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PUCO EXHIBIT FILING

Date of Hearing: 8/19/20

Case No. 07 1080 GA -AIR

PUCO Case Caption: In the Matter of the Annual application of VEDO

List of exhibits being filed:

Staff 1 - Comments & Recommendation

OCC -1 - Comments on VEDO

Joint 1 - Stip & Recommendation

Company - 1 Application

Co -2 Supplemental Testimony of Albertson

Co 3 Supp test of Barrett

Co 4 Supp test of Francis

Co 5 Second Supp Test of Albertson

Co 6 Statement of Issue Resolution 8/4/10

Co 7 Second Stmt of Status of Issue Res 8/12/10

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters : Case No. 07-1080-GA-AIR

- - -

In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges : Case No. 10-595-GA-RDR

- - -

PROCEEDINGS

before Mr. Henry H. Phillips-Gary, Hearing Examiner, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-C, Columbus, Ohio, called at 10:00 a.m., Thursday, August 19, 2010.

- - -

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- - -

Staff Ex. 1

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FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	:	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	:	Case No. 10-595 GA-RDR

COMMENTS
AND
RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

July 30, 2010

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	:	Case No. 07-1080-GA-AIR
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COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (Commission) Opinion and Order adopting the Stipulation and Recommendation filed in Case No. 07-1080-GA-AIR (Rate Case), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned cases for authority to increase its Distribution Replacement Rider (DRR). The purpose of the DRR increase is to allow VEDO to: recover a return of and on certain investments made in 2009 to replace aging natural gas pipeline infrastructure; recover the costs of assuming ownership and repair of previously customer-owned service lines; and, recover the costs of replacing prone-to-fail risers. These comments present a summary of the Public Utilities Commission of

Ohio Staff's (Staff) investigation of VEDO's Application and the Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio Corporation engaged in the business of providing natural gas distribution service to approximately 315,000 customers in west central Ohio, is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code,[1] and, as such, is subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (Stipulation) filed by the parties in that proceeding that, among other things, authorized VEDO to establish the DRR for a period of five years or until new rates are approved pursuant to a base or alternative rate case, whichever is less. The purpose of the DRR was to permit VEDO to seek recovery of: (1) the return of and return on[2] plant investment, including post-in-service carrying costs (PISCC) and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the Company's riser investigation pursuant to Case No. 05-463-GA-COI[3]; (3) costs for replacement of prone-to-fail risers; (4) incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and (5) actual annual Operations

1 Application at 1.

2 The pre-tax rate of return is 11.67% as established in Case No. 07-1080-GA-AIR.

3 The initial DRR rate for recovery VEDO's actual deferred costs of its riser investigation as of July 2008 was in effect from March 1, 2009 through February 28, 2010. The DRR was reset to zero effective March 1, 2010.

and Maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

The Stipulation further provided a process for establishing the annual DRR rate. By May 1 of each year beginning in 2010, the Company must file an application detailing the investments and costs delineated above that were incurred during the previous calendar year and a summary of its construction plans for the next year. Under the process, VEDO bares the burden of proof regarding the justness and reasonableness of the DRR rates proposed each year. Further, the process provides that the Staff will perform an investigation of the annual applications and make recommendations on the justness and reasonableness of the applications. Similarly, other parties may file comments on the applications and unresolved issues will be set for hearing by the Commission. The process provides that the parties will use their best efforts to permit new DRR charges to take effect on a service rendered basis on September 1 of each year. Additionally, the process establishes that the initial monthly DRR is capped at $1.00 for Residential and Group 1 General Service customers and that the cap will increase in $1.00 increments in each of the succeeding years. [4]

VEDO'S APPLICATION

VEDO filed its Application on April 30, 2010. The Application is primarily supported by the testimony and exhibits of James M. Francis, Director of Engineering and Asset Management, Janice M. Barrett, Director of Regulatory and Plant Accounting,

[4] Stipulation at 8-14.

and Scott E. Albertson, Director of Regulatory Affairs and by supplemental testimony from Ms. Barrett and Mr. Albertson filed on July 23, 2010. Mr. Francis' testimony and exhibits present the progress made in 2009 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's BS/CI 2010 Replacement Program, the 2009 Riser Replacement Program progress and costs, maintenance costs associated with the 2009 BS/CI Replacement Program, the 2009 incremental costs for maintenance and repair of service lines previously owned by customers, and 2009 capital costs for replacement of previously customer-owned service lines.

Ms. Barrett's initial testimony and exhibits provide explanations of the various components of the Company's proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the for the 2009 Mains and Service Line and Riser Replacement Programs as well as a summary revenue requirement calculation supporting the DRR; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with the Mains and Service Line and Riser Replacement Programs; a discussion of the Company's rationale and policies for recording retirements, PISCC[5], and AFUDC; and a schedule showing the proposed recovery of deferred riser investigation and replacement costs for the period August 1, 2008 through February 28, 2009. Her supplemental testimony makes several adjustments to the proposed revenue requirements for both the mains and service line replacement programs. For the mains,

[5] The PISCC rate of 7.02% represents the company's long-term cost of debt as established in Case No. 07-1080-GA-AIR.

Ms Barrett's supplemental testimony proposes an overall increase in the revenue requirement of $1,299. This increase stems from an adjustment to plant retirements to reflect actual 2009 retirements as opposed to the estimate that was originally provided, an adjustment to the property tax expense using the actual 2009 average property tax rate, and addition of an annual PISCC amortization expense that was not included in the original Application. For the service lines, the Ms Barrett's supplemental testimony proposes an overall decrease in the revenue requirement of $58,752 based on a reduction to the 2009 capital investment, an increase to the accumulated depreciation for the risers, an adjustment to the retirements to provide actual versus estimated figures, adjustments to the property tax expense related to the decrease in rate base resulting from the reduction in 2009 capital investments and to reflect the actual versus and estimated 2009 property tax rate, and addition of an annual PISCC amortization expense that was not included in the original Application.

Mr. Albertson's initial testimony principally provided the derivation of rates from the Company's proposed DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact. His supplemental testimony updates the derivation and allocation of rates and proposed tariff sheet and revises the residential bill impact to reflect the revised DRR revenue requirement provided in Ms. Barrett's supplemental testimony.

In its Application, the Company indicates that in 2009 it replaced 18 miles of bare steel and 6.5 miles of cast iron mains, replaced 1,722 BS/CI service lines (with an additional 58 service lines retired and 74 tied over), replaced 16,003 prone to fail risers, and moved 1,977 inside meters outside as part of its Replacement Program. In the supplemental testimony, the Company proposes a Mains Replacement Program revenue requirement of $651,463 and $2,167,095 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of $2,818,558, which the Company proposes to be allocated as follows:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311, and 315	$0.65	
320, 321, and 325 (Group 1)	$0.65	
320, 321, and 325 (Group 2 and 3)		$0.00448
341	$3.27	
345		$0.00120
360		$0.00117

STAFF INVESTIGATION SUMMARY AND COMMENTS

The Staff reviewed the Company's Application and testimony, issued several information requests seeking additional supporting data, interviewed Company personnel, reviewed the Company's competitive bidding process, and traced sample expenses back to their source data. The Staff's investigation was designed to ensure that the Company's policies and practices comport with sound ratemaking principles and the Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the Application is just and reasonable. The Staff's comments and recommendations, by topic area, are as follows:

A. VEDO's Application

The Company's Application did not include several supporting schedules that are routinely provided by the other Ohio natural gas distribution utilities in their accelerated mains replacement rider applications. Some of the schedules that were not included were monthly breakdowns for plant additions, retirements, cost of removal, depreciation, PISCC, expenses and other detailed schedules customarily provided by other companies in support of summary schedules similar to those that VEDO included in its Application. While the Company was accommodating and cooperative with the Staff's investigation and by-in-large prompt in responding to Staff information requests, the lack of detailed supporting data accompanying the Application required the Staff to request more detailed supporting data. Waiting on the supporting data unnecessarily slowed the Staff's investigation, which could be problematic given the brief investigation window associated with the Company's DRR applications. The Staff recommends that Company modify its future DRR applications to provide supporting schedules similar to those provided by the other natural gas distribution utilities and to more closely emulate the format used by the other companies. Further, concurrent with its Application, the Company should provide the Staff and the Office of the Ohio Consumer's Counsel (OCC) a working electronic model of its revenue requirement calculation such that any adjustment to a supporting schedule would automatically update the revenue requirement and calculation of resulting rates.

B. Level of Investment

The Company in 2009 did not replace the mileage of BS/CI mains or make the capital investment anticipated in the Rate Case Stipulation. And, in 2010, the company plans to replace even fewer miles and spend less on the Replacement Program. In 2009, the Company replaced 24.5 miles of BS/CI mains and spent a total of $11,250,423 on the Program.[6] In 2010, the company plans to replace 18 miles of BS/CI mains and plans to spend approximately $11,000,000. The Stipulation, among other things, addressed the Company's application to create an accelerated mains replacement program (AMRP) and establish the DRR. The Company proposed in its Rate Case Application to accelerate replacement of the BS/CI over a 20 year period (versus 70 years at its historical replacement rate), or approximately 35 miles per year, and an annual capital investment of $16,875,000.[7] For the remaining three years of the Program, years 2011, 2012, and 2013, the Company currently has budgeted capital spending levels at the $16,875,000 per year as proposed in its initial Rate Case Application and as anticipated in the Stipulation.[8]

The Company maintains that the 2009 investment level and planned 2010 investment is below the level specified in the AMRP Application due to the

6 Direct testimony of James M. Francis at 5. The total costs also include costs to replace 1,796 service lines and other related Program costs.

