to be excluded from the savings calculation is without merit. This issue was fully briefed by the parties following the hearing in this case, and our order thoroughly addressed DEO's contentions. The Commission finds that DEO has not raised any new issues for our consideration and, therefore, we conclude that rehearing on DEO's first assignment of error should be denied.
- (12) In its second assignment of error, DEO maintains that the Commission should clearly define what costs must be excluded from future savings calculations. DEO points out that, as noted by the Commission in the order, Ms. Frisic testified that there were six factors, which were the largest contributors to the call center costs. (DEO Memo in Support of App. for Rehearing at 8-9.) According to DEO, it is not clear from the order whether the revised savings calculation for 2009 may include non-AMR related costs that are not related to the six factors. DEO believes that a literal reading of the order suggests that they may be included. However, DEO understands that the order requires that, for 2010 and beyond, no costs that are not specifically related to AMR may be included. DEO contends that the Commission should clarify that any expense categories or items excluded in future savings calculations must also be excluded from the 2007 baseline. (Id. at 3, 9-11.)
- (13) OCC agrees that, to the extent clarification of the Commission's order is needed regarding the proper method for calculating call center O&M cost savings, it should be worked out in this

proceeding and not postponed until a later proceeding (OCC Memo Contra at 6-8).

- (14) With regard to DEO's second assignment of error, the Commission finds that the order clearly set forth the process to be followed by DEO in recalculating the call center costs. In our order we found that, with regard to the 2009 call center calculation, the record evidence affirmed that there were non-AMR costs associated with the six programs unrelated to installation of the AMR devices, namely: the implementation of natural language technology; the 34 new call center representatives hired to provide bilingual services and to comply with the gas standards; the increased support staff costs resulting from hiring the new call center representatives; DEO's reorganization of its call center; overtime used to reduce peak Monday call volumes and the six-percent increase in call volumes since 2007; and the third-party vendor services. Therefore, with respect to the recalculation of the 2009 call center costs, the non-AMR costs associated with those six programs must be removed from the calculation. With respect to call center costs for year 2010 and beyond, the Commission has determined that DEO should exclude any costs associated with any new call center initiatives that are not related to the AMR program.
- (15) The Commission finds that DEO's argument that any cost category or program excluded from the savings calculation must also be excluded from the 2007 baseline lacks merit. Since DEO's witness explained that the increase in call center costs over the 2007 baseline resulted from expenditures incurred after 2007, these costs were never included in the 2007 baseline. For example, the expenses associated with the 34 additional call center representatives were not incurred by DEO until 2009, according to the evidence presented by the company. There is accordingly no need to revise the 2007 baseline to account for these expenses. The Commission believes that our original opinion and order in this matter, as well as our remarks in this entry, provide sufficient guidance to DEO on how call center cost savings should be calculated. The Commission additionally directs Staff to work with DEO to implement our instructions for calculating the amount, if any, of call center

cost savings. For these reasons, the Commission finds that rehearing on DEO's second assignment of error should be denied.

- (16) In its first assignment of error, OCC contends that DEO failed to prove that the meter reading cost savings components of the AMR charge calculation were just and reasonable, and that no other party in the proceeding provided substantial evidence to support DEO's position. OCC argues that DEO failed to maximize meter reading cost savings, as DEO's installations of AMR devices failed to achieve the critical mass needed in order for DEO to consolidate and reroute meter reading routes to improve efficiency. (OCC App. for Rehearing at 6-7.) OCC bases its argument on the fact that, although AMR devices have been installed on almost 58 percent of DEO's meters, DEO has been able to automate the meter reading function in less than 7.9 percent of the communities served by the company. OCC contends that, in our May 5, 2010, opinion and order, the Commission agreed with OCC's claim that DEO failed to maximize meter reading savings. OCC interprets the order as requiring DEO to alter its installation of AMR devices in order to maximize meter reading savings. (Id. at 8-10.)
- (17) In response to OCC's first assignment of error, DEO contends that OCC's claim that meter reading cost savings were significantly less than estimated is a blatant misstatement, as the \$957,000 in cumulative savings achieved, thus far, actually exceed the estimate of \$900,000 provided by DEO in the *DEO Distribution Rate Case* (DEO Memo Contra at 3, 5). Although OCC argues that DEO did not prove the accuracy of its calculation of \$681,000 in meter reading savings in 2009, DEO contends that its application lays out the calculation of the AMR charge, including the meter reading savings credited to the charge. DEO points out that both the prefiled testimony of its witness, Ms. Friscic, and Staff's comments also support DEO's calculation. (Id. at 8-9.)
- (18) The Commission finds that OCC has not raised any new issues for our consideration in its first assignment of error, as OCC's contentions regarding both the pace of AMR deployment and rerouting and the calculation of meter reading cost savings was