7 Application in Case No. 07-1080-GA-ALT, at al, Alt. Reg. Exhibit A: Alternative Rate Plan Description, at 7.

8 Staff interview with Company personnel, June 9, 2010.

current economic climate and that, in the near term, it (along with its affiliate companies under the Vectren Utility Holdings, Inc.'s umbrella) has constrained its planned capital expenditures in an effort to avoid potential exposure to higher capital costs.[9]

The Staff is concerned that the 2009 and planned 2010 levels of investment are below what was anticipated by the Stipulation. This concern is heightened by the fact that the Company's current 2011 – 2013 budgets only call for capital investments for the Replacement Program at the anticipated levels without any provision to make up for the reduced investment in 2009 and planned for 2010. Concomitantly, Company witness Francis states in his testimony, "On-going assessment of economic impact on the Company's capital spending levels will continue and may impact the annual level of investment in the Replacement program."[10]

The whole point of the AMRP programs is to accelerate replacement of aging infrastructure in order to gain system efficiencies from operating at higher pressures, enhance safety by reducing the incidence of system leaks, and reduce implementation costs by passing operation and maintenance savings back to customers. If the Company's current BS/CI mains replacement pace and corresponding investment level continues or is reduced, then customers may not fully receive the anticipated benefits that are supposed to accrue from the

9 Direct testimony of James M. Francis at 11.

10 Direct testimony of James M. Francis at 11.

accelerated Replacement Program during the five years that the Program has been authorized. Furthermore, the Program may have to extend beyond the 20 years stated in the Company's Rate Case Application.

The Staff intends to closely monitor the Company's future Replacement Program plans and levels of investment. If the plans and investment levels are not at or near the annual levels that were anticipated in the Rate Case Stipulation and include provisions for making up for reduced BS/CI replacement and spending in 2009 and 2010, then the Staff may recommend to the Commission in a future DRR proceeding that the Company continue accelerated BS/CI replacement but seek recovery of its costs in a traditional rate base case rather than through the DRR.

C. Recording Meter Move-Out Costs

The Company included $822,187 plant additions for service lines for costs associated with moving 1,977 meters that were previously located inside customer premises outside.[11] The Company states that it moved the meters outside because, as the BS/CI main lines are replaced with new plastic pipe, its distribution system can be operated at higher pressure which improves operational efficiency thereby benefitting both customers and the Company.[12] Moreover, the Company maintains that it is less costly to move meters outside than it is to install regulators

11 Company response to Staff Data Request No. 20, June 11, 2010.

12 Application at 6.

outside of customer premises and that it is unsafe to bring higher pressure service inside customer premises.[13]

The Staff does not object to the Company's practice of moving meters outside in order to foster operational efficiencies and enhance safety; and, the Staff agrees that the meter move out should be capitalized. However, the Staff believes that the Company has recorded the meter move out costs in the wrong capital account. The Company recorded the meter move out costs in Account 680[14], which is equivalent to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) Account 380 – *Services.*[15] The Staff believes that these costs should more properly be recorded in the Company accounts equivalent to USOA 381–*Meters* or 382–*Meter Installations*, whichever is consistent with the Company's customary practices for recording meter installation costs. Paragraph B of the USOA instructions for the 380 – Services Account states that, "A complete service begins with the connection on the main and ***extends to but does not include the connection with the customer's meter***."[16] (Emphasis supplied.) The Staff believes that the equipment and labor associated with the meter move outs are part of the meter set that should be recorded in USOA Account 381 or 382. The Staff recommends that the Company reclassify the meter move out costs

13 Company response to Staff Data Request No. 20, June 16, 2010.

14 Ibid.

15 18 CFR part 201

16 Ibid.

and update its Application to reflect the reclassification prior instituting the new DRR rate. The Staff believes that the update is necessary to account for differences in the accounts such as depreciation.

STAFF CONCLUSIONS AND RECOMMENDATIONS

The Staff performed a comprehensive investigation of VEDO's DRR Application. Based on that investigation and with adoption of the Staff recommendation concerning reclassification of meter move out cost delineated in paragraph C above, the Staff concludes that the Company's Application will result in a just and reasonable DRR rate and recommends approval by the Commission. In addition, the Staff recommends that the Commission direct the Company to work with the Staff prior to filing its next DRR application in order to include more detailed schedules as described paragraph A above.

Respectfully submitted,

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On behalf of the Staff of
the Public Utilities Commission of Ohio

CERTIFICATE OF SERVICE

I certify a copy of the foregoing was served upon the parties of record by electronic mail and regular U.S. mail, postage prepaid, on July 30, 2010.

Stephen A. Reilly

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OCC Exhibit 1 19

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	)	Case No. 10-595-GA-RDR

**COMMENTS ON VECTREN ENERGY DELIVERY OF OHIO'S APPLICATION
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

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July 30, 2010

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In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

COMMENTS ON VECTREN ENERGY DELIVERY OF OHIO'S APPLICATION BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

I. INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC"), an intervenor in the above-captioned proceeding, hereby files these Comments in opposition to the Application filed by Vectren Energy Delivery of Ohio, Inc. ("Vectren" or "Company") to increase the rates customers pay for Vectren's replacement of cast iron and bare steel distribution mains and service lines and for the replacement of prone-to-failure risers that have a propensity for leaks. Vectren's proposal is in regards to its Distribution Replacement Rider ("DRR") Program. Pursuant to the Stipulation and Recommendation ("Stipulation") filed on September 8, 2008, in Case No. 07-1080-GA-AIR et al., and the Public Utilities Commission of Ohio's ("Commission" or "PUCO") Opinion and Order dated January 7, 2009, customers are subject to potential DRR increases in each of the years 2010 through

2014. Vectren has approximately 290,000 residential customers that would be asked to pay the rate increase requested in Vectren's Application.

On April 30, 2010, Vectren filed its Application for an adjustment to its DRR Rate. OCC filed its Motion to Intervene in these cases on May 19, 2010. On June 16, 2010, the Commission granted OCC's intervention, and established a procedural schedule. On July 23, Vectren supplemented its Application by filing supplemental testimony of two of its witnesses. OCC hereby files these Comments in accordance with the procedural schedule.

II. RESERVATION OF RIGHTS

At this time, OCC's Comments on the Application are preliminary in nature. OCC reserves the right to file additional comments and to file expert testimony on any matters not resolved by the Company by August 4, 2010, as set forth in the procedural schedule in the Attorney Examiner's Entry.[1]

III. BURDEN OF PROOF

The burden of proof regarding the Application rests upon Vectren. In a hearing regarding a proposal that involves an increase in rates, R.C. 4909.19[2] provides that, "[a]t any hearing involving rates or charges sought to be increased, the burden of proof to show that the increased rates or charges are just and reasonable shall be on the public utility." Inasmuch as the current case arose from Vectren's rate case, and Vectren is

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[1] Entry at 2.

[2] See also R.C. 4909.18.

requesting an increase in rates, Vectren in this case bears the burden of proof.[3] Therefore, neither OCC nor any other intervenor bears any burden of proof in this case.

IV. COMMENTS

A. OCC Comments Impacting The DRR Rate

1. Vectren's Proposed O&M Cost Savings Pertaining To Service Lines Are Inadequate For Providing The Intended Benefit To Customers.

Vectren has proposed O&M cost savings pertaining to customer service lines, specifically service leaks and meter maintenance expense attributable to bare steel and cast iron ("BS/CI"). But Vectren has a unique twist for its customers -- customers will pay Vectren for a $26,581 adjustment to the DRR revenue requirement.[4] A negative savings adjustment (where Vectren, instead of customers, receives a payment) is backwards and an affront to the intention of the mains replacement program and should not be accepted by the Commission.

In the Dominion East Ohio Pipeline Infrastructure Replacement ("DEO PIR") Case, the Commission put into perspective the importance of the cost savings component of these accelerated infrastructure replacement programs. The Commission stated:

> In evaluating the arguments of the parties, the Commission is mindful of the goal, articulated in the [Dominion] Distribution Rate Case, of using the O&M baseline savings to reduce the fiscal year-end regulatory assets, which allows customers a more immediate benefit of the cost reductions achieved as a result of the PIR program (Staff Ex. 2 at 5). Moreover, the Commission agrees that, if O&M baseline savings are calculated using the methodology suggested by the company, it is possible that consumers will not realize any immediate savings as the result of

[3] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Stipulation at 12 (September 8, 2008). ("The Company shall: bear the burden of proof of demonstrating the justness and reasonableness of the level of recovery proposed by the Company for the successor DRR charge ***.)

[4] Application at Ex. No. JMB-S3, line 25 and footnote (5).

> the PIR program and could incur additional expenses. Because immediate customer savings were articulated as a goal of the PIR program, the Commission finds that, consistent with Staff's proposal, the O&M baseline savings should be calculated **using only the savings from each category of expenses**, such that O&M savings will total $554,300.64 for the PIR year under consideration in this proceeding.[5]

The Commission should apply the same reasoning and result to the Vectren DRR Application and allow only O&M cost savings that reflect decreases from the baseline in maintenance expenses attributable to BS/CI -- meaning Ohio customers will actually see an offset to the rates they're paying to account for savings. As the Commission concluded in the DEO PIR case, because immediate customer savings were articulated as a goal of the PIR program, the O&M baseline cost savings should be calculated using only the cost savings from each category of expense. Like DEO, Vectren originally presented testimony of witness Francis in its rate case where it proposed the DRR, to describe the savings concept as follows: "Once underway, as VEDO retires leaking pipes the Company will be able to reduce maintenance expenses."[6] Therefore, the Commission should take steps to provide consumers the immediate cost savings that were envisioned when the accelerated replacement program was approved for Vectren.

The Commission should at a minimum set the O&M cost savings component for customer service lines to $0, or more appropriately establish a minimum O&M cost savings amount that will balance the benefit the Company receives from these programs -- accelerated cost recovery for the Company -- with the quid pro quo that consumers are supposed to get and are entitled to -- accelerated and meaningful O&M cost savings.

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[5] *In re Dominion East Ohio PIR Case*, Case No. 09-458-GA-RDR, Opinion and Order at 11 (December 16, 2009).

[6] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al., Direct Testimony of James M. Francis at page 12.

2. Vectren's Proposal To Collect Incremental Service Line Capital Costs From Customers Is Unjust And Unreasonable.

Vectren has proposed the recovery of incremental service line capital costs -- recovery for the replacement of service lines not replaced as part of the mains replacement program -- for customer service lines through the DRR. Vectren's original Application included the recovery for incremental service line capital costs in the amount of $1,394,305.[7] Subsequently, Vectren supplemented its Application and included an amount for incremental service line capital costs in the amount of $1,041,750, which it proposes to collect from customers.[8]

Vectren's proposed recovery for this category of incremental service line capital costs is unjust and unreasonable for several reasons. First, Vectren initially based its calculation of the incremental capital costs on the average cost per service line replaced in 2009 ($4,954) compared to the 2007 baseline ($3,699).[9] This difference, $1,255, or 33.9 percent was then applied to the 1,111 customer service lines replaced to reach the $1,394,305 included in Vectren's Application.[10] Vectren has provided no explanation for the 33.9 percent increase in the average 2009 installation cost versus the 2007 baseline cost. This represents an unjust and unreasonable increase that should not be charged to Vectren's consumers through the DRR.

Further demonstrating the unreasonableness of the 2009 installation costs for the incremental customer service lines is the much lower average installation costs associated

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[7] Application at Ex. No. JMF-6. See also Ex. No. JMB-3, Line 4. (April 30, 2010).

[8] Application at Ex. No. JMB-S3, Line 4 (July 23, 2010). Although Vectren updated the amount proposed for recovery on JMB-S3, it did not update the supporting information contained in Ex. No. JMF-6.

[9] Application at Ex. No. JMF-6 (April 30, 2010). The Company replaced 896 lines in 2007 and 1,111 in 2009.

[10] Application at Ex. No. JMF-6 (April 30, 2010).

with each customer service line installed as part of the replacement of bare steel and cast iron mains. Vectren's Application shows that it spent $4,187,450 on customer service lines replaced in conjunction with its main replacement program.[11] The Testimony of Vectren witness James M. Francis, stated that Vectren replaced 1,722 bare steel service lines as part of the replacement program.[12] The average cost of the replacement of a service line coincident with the replacement program is $2,432.[13] The average cost of the installation of each customer service line in conjunction with the mains replacement program is $1,267 (or 34.3 percent) below the 2007 baseline for service line responsibility replacement cost,[14] and $2,522 (or 50.9 percent) below the 2009 average incremental service line responsibility replacement cost.[15] This comparison confirms the fact that the 2009 incremental service line capital cost is unjust and unreasonable.

Vectren has provided no justification for the increased average cost between 2007 and 2009. In addition, the installed customer service lines in conjunction with the replacement program have an average cost below the 2007 baseline. Thus the Commission should reduce the Company's recovery of incremental capital costs for 2009 customer service line installations not associated with main replacement activities through the DRR. Vectren's recovery of 2009 incremental service line capital cost, if

[11] Application at Ex. No. JMB-3, Line 3.

[12] Direct Testimony of James M. Francis at 5, Lines 4-9 (April 30, 2010).

[13] $4,187,450 / 1,722 = $2,420.

[14] $3,699 - $2,432 = $1,267 / $3,699 x 100 = 34.3 percent.

[15] $4,954 - $2,432 = 2,522 / $4,954 x 100 = 50.9 percent.

any, should be limited to the actual number of service line installations for 2009,[16] based on the 2007 baseline average cost per service line of $3,699.

3. Vectren's Proposal For Collecting From Customers The Cost Of The Relocation Of Inside Meters To The Outside Should Be Eliminated From DRR Recovery.

Vectren has included in its Application the costs associated with the relocation of inside meters to the outside. Vectren's witness, James Francis stated:

> Q. Did VEDO move any meters outside as part of the Replacement Program?
>
> A. Yes. VEDO moved 1,977 meters outside in 2009. Because the newly installed mains operate at a higher pressure (requiring the installation of a service regulator), the cost associated with moving the meters outside was less than if the meter remained inside and the necessary regulation was installed outside. In addition to better utilization of VEDO's capital, moving the meters outside should improve operational efficiency associated with future meter order work and eliminate the need for internal atmospheric corrosion inspections.[17]

Vectren has violated the Stipulation by including in its DRR Application a proposal for customers to pay for recovery of costs associated with the relocation of inside meters outside.

The Rate Case Stipulation established the following agreed upon components that Vectren would be permitted accelerated recovery through the DRR mechanism:

> The DRR, which will include a reconciliation of costs recoverable and costs actually recovered, shall recover the return of and on the 1) plant investment, * * * (estimated to be $16.8 million per year), 2) the actual deferred costs resulting from compliance with the Commission's riser investigation conducted in Case No. 05-463-GA-COI (estimated to be approximately $2.5 million as of July 31, 2008), 3) the incremental costs of assuming ownership and repair

[16] This number is unknown because the Company's Supplemental filings did not supplement Exhibit JMF-6.

[17] Application, Direct Testimony of James M. Francis at 6 (April 30, 2010).

> of customer service lines as described in the Company's Application in these proceedings (estimated to be $295,000 per year), and 4) the costs associated with the replacement of prone-to-fail risers over a five (5) year period (estimated to be in total $33.5 million).[18]

The Stipulation does not identify the recovery of costs associated with the relocation of inside meters to the outside.

The PUCO Staff, in the Staff Report, had challenged the inclusion of the costs associated with the meter relocation by stating:

> Staff questions whether Vectren's plan should also include the movement of inside meters to the outside of the customer's home. Given that such moves may not be necessary in all cases, and the complexity of undertaking such activity, Staff recommends that Vectren provide the staff, when It submits Its proposed work for the upcoming year, instances of where It proposes to do this; the cost, and the specific rationale for doing so.[19]

The Company did not in its Application provide Staff the costs associated with the meter relocation and any specific rationale for doing so as required by the Staff Report.[20] The Stipulation also did not provide for the recovery of these costs. Therefore, the Commission should order Vectren to exclude the costs associated with the relocation of inside meters to the outside from DRR recovery.

[18] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al., Stipulation at 9-10 (September 8, 2008).

[19] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al., Staff Report at 40 (June 16, 2008).

[20] The Application does not detail the costs associated with the relocation of inside meters outside.

4. Vectren's Proposal To Collect From Customers The Cost Of The Replacement Of Plastic Pipe Should Be Exempted From DRR Recovery.

Vectren has included in the DRR Application recovery from customers for costs associated with the removal and replacement of plastic pipe. [21] That proposal is a violation of the Stipulation. The Stipulation states:

> The Parties agree and recommend that the Company be authorized to establish a Distribution Replacement Rider * * *, to enable the recovery of and return on investments made by the Company to accelerate implementation of a bare steel and cast iron pipeline replacement program * * *.[22]

There is no expectation of the Parties pursuant to the Stipulation that Vectren would recover the costs for the replacement of plastic mains through the DRR mechanism.

Vectren's testimony in this case states: 2,640 feet of plastic main has been replaced within the projects completed in 2009.[23] Vectren witness Francis further states

> There were a number of reasons why plastic main segments were retired, which were discussed in my testimony in the Rate Case. Some short segments of plastic main existed among the bare steel or cast iron infrastructure. It would have been more costly to try and salvage that main rather than replace it. There existed sections of plastic main at the ends of some distribution systems being retired wherein those segments no longer served any customers; therefore, there was no reason to replace and continue to maintain those segments. Finally, there were sections of existing plastic main that required additional pressure testing in order for them to be operated at the higher maximum allowable operating pressure ("MAOP") applicable to the replaced distribution system - and where during the test the main failed to hold the required pressure. Replacement was a more cost effective option than attempting to find and repair the deficiencies in the existing plastic main.[24]

[21] Direct Testimony of James M. Francis at 5-6 (April 30, 2010).