thoroughly addressed in our May 5, 2010, decision. Therefore, rehearing on OCC's first assignment of error should be denied.

- (19) In its second assignment of error, OCC argues that, because there is no basis in the record to determine what actual call center expenses were incurred by DEO in 2009 once the non-AMR related increases are removed, the Commission should have rejected DEO's proposed increase in the AMR rider. OCC also argues that, because we found that non-AMR related costs should be excluded from DEO's call center O&M cost savings calculation, the Commission should have required DEO to recalculate its 2009 call center cost savings and pass any quantifiable savings back to consumers in this proceeding, rather than delay the recalculation until next year's AMR case. (OCC App. for Rehearing at 11-14.) OCC raises the concern that, if the recalculation in DEO's 2011 AMR application shows that there were quantifiable call center O&M cost savings in 2009, DEO will argue that refunding those savings to customers at that time would constitute retroactive ratemaking and, therefore, be illegal (Id. at 15).
- (20) In response to OCC's second assignment of error, DEO initially argues that OCC incorrectly conflates the savings and benefits expected after full deployment of the AMR program with savings expected during the deployment process. DEO maintains that it has never represented that significant call center savings would occur during the deployment process, especially since DEO must contact its customers to schedule appointments for AMR installation. DEO states that call center savings will begin to accrue only after installation of the AMR devices and service areas are rerouted. (DEO Memo Contra at 2).

Finally, while maintaining that the Commission erred in finding that DEO should have excluded the non-AMR related cost categories from its calculation of call center costs and savings, DEO argues that the Commission's decision to not require a recalculation of 2009 call center costs and savings until the next AMR proceeding represents a reasonable balancing of interests (Id. at 10-11). DEO states that customers will not be prejudiced by waiting until next year to recalculate

2009 costs and savings because, if any such savings are identified, it will be credited to customers, with interest. DEO asserts that OCC's claim that DEO will argue that any refund would constitute retroactive ratemaking is unfounded. DEO states that it did not make such a claim in its application for rehearing and does not intend to raise such a claim in future AMR proceedings. (Id. at 11-12.)

- (21) The Commission finds that OCC's second assignment of error lacks merit. There is no dispute that DEO demonstrated that it incurred expenses related to the installation of AMR devices during 2009. While there is evidence in the record to cause the Commission to question whether certain expenses should have been included in the calculation of call center cost savings, there is no quantifiable evidence to prove that any potential changes in the calculation of call center expenses would impact the \$0.47 AMR charge approved by the Commission. Given that the \$0.47 amount may, in fact, be the appropriate rate, the Commission finds it reasonable to allow DEO to put that rate into effect, subject to true-up; thus avoiding a situation in which the company accrues carrying costs and the overall cost to customers increases. If the recalculation of the 2009 call center expenses shows a reduction over the 2007 baseline, the AMR charge established in next year's proceeding will reflect that reduction, as well as accrued interest. Finally, OCC's argument that DEO will protest that any refund would constitute retroactive ratemaking is undercut by DEO's promise not to raise such an argument. Accordingly, the Commission finds that rehearing on OCC's second assignment of error should be denied.
- (22) Having found that the arguments raised by DEO and OCC in support of their applications for rehearing fail to raise any new issues or otherwise lack merit, the Commission finds that the applications for rehearing should be denied in their entirety.

It is, therefore,

ORDERED, That the applications for rehearing filed by DEO and OCC be denied. It is, further,

ORDERED, That a copy of this entry be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

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