[22] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. Stipulation at 8 (September 8, 2008). See also Opinion and Order at 5 (January 7, 2009).

[23] Direct Testimony of James M. Francis at 5 (April 30, 2010).

[24] Direct Testimony of James M. Francis at 5-6 (April 30, 2010).

Vectren's arguments in support of recovery do not overcome the fact that the Stipulation did not contemplate the recovery of plastic main replacement costs through the DRR. Therefore, the Commission should disallow the costs of plastic main replacement.

In its Application, Vectren does not break out its mains and services by pipe composition (cast iron, bare steel, plastic, etc.). The removal of the costs of new plastic mains that replace the existing plastic mains from the DRR calculation impacts the total expense and annualized return on rate base that makes up the revenue requirement to be collected. OCC proposes reducing the revenue requirement associated with mains by \$13,029[25] to exclude the costs of the replacement of existing plastic mains with new plastic mains. It is OCC's position that the DRR should not be the mechanism to collect from customers the costs of replacing old plastic with new plastic mains and services.

B. OCC Comments Not Immediately Impacting The DRR Rate

1. The Claimed Need For The DRR Program Is Illusory.

Vectren has in large part relied on safety and reliability as the basis for justifying the need for the DRR program.[26] Vectren's recent rate case included testimony which supports this contention. Vectren witness James M. Francis stated:

> Q. Is there a difference in the operational performance of bare steel and cast iron mains when compared to protected steel or plastic mains?
>
> A. Yes. Bare steel and cast iron mains have significantly higher leakage rates than do protected steel and plastic mains. This increased incidence of leakage results in higher

[25] Vectren replaced 2640 feet (1/2 mile) of plastic pipe. This equates to 2% of the total miles replaced (.5 mile / 24.5 miles). Applying 2% to the revenue requirement for mains yields \$13,029 (2% x 651,463).

[26] For example see, *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 6, 8, 9, 12, 14-15 (December 4, 2007).

> operating and maintenance expenses, greater line losses and safety and reliability risks. * * *.[27]
>
> Q. Does the increased likelihood of leakage on a bare steel or cast iron main create potentially serious issues for VEDO and its customers?
>
> A. When considering only those leaks repaired since 2003 that are directly attributable to bare steel or cast iron mains, 13% of those leaks were identified as being hazardous to public or employee safety, requiring immediate repair. Exhibit JMF-5 provides a count of the leaks repaired by hazard type. Approximately another 45% of the repaired leaks were under hard surface and thus are prone to migration into buildings or sewer systems, which can be problematic. * * *.[28]
>
> Q. Why does VEDO believe it is prudent to pursue the Program at this time?
>
> A. There are numerous benefits to the Program beyond the replacement of VEDO's most aged assets. First, the Program will replace the pipes that contribute most to system leaks. The resulting benefits to service reliability and safety are clear. * * *.[29]

At the time the DRR was proposed, safety and reliability factors played an important role in the justification of the program.

The Company proposed completing the program within twenty years, and stated in testimony that it could potentially shorten the program. Vectren witness James Francis stated:

> Q. Why is VEDO proposing a 20 year replacement program, rather than a shorter Program period?
>
> A. The 20 year program was developed when considering distribution system replacement needs throughout VUHI, not only the VEDO system. Vectren has proposed a similar program for its Indiana utilities. In total, the planned annual

[27] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 7 (December 4, 2007).

[28] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 8 (December 4, 2007).

[29] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 12 (December 4, 2007).

> mileage to be replaced across Vectren service territories is approximately 90 miles. Additionally, there are a number of other utilities in the Midwest, including Duke Energy Ohio, who have in place a significant replacement program that will constrain construction resource availability for some time. The 20 year program reflects the amount of resources VEDO believes would be reasonably available to implement and execute the Program. However, VEDO would consider shortening the length of the Program if resources were to become available. * * *.[30]

It is noteworthy that throughout his testimony, Mr. Francis did not discuss or contemplate a DRR program lasting longer than 20 years. Yet, experience through the first two years of the DRR program demonstrates that Vectren is replacing significantly less pipeline than originally proposed; therefore, creating the very real probability that the program will extend well beyond the twenty years originally proposed.

In its Application, Vectren discussed the activity that would be required in order to complete the program in twenty years. Vectren witness James Francis stated:

> As of the end of 2008, VEDO had a total of 524 miles of bare steel and 172 miles of cast iron main remaining in its system. In its Rate Case, VEDO proposed to replace its remaining bare steel and cast iron infrastructure over a twenty year period, or approximately 35 miles per year.[31]

Yet in 2009, Vectren replaced only 18 miles of bare steel mains and 6.5 miles of cast iron mains.[32] The 24.5 miles represents 70 percent of the 35 miles per year needed to complete the project in twenty years. Furthermore, Vectren has stated its plans to only replace 18 miles of bare steel and cast iron mains in 2010.[33] This planned replacement rate is less than 2009 replacements, and roughly one-half of the 35 miles projected by

[30] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 9-10 (December 4, 2007).

[31] Direct Testimony of James M. Francis at 4 (April 30, 2010).

[32] Direct Testimony of James M. Francis at 5 (April 30, 2010).

[33] Direct Testimony of James M. Francis at 10 (April 30, 2010).

Vectren at the time of the rate case. Thus after two years of the program, Vectren will have replaced only 42.5 miles of bare steel and cast iron pipeline instead of 70 -- a pace which will extend the DRR program well past its current projection of 20 years. Although this replacement rate is greater than the rate Vectren achieved during the five years prior to its 2008 rate case (10.5 miles of bare steel and cast iron pipeline per year)[34], it does not appear sufficient to meet the Company's 20 year completion target date.

Vectren has explained that the slower pace of pipeline replacement is in response to the economic downturn and the greater cost of capital necessary for such a large scale project.[35] But it should be pointed out that the DRR was designed in a manner to reduce Company risk and regulatory lag associated with pipeline investment. Despite this framework, cost apparently seems to be the impediment keeping the Company from meeting the projected pipeline replacement schedule.

Inasmuch as the pipeline replacement program was designed to permit Vectren to maintain a safe and reliable distribution system, and to do so in an accelerated manner, it now appears that cost concerns have become the over-riding factor, and not safety. If, in fact, cost has now become the over-riding factor in the pipeline replacement program, then the PUCO should re-evaluate the need for such a program and the annual DRR review.

The most troubling aspect to Vectren's under-achieving main replacement rate is the rationale that Vectren has provided in its testimony supporting its Application. Vectren witness James Francis stated:

---

[34] See *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 5 (December 4, 2007).

[35] Direct Testimony of James M. Francis at 11 (April 30, 2010).

> Q. In the Rate Case, VEDO indicated an annual Replacement Program investment of $16,875,000. Why is the actual 2009, and planned 2010, level of investment less than this amount?
>
> A. Based on the economic climate, in the near term VEDO has constrained its planned capital expenditures in an effort to reduce immediate capital needs and **potential exposure to higher capital costs.**[36]

Vectren is constricting its main replacement rate not because it is experiencing unreasonable cost increases, but rather there is a potential that it may experience higher capital costs.

There are numerous problems with Vectren's rationale. First, if the program is necessary for the improvement of system safety and reliability, then Vectren's cost concerns do not adequately explain its delay. Second, Vectren has been given a very generous accelerated cost recovery mechanism designed to provide the Company with a return of and on the plant investment. The DRR recovery mechanism should more than adequately cover the risk of increased capital costs that worries Vectren. Finally, if the Company is indeed prioritizing accelerated cost recovery (from customers) ahead of accelerated main replacement (to benefit customers), then the Commission should recognize that the underpinnings used by Vectren to justify the DRR program -- safety and reliability -- are illusory, and the Commission should reevaluate the program.

Although two years may not be a sufficient time period to make a final judgment on Vectren's ability to complete the DRR program in the projected 20-year period, it is enough of a trend to raise the issue for closer review. OCC urges the PUCO to put Vecten on notice that the Company has the burden to prove, in future DRR proceedings, that its actions -- replacing less pipelines than projected -- are prudent under the

[36] Direct Testimony of James M. Francis at 11 (April 30, 2010) (emphasis added).

Stipulation in Case No. 07-1080-GA-AIR, et al. Furthermore, if it can be shown that the need for an accelerated pipeline replacement program has been superseded by a program to accelerate cost recovery from consumers, then the continuation of the DRR program could be in jeopardy.

2. The O&M Expense Cost Savings That Are Supposed To Be A Benefit And Offset To The Rates Customers Are Paying Are Jeopardized By The Company's Main Replacement Rate.

O&M cost savings pertaining to mains replacement could be impacted by the Company's decision to replace less cast iron and bare steel main than was projected. To the extent Vectren delays its replacement of distribution facilities, the potential exists that consumers will not receive the O&M cost savings that were envisioned at the time the DRR was approved. The Staff recognized the importance of achieving significant O&M cost savings through the DRR. The Staff stated:

> Staff has supported a similar program at Duke Energy Ohio (Duke) in its Accelerated Mains Replacement Program (AMRP). Staff supports Vectren Energy Delivery Company Case Nos. 07-1080-GA-AIR and 07-1081-GA-ALT Duke's ongoing AMRP for the replacement of all cast iron and bare steel pipeline and resulting improvement it has made to pipeline safety, and notes that customers have realized approximately $8.5 million in O&M savings to date that has been credited back through rider AMRP **Vectren also anticipates significant benefits from a reduced incidence in leak repair expenses, and like Duke, will credit savings in the avoided O&M costs to customers.**[37]

Vectren has not passed back significant O&M cost savings to its consumers, and if the trend continues and the replacement rate achieved falls below the Company's projections, then the Commission should consider establishing a minimum O&M cost savings amount to assure consumers are provided the benefit they were promised.

[37] *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al., Staff Report at 30-40 (June 16, 2008).

V. CONCLUSION

The Commission should reduce the DRR Rider rate that Vectren proposes in conformance with the above OCC recommendations.

Furthermore, because the present replacement rate is not in compliance with the rate that Vectren argued in the rate case as being necessary to maintain a safe and reliable system, the Commission should put Vectren on notice that the Company has the burden to prove, in future DRR proceedings, that its actions --replacing less pipelines than projected --are prudent under the Stipulation in Case No. 07-1080-GA-AIR, et al. Additionally, OCC is concerned that by virtue of the fact that the Company is replacing less pipe than projected, it reduces the O&M cost savings that are to be passed back to consumers. Finally, if it can be shown, in future DRR proceedings, that the need for an accelerated pipeline replacement program has been superseded by a program to accelerate cost recovery from consumers, then the continuation of the DRR program could be in jeopardy.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Office of the Ohio Consumers' Counsel's *Comments* was provided to the persons listed below via first class U.S. Mail, postage prepaid, and via electronic service to certain parties that agreed to such service this 30th day of July 2010.

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Joint Ex. 1

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August 18, 2010

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PUCO

Renee J. Jenkins
Secretary, Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: Case Nos. 07-1080-GA-AIR and 10-595-GA-RDR

Dear Secretary Jenkins:

The Stipulation and Recommendation filed in the above cases yesterday contains an inadvertent error. Attached hereto is a corrected Stipulation and Recommendation for the Commission's consideration in these cases.

Thank you for your kind attention to this matter.

Very truly yours,

Gretchen J. Hummel

Attorney for Vectren Energy Delivery of Ohio, Inc.

Attachment
GJH:dsr

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{C31747: }

CORRECTED VERSION

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	))))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Rate.	))))	Case No. 10-595-GA-RDR

STIPULATION AND RECOMMENDATION

August 18, 2010

{C31705:2 }

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Rate.	)	Case No. 10-595-GA-RDR

STIPULATION AND RECOMMENDATION

These cases are before the Commission upon the Application ("DRR Application") filed by Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") on April 30, 2010, in accordance with the Commission's January 7, 2009, Opinion and Order in Case No. 07-1080-GA-AIR, approving and adopting a Stipulation and Recommendation ("Rate Case Stipulation") filed on September 8, 2008. Therein, VEDO was authorized to recover certain, identified costs through a Distribution Replacement Rider ("DRR"). Consistent with the Commission's Opinion and Order approving and adopting the Rate Case Stipulation, VEDO filed its DRR Application in Case No. 07-1080-GA-AIR (and Case No. 10-595-GA-RDR) on April 30, 2010, to establish the DRR rate to be effective on September 1, 2010, for the subsequent twelve (12) month period.

Comments addressing the DRR Application were filed by Staff and the Office of the Ohio Consumers' Counsel ("OCC") on July 30, 2010.

Rule 4901-1-30, Ohio Administrative Code, provides that any two or more parties to a proceeding before the Commission may enter into a written stipulation for the purpose of resolving issues presented in such proceeding. The purpose of this document is to set forth the agreement of the signatory parties ("Parties") below and to recommend that the Commission approve and adopt this Stipulation and Recommendation ("DRR Stipulation") resolving the issues raised in the recommendations contained in the comments of Staff and OCC in this proceeding. The terms of this DRR Stipulation are consistent with the Staff's recommendations and are supported by the information contained within the schedules and documents filed as a part of VEDO's DRR Application. The Parties agree that this DRR Stipulation is supported by adequate data and information; represents a just and reasonable resolution of the issues which are proposed to be resolved by the terms of this DRR Stipulation; violates no regulatory principle; and is the product of serious bargaining among knowledgeable and capable parties in a cooperative process undertaken by the Parties to settle such contested issues. While this DRR Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission where, as is the case here, it is sponsored by a range of interests, including the Commission Staff.[1]

[1] Rule 4901-1-10(c), Ohio Administrative Code, provides that Commission Staff is a party for the purpose of entering into this Stipulation.

The purpose of this DRR Stipulation is to set forth the understanding of VEDO, the Staff, and OCC to resolve the issues raised in the recommendations contained in the comments of the Staff and OCC in these proceedings as set forth below:

1. VEDO agrees to work with Staff prior to filing its next DRR application in order to include more detailed schedules as described in Staff's Comments.

2. VEDO agrees to make the following changes which result in adjustments to the DRR revenue requirement and revised DRR rates as shown on the attached DRR Stipulation Exhibit 1:

   a. VEDO agrees to reclassify $746,228 associated with meter move-out costs from Federal Energy Regulatory Commission Uniform System of Accounts ("FERC USOA") Account No. 380 to Account No. 382 as recommended by Staff.

   b. VEDO agrees to exclude from the DRR revenue requirement $39,832 related to city permits issued prior to 2009, but billed during 2009.[2]

3. The tariff sheet attached as DRR Stipulation Exhibit 2 contains rates which accurately reflect the DRR revenue requirement revisions described

[2] This revision was raised by Staff with VEDO after Staff's Comments were filed.

in Paragraph 2 above and shown on DRR Stipulation Exhibit 1. The Parties recommend and request that the Commission issue an order adopting this DRR Stipulation and explicitly approving the tariff sheet in DRR Stipulation Exhibit 2 on an expedited basis.

4. The Parties agree that the DRR Application, the pre-filed testimony of all witnesses, and the Comments filed by the Staff and OCC should be admitted into evidence on the condition that the Commission approves this DRR Stipulation. The Parties waive cross-examination of witnesses.

5. Except for enforcement purposes, neither this DRR Stipulation nor the information and data contained herein or attached hereto shall be cited as a precedent in any future proceeding. More specifically, no specific element or item contained in or supporting this DRR Stipulation shall be construed or applied to attribute the results set forth in this DRR Stipulation as the results that any Party might support or seek but for this DRR Stipulation in these proceedings or in any other proceeding. This DRR Stipulation contains a combination of outcomes that reflects an overall compromise involving a balance of competing positions, and it does not necessarily reflect the position that one or more of the Parties would have taken for purposes of resolving contested issues through litigation. The Parties believe that this DRR Stipulation, taken as a whole, represents a reasonable compromise of varying interests. This DRR Stipulation is expressly conditioned upon adoption in its entirety by the Commission without material modification by the Commission. Should the Commission reject or materially modify all or any part of this DRR Stipulation, the Parties shall have the

right, within thirty (30) days of the issuance of the Commission's order, to file an application for rehearing. The Parties agree they will not oppose or argue against any other Party's application for rehearing that seeks to uphold the original, unmodified DRR Stipulation. Upon the Commission's issuance of an entry on rehearing that does not adopt the DRR Stipulation in its entirety without material modification, any Party may terminate and withdraw from the DRR Stipulation by filing a notice with the Commission within thirty (30) days of the Commission's entry on rehearing. Prior to any Party seeking rehearing or terminating and withdrawing from this DRR Stipulation pursuant to this provision, the Parties agree to convene immediately to work in good faith to achieve an outcome that substantially satisfies the intent of this DRR Stipulation or proposes a reasonable alternative thereto to be submitted to the Commission for its consideration. Upon notice of termination or withdrawal by any Party, pursuant to the above provisions, the DRR Stipulation shall immediately become null and void. In such event, these proceedings shall go forward at the procedural point at which this DRR Stipulation was filed, and the Parties will be afforded the opportunity to present evidence through witnesses, to cross-examine all remaining witnesses, to present rebuttal testimony, and to brief all issues which shall be decided based upon the record and briefs as if this DRR Stipulation had never been executed. This DRR Stipulation is submitted for purposes of these cases only, and may not be relied upon or used in any other proceeding except as necessary to enforce the terms and conditions of this DRR Stipulation. The Signatory Parties agree with and commit to support the reasonableness of this

DRR Stipulation before the Commission and in any appeal from the Commission's adoption or enforcement of this DRR Stipulation.

WHEREFORE, the undersigned respectfully request that the Commission issue its Opinion and Order approving and adopting this DRR Stipulation in accordance with the terms set forth above.

Executed this 18th day of August 2010.

Vectren Energy Delivery of Ohio, Inc.

By: ______________________

The Staff of the Public Utilities Commission of Ohio

By: ______________________

The Office of the Ohio Consumers' Counsel

By: ______________________

{C31705:2 }

DRR STIPULATION EXHIBIT 1

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
SUMMARY OF DRR REVENUE REQUIREMENT

Line	Description	Amount	Reference
1	Mains Revenue Requirement	$ 651,463	Exhibit No. JMB-S2, Line 24
2	Service Lines Revenue Requirement	2,135,278	Exhibit No. JMB-S8, Line 33
3	**Annual DRR Revenue Requirement**	**$ 2,786,741**	**Line 1 + Line 2**

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - SERVICE LINES

Line	Description		Amount	Reference
1	**Return on Investment:**			
2	Plant In-Service at December 31, 2009			
3	Additions - Services Replacements (Bare Steel/Cast Iron)	$	3,441,222	
4	Additions - Meter Installation (Bare Steel/Cast Iron)		746,228	
5	Additions - Services Replacements (Service Line Responsibility)		1,001,250	(6)
6	Additions - Natural Gas Risers		5,451,132	
7	Original Cost - Retired Services		(21,552)	
8	Original Cost - Retired Meter Installation		(2,808)	
9	Total Plant In-Service	$	10,615,472	Sum of Lines 3 - 8
10	Less: Accumulated Depreciation at December 31, 2009			
11	Depreciation Expense - Services	$	(74,998)	
12	Depreciation Expense - Meter Installation		(3,593)	
13	Depreciation Expense - Natural Gas Risers		(89,975)	
14	Cost of Removal - Services		319,526	
15	Original Cost - Retired Services		21,552	Line 7
16	Original Cost - Retired Meter Installation		2,808	Line 8
17	Total Accumulated Depreciation	$	175,320	Sum of Lines 11 - 16
18	Post In-Service Carrying Costs (PISCC)	$	57,709	(3)
19	Net Deferred Tax Balance - PISCC	$	(20,198)	Line 18 x 35%
20	Deferred Taxes on Depreciation	$	(1,894,019)	Exhibit No. JMB-S8b, Line 22
21	Net Rate Base	$	8,934,284	Sum of Lines 7 and 17-20
22	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
23	**Annualized Return on Rate Base -Service Lines**	$	1,042,631	Line 21 * Line 22
24	**Operations and Maintenance Expenses**			
25	Annualized Property Tax Expense	$	227,811	Exhibit No. JMB-S8a, Line 22
26	Annualized Depreciation Expense - Services	$	519,270	(Line 1+ Lines 5-7) x 5.26% (1)
27	Annualized Depreciation Expense - Meter Installation	$	13,530	(Line 4 + Line 8) x 1.82% (1)
28	Annualized PISCC Amortization Expense	$	1,012	Line 18 / 57 years (7)
29	Incremental O&M - Service Line Responsibility	$	71,725	(2)
30	Annualized Maintenance Adjustment	$	26,581	(5)
31	**Total Incremental Operating Expenses - Service Lines**	$	859,929	Sum of Lines 25-30
32	**Variance** (4)	$	232,718	Exhibit No. JMB-4, Line 5
33	**Total Revenue Requirement - Service Lines**	$	2,135,278	Line 23 + Line 31 + Line 32

(To Exhibit No. JMB-S7 and Exhibit No. SEA-S4, Page 1 of 5)

(1) FERC Account 680 (Line 25) and FERC Account 682 (Line 26) depreciation rates approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-5.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate.
(4) Variance represents the initial DRR charge associated with deferred natural gas riser investigation and replacement expenses.
(5) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Service Leaks and Meter Maintenance Expense. 2009 expense less Baseline expense attributable to Bare Steel/Cast Iron.
(6) Support provided by VEDO Witness James Francis, Exhibit No. JMF-S7.
(7) FERC Account 680 Average Service Life approved in Case No. 04-0571-GA-AIR.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUALIZED PROPERTY TAX EXPENSE - SERVICE LINES

Line	Description	Amount	Reference
1	Service and Meter Installation Replacements - Book Value	$ 5,188,700	Exhibit No. JMB-S3, Lines 3 -5
2	% Good	98.3%	
3	Tax Value	$ 5,100,492	Line 1 x Line 2
4	x 25%	25.0%	
5	Taxable Value / Assessment	$ 1,275,123	Line 3 x Line 4
6	VEDO Average 2010 Property Tax Rate	8.72%	
7	Annual Property Tax Expense - Service Line Replacements	$ 111,191	Line 5 x Line 6
8	Services and Meter Installation Retired - Book Value	$ (24,360)	Exhibit No. JMB-S3, Lines 7-8
9	% Good	36.7%	
10	Tax Value	$ (8,940)	Line 8 x Line 9
11	x 25%	25.0%	
12	Taxable Value / Assessment	$ (2,235)	Line 10 x Line 11
13	VEDO Average 2010 Property Tax Rate	8.72%	
14	Annual Property Tax Reduction - Service Line Retirements	$ (195)	Line 12 x Line 13
15	Risers Replacements - Book Value	$ 5,451,132	Exhibit No. JMB-S3, Line 6
16	% Good	98.3%	
17	Tax Value	$ 5,358,463	Line 15 x Line 16
18	x 25%	25.0%	
19	Taxable Value / Assessment	$ 1,339,616	Line 17 x Line 18
20	VEDO Average 2010 Property Tax Rate	8.72%	
21	Annual Property Tax Expense - Natural Gas Risers	$ 116,815	Line 19 x Line 20
22	Annualized Property Tax Expense - Service Lines	$ 227,811 (To Exhibit No. JMB-S8, Line 25)	Line 7+ Line 14 + Line 21

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DEFERRED TAXES ON LIBERALIZED DEPRECIATION - SERVICE LINES

Line	Description	Amount	Reference
1	Plant In Service at December 31, 2009:		
2	Service Additions - Bare Steel/Cast Iron Replacements	$ 3,441,222	Exhibit No. JMB-S3, Line 3
3	Meter Installation Additions - Bare Steel/Cast Iron Replacements	746,228	Exhibit No. JMB-S3, Line 4
4	Service Additions - Service Line Ownership	1,001,250	Exhibit No. JMB-S3, Line 5
5	Additions of Natural Gas Risers	5,451,132	Exhibit No. JMB-S3, Line 6
6	Total Plant In Service	$ 10,639,832	
7	Book to Tax Basis Adjustment - Capitalized Interest	$ (2,287)	
8	Book to Tax Basis Adjustment - Bonus Depreciation	(5,318,773)	(Line 6+Line 7) * 50%
9	Total Income Tax MACRS Depreciation Base	$ 5,318,772	Sum Lines 6-8
10	Tax Depreciation:		
11	MACRS - 15 Year	$ 247,283	(Line 2+Line 4+Line 5+Line 7)* 50% * 5%
12	MACRS - 20 Year	13,992	Line 3 * 50% * 3.75%
13	Bonus Depreciation	5,318,773	Line 9
14	Total Tax Depreciation	$ 5,580,048	Line 11 + Line 12 + Line 13
15	Book Depreciation:		
16	Services	$ 74,998	Exhibit No. JMB-S3, Line 11
17	Meter Installation	3,593	Exhibit No. JMB-S3, Line 12
18	Natural Gas Risers	89,975	Exhibit No. JMB-S3, Line 13
19	Total Book Depreciation	$ 168,566	Sum of Lines 16-18
20	Tax Depreciation in Excess of Book Depreciation	$ (5,411,482)	Line 19 - Line 14
21	Federal Deferred Taxes at 35%	35%	
22	Deferred Tax Balance at December 31, 2009 - Service Lines	$ (1,894,019) (To Exhibit No. JMB-S8, Line 20)	Line 20 * Line 21

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
SUMMARY OF SETTLEMENT FILING REVENUE REQUIREMENT ADJUSTMENTS

First Supplemental Revenue Requirement	$	2,818,558
Settlement Revenue Requirement	$	2,786,741
Decrease in Revenue Requirement	$	(31,817)

Summary of Settlement Filing Adjustments

Item Number				Δ Supplemental to Settlement	Supplemental Filing Reference	Settlement Filing Reference	Reason
1	Service Replacement Revenue Requirement ("RR")						
2	Decrease - Annualized Return		$	(3,074)	Exhibit No. JMB-S3, Line 19	Exhibit No. JMB-S8, Line 23	(1) Reclassify meter installation investment for Bare Steel/Cast Iron program from FERC 380 to FERC 382 and recognize accumulated depreciation and retirements of meter installations. (2) Reduce service replacement additions for service line responsibility; remove prior period city permit expense, $39,832.
3	Decrease - Annualized Property Tax Expense		$	(691)	Exhibit No. JMB-S3, Line 21	Exhibit No. JMB-S6, Line 25	Changes in plant in service noted above on Line 2.
4	Decrease - Annualized Depreciation Expense - Services		$	(41,382)	Exhibit No. JMB-S3, Line 22	Exhibit No. JMB-S8, Line 26	Reclassification of meter installation expense and reduce in incremental investment for service line responsibility noted above on Line 2.
5	Increase - Annualized Depreciation Expense - Meter Installation		$	13,530	Not Applicable	Exhibit No. JMB-S8, Line 27	Reclassification of meter installation expense noted above on Line 2.
6	Total Decrease in Service Replacment RR	Sum Lines 2 - 5	$	(31,817)			

Note: Supporting calculation schedules for property taxes (JMB-S6a) and deferred taxes (JMB-S6b) were also adjusted due to the changes noted above.

VEDO Incremental Service Line Responsibility Capital Costs

	Baseline	2009	Incremental over Baseline
Service Line Replacements Costs	$ 3,313,867	$ 5,162,472	
Count of Service Lines Replaced	896	1,125	
Average Cost per Service Line Replaced	$ 3,699	$ 4,589	$ **890**

	Incremental Cost per Service	Quantity Replaced	Total Incremental Capital Cost
Total Incremental Capital Investment for Service Line Replacement	$ 890	1,125	$ **1,001,250**

(Exhibit No. JMB-S8)

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES

Line	Rate Schedule	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (d)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	$400,516	$1,818,913	$2,219,429	287,775	$0.64		
2	320/321/325	$152,374	$302,789	$455,163				
3	Group 1			$123,756 (e)	18,114	$0.64		
4	Group 2 & 3			$331,408 (e)			74,512,297	$0.00445
5	341	$30	$48	$78	2	$3.24		
6	345	$40,001	$9,377	$49,378			41,357,001	$0.00119
7	360	$58,542	$4,151	$62,693			53,763,331	$0.00117
8	Total (a)	$651,463	$2,135,278	$2,786,741				

(a) Revenue requirement from Exhibit No. JMB-S7
(b) Reflects revenue requirement multiplied by allocation factors found on Exhibit No. SEA-S4, Page 2
(c) Average customer count for CY 2009
(d) 2010 Budget Volumes
(e) From Exhibit No. SEA-S4, Page 3

DRR Revenues	group 1	group 2 & 3
320	$87,452	$231,985
325	$36,303	$99,422

INPUTS - Updated 04-28-2010	
Rate Schedule	Customer Count
310	201,785
315	85,990
320 G1 Non fed	11,387
320 G2 Non fed	4,240
320 G3 Non fed	1,594
325 G1 Non fed	4,727
325 G2 Non fed	1,877
325 G3 Non fed	862
330-Non fed	16
345	231
341	2
360	54

INPUTS - Updated 04-27-2010	
Months	Volume Allocation
Jan	9.95%
Feb	9.40%
Mar	9.03%
Apr	8.02%
May	7.68%
Jun	7.50%
Jul	7.46%
Aug	7.44%
Sep	7.44%
Oct	7.94%
Nov	8.61%
Dec	9.52%

INPUTS	2010 Budget
Rate Schedule	Volumes
310	161,056,534
315	69,024,229
320	66,941,782
325	28,689,335
330	2,450,083
WP	4,647,909
345	38,119,439
341	20,974
360	49,902,901

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE ALLOCATION FACTORS**

Line	Rate Schedule	Description	Mains Allocation Factors (a) (%)	Service Line Allocation Factors (b) (%)
1	310/311/315	Residential DSS/SCO/Transportation	61.480%	85.184%
2	320/321/325	General Service DSS/SCO/Transportation	23.390%	14.180%
3	341	Dual Fuel	0.005%	0.002%
4	345	Large General Transportation	6.140%	0.439%
5	360	Large Volume Transportation	8.986%	0.194%
6		Total	100.000%	100.000%

(a) Mains Allocation Factor as presented in Case No. 07-1080-GA-AIR
(b) Service Lines Allocation Factor as presented in Case No. 07-1080-GA-AIR

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ALLOCATION OF REVENUE REQUIREMENT - RATES 320, 321 AND 325

Line	Description	Amount		Source
1	Proposed DRR - Rate 310/311/315	$0.64	Per Month	Exhibit No. SEA-S4, Page 1
2	Proposed DRR - Rate 320/321/325 - Group 1	$0.64	Per Month	Line [1]
3	Customer Count - Group 1	16,114		Exhibit No. SEA-S4, Page 1
4	Revenue Requirement - Group 1 (1)	$123,756		Line [2] x Line [3] x 12
5	Revenue Requirement - Total 320/321/325	$455,163		Exhibit No. SEA-S4, Page 1
6	Revenue Requirement - Group 2 & 3 (1)	$331,408		Line [5] - Line [4]

Notes:
(1) to Exhibit No. SEA-S4, Page 1

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE BILL IMPACTS

Line	Rate Schedule	(A) Present Revenue (a)	(B) Previous DRR Revenue Requirement	(C) Current DRR Revenue Requirement (c)	(D) Incremental DRR Revenue Requirement (C)-(B)	(E) % Increase (D)/(A)	
1	310/311	$173,803,267	$0	$1,556,242	$1,556,242	0.90%	(d)
2	315	$24,340,895	$0	$663,187	$663,187	2.72%	(b) (d)
3	320/321	$63,209,467	$0	$319,437	$319,437	0.51%	(d)
4	325	$7,096,433	$0	$135,726	$135,726	1.91%	(b) (d)
5	341	$20,339	$0	$78	$78	0.38%	
6	345	$7,684,911	$0	$49,378	$49,378	0.64%	(b) (e)
7	360	$6,593,932	$0	$62,593	$62,593	0.95%	(b) (e)
8	Total	$282,749,244	$0	$2,786,741	$2,786,741	0.99%	

(a) Twelve months ending December 31, 2009
(b) Does not include gas costs
(c) From Exhibit No. SEA-S4, Page 2
(d) Current revenues calculated as unit rate times Number of customers
(e) Present revenues include allocation of former Rate 330 revenues

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DETERMINATION OF APPROVED RECOVERIES
BY CALENDAR MONTH

	(A)	(B)	(C)
Line	Month	Allocation Factor (1)	Approved Recoveries (2)
1	September-10	7.44%	$207,264
2	October-10	7.94%	$221,217
3	November-10	8.61%	$239,936
4	December-10	9.52%	$265,334
5	Subtotal (To Second Annual DRR Filing)		$933,752
6	January-11	9.95%	$277,418
7	February-11	9.40%	$262,055
8	March-11	9.03%	$251,720
9	April-11	8.02%	$223,618
10	May-11	7.68%	$213,932
11	June-11	7.50%	$208,883
12	July-11	7.46%	$207,909
13	August-11	7.44%	$207,455
14	Subtotal (To Third Annual DRR Filing)		$1,852,989

(1) Based on monthly volumes / customer count (as applicable) as a percentage of annual, in 2010 Budget.
(2) Allocation Factor in Column B times total revenue requirement.

VECTREN ENERGY DELIVERY OF OHIO, INC.
Tariff for Gas Service
P.U.C.O. No. 3

Sheet No. 45
Fourth Revised Page 2 of 2
Cancels Third Revised Page 2 of 2

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$0.64	
320, 321 and 325 (Group 1)	$0.64	
320, 321 and 325 (Group 2 and 3)		$0.00445
341	$3.24	
345		$0.00119
360		$0.00117

Filed pursuant to the Finding and Order dated ________ in Case No. ___________ of the Public Utilities Commission of Ohio.

Issued: __________ Issued by: Jerrold L. Ulrey, Vice President Effective: _________

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ANNUAL RESIDENTIAL CUSTOMER BILL IMPACT

Line		
1	Proposed Residential DRR Per Customer Per Month	$0.64
2	Months	12
3	Annual Bill Impact	$7.68

DRR STIPULATION EXHIBIT 2

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$0.64	
320, 321 and 325 (Group 1)	$0.64	
320, 321 and 325 (Group 2 and 3)		$0.00445
341	$3.24	
345		$0.00119
360		$0.00117

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Stipulation and Recommendation* was served upon the following parties of record this 18th day of August 2010, *via* electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.

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Co. Ex. 1

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

APPLICATION

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April 30, 2010

Attorney for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-____-GA-RDR

APPLICATION

Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") respectfully requests that the Commission approve an adjustment to its Distribution Replacement Rider ("DRR") charges as described and supported herein. In support of this Application, VEDO states:

1. VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 315,000 customers in west central Ohio and is a public utility as defined by Section 4905.02 and 4905.03, Revised Code.

2. On January 7, 2009, in Case No. 07-1080-GA-AIR, the Commission approved, *inter alia*, a Stipulation and Recommendation ("Stipulation") filed on September 8, 2008 which authorized VEDO to establish a

DRR for the recovery of: (1) the return on and of plant investment, including capitalized interest, or post-in-service carrying cost charges ("PISCC"), along with incremental costs incurred under a multi-year program for the accelerated replacement and retirement of cast iron mains and bare steel mains and service lines, (2) deferred expenses incurred during Company's investigation of the installation, use, and performance of natural gas service risers, (3) all costs of replacement of prone-to-fail risers, (4) the incremental costs attributable to assuming ownership of service lines installed or replaced by Company, and (5) the incremental cost of assuming maintenance responsibility for all service lines, less the actual annual savings of certain Operations and Maintenance ("O&M") expenses from the baseline O&M of $1,192,953. Stipulation at 9-10.

3. Pursuant to the Stipulation, the initial DRR was set at a level designed to recover the actual deferred costs, as of July 2008, of the Commission-ordered riser investigation conducted in Case No. 05-463-GA-COI over a twelve-month period, the over- or under-recovery of which is to be included in the calculation for the rate applied for in this Application. Stipulation at 11. The initial DRR charges became effective on March 1, 2009 and were reset to zero effective March 1, 2010.

4. The Stipulation requires that by May 1 of each year for which the DRR is approved commencing with 2010, VEDO "shall make an application in this docket...to establish the DRR to be effective on the following September 1 for the subsequent twelve (12) month period." Stipulation at 11. The Stipulation

provides that this Application, which is to be served on the parties electronically, shall not be considered to be an application to increase rates and charges. *Id.*

5. As a part of the required May 1 application, VEDO is required to provide the following:

a. The return of and on the plant investment, inclusive of capitalized interest or post-in-service carrying costs charges ("PISCC"). PISCC shall be accrued and recovered at the rate of 7.02% for the accumulated infrastructure investment amounts in the DRR from the date that the applicable assets are placed in service until the effective date of the next subsequent DRR;

b. The incremental costs of the Program (as described in JMF Exhibit 6);

c. The actual deferred costs resulting from compliance with the PUCO riser investigation (Case No. 05-463-GA-COI);

d. The incremental costs of assuming ownership and repair of customer service lines as described in the rate case application;

e. The costs associated with the replacement of prone-to-fail risers over a five year period;

f. The incremental revenue requirement for the year and for each component of the DRR;

g. A summary of its construction plans for the next year, including expected investment, expected location of the infrastructure replacement work, and the expected miles to be replaced; and

h. The actual annual savings of O&M expenses.

Stipulation at 10 and 12.

6. With respect to this Application, the Stipulation provides that VEDO "...shall bear the burden of proof of demonstrating the justness and

reasonableness of the level of recovery proposed by the Company for the successor DRR charge; and, support the adjustment to the annual revenue requirement for increases or adjustments to the then existing DRR charge...." Stipulation at 12.

7. In order to demonstrate the justness and reasonableness of the level of recovery proposed for the DRR charges proposed herein and to support the proposed adjustment to the underlying annual revenue requirement, VEDO submits the following as attachments hereto:

a. Attachment A: Direct Testimony of James M. Francis (and included Exhibits);

b. Attachment B: Direct Testimony of Janice M. Barrett (and included Exhibits); and

c. Attachment C: Direct Testimony of Scott E. Albertson (and included Exhibits).

8. The Stipulation provides that "...[t]he monthly DRR charge in the first annual DRR application applicable to Residential and Group 1 General Service customers shall not exceed $1.00 per customer." Stipulation at 13.

9. The data and information contained in the Application attachments enumerated above support revised DRR charges as follows:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$0.66	
320, 321 and 325 (Group 1)	$0.66	
320, 321 and 325 (Group 2 and 3)		$0.00456
341	$3.33	
345		$0.00120
360		$0.00117

10. A revised tariff Sheet No. 45, Fourth Revised Page 2 of 2, which reflects the DRR charges in No. 9 above is included in the Direct Testimony of Scott E. Albertson as Exhibit No. SEA-2.

WHEREFORE, VEDO respectfully requests that the Commission approve the DRR charges shown on the proposed Sheet No. 45, Fourth Revised Page 2 of 2, included in the Direct Testimony of Scott E. Albertson as Exhibit No. SEA-2.

Respectfully submitted,

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Attorney for Vectren Energy Delivery of Ohio, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Application* has been sent electronically, this 30th day of April, 2010 to the following parties of record.

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ATTACHMENT A

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

DIRECT TESTIMONY

OF

JAMES M. FRANCIS

DIRECTOR OF ENGINEERING AND ASSET MANAGEMENT

ON BEHALF OF

VECTREN ENERGY DELIVERY OF OHIO, INC.

CASE NO. 07-1080-GA-AIR
CASE NO. 10-___-GA-RDR

APRIL 30, 2010

DIRECT TESTIMONY OF JAMES M. FRANCIS

INTRODUCTION

Q. **Please state your name, business address and occupation.**

A. My name is James M. Francis. My address is One Vectren Square, Evansville, Indiana, and I am Director of Engineering & Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), the parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company").

Q. **What are your duties in your present position?**

A. I have responsibility for engineering and technical support for VEDO utility operations. My specific responsibilities include System Design and Planning, Corrosion Control, Project Engineering, Compliance, Standards, Asset Management, Pipeline Integrity Management, and Capital Planning and Management. Additionally, I am responsible for identifying and implementing many of VEDO's asset management programs.

Q. **Please describe your work experience.**

A. I have been employed by VEDO since April 8, 2004 when I became the Director of Technical Services. My title has subsequently been changed to Director of Engineering & Asset Management. Prior to my current position, I have been employed with VEDO since the purchase of the gas assets of the Dayton Power & Light Company in 2000. Immediately prior to my current position, I was the Regional Manager of the Troy Operating

Region with responsibility for field operations. I also held other positions at VEDO including Planning Manager and Measurement Supervisor. Prior to my employment with Vectren, in 1991, I became an employee of Dayton Power & Light since 1991, serving as a Project Engineer, System Planner and Measurement Supervisor.

Q. What is your educational background?

A. I received a Bachelor of Science in mechanical engineering from the University of Dayton in 1993. I received a Masters in Business Administration from The Ohio State University in 2000.

Q. Are you involved in any gas industry association activities?

A. Yes. I am active in the American Gas Association's ("AGA") Operating Section. I am currently a member of the AGA's Distribution and Transmission Engineering Committee.

Q. Have you previously testified before this Commission?

A. Yes. I testified in VEDO's most recent general rate case, Case No. 07-1080-GA-AIR ("Rate Case"), in support of the need for recovery of certain costs under the Distribution Replacement Rider ("DRR") proposed in that proceeding.

Q. What is the purpose of your testimony in this proceeding?

A. First, I will provide details on the progress of VEDO's accelerated bare steel and cast iron replacement program ("Replacement Program"). I will discuss the status of pipe replacement, the costs incurred and the benefits identified in 2009. I will address certain other issues, such as meter relocations and plastic pipe retirements, and how these are addressed within the Replacement Program. I will discuss the processes used to assess and award the construction work associated with the Replacement Program. I will provide the 2010 replacement plan and discuss why recent and projected investments under the Replacement Program are less than contemplated in the Rate Case.

The second portion of my testimony will discuss VEDO's riser replacement program ("Riser Program"). I will detail the status of replacements and costs associated with the Riser Program through December 31, 2009. I will also discuss how the Riser Program work was awarded in 2009 and the plan for the replacement of the Company's remaining prone-to-fail risers.

The third portion of my testimony will discuss VEDO's experience with the change in service line ownership and responsibilities which took effect in 2009.

The final portion of my testimony will discuss identified savings resulting from the Replacement Program as well as the additional costs incurred by VEDO due to the change in service line responsibility.

Q. What Exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

- Exhibit No. JMF-1- 2009 VEDO Bare Steel/Cast Iron ("BS/CI") Replacement Program Progress
- Exhibit No. JMF-2- VEDO BS/CI 2010 Replacement Plan
- Exhibit No. JMF-3- VEDO Riser Replacement Program 2009 Costs
- Exhibit No. JMF-4- VEDO 2009 BS/CI Maintenance Expense
- Exhibit No. JMF-5- VEDO Incremental Service Line Responsibility O&M Costs
- Exhibit No. JMF-6- VEDO Incremental Service Line Responsibility Capital Costs

Q. How is your testimony organized?

A. My testimony is organized in four sections:

I. Bare Steel and Cast Iron Replacement Program

II. Riser Replacement Program

III. Service Line Responsibility

IV. Maintenance Savings & Incremental Costs

I. <u>Bare Steel and Cast Iron Replacement Program</u>

Q. Please provide a brief description of VEDO's Replacement Program.

A. As of the end of 2008, VEDO had a total of 524 miles of bare steel and 172 miles of cast iron main remaining in its system. In its Rate Case, VEDO proposed to replace its remaining bare steel and cast iron infrastructure over a twenty year period, or approximately 35 miles per year. The Replacement Program, as approved by the Commission in that case, includes the replacement of both mains and service lines. The existing bare steel and cast iron mains and service lines are being retired as part of the Replacement Program.

Q. How much infrastructure did VEDO replace in 2009 as part of the Replacement Program?

A. In 2009, VEDO retired 18 miles of bare steel and 6.5 miles of cast iron mains under the Replacement Program. Additionally, VEDO replaced 1722 bare steel service lines, retired 58 service lines and tied over an additional 74 service lines.

Q. How much did VEDO invest in the Replacement Program in 2009?

A. As identified by VEDO witness Janice M. Barrett, VEDO's Replacement Program investment in 2009 was $11,250,423. Exhibit No. JMF-1 provides a detailed list of the projects that comprised the 2009 replacement plan, the costs of those projects as of December 31, 2009, and the amount of main footage and number of service lines replaced. For some projects placed in service in 2009, additional costs will be incurred in 2010 for certain trailing charges (such as restoration costs). These costs will be included in future DRR filings.

Q. Did VEDO retire any plastic main as part of the Replacement Program in 2009?

A. Yes. VEDO retired 2,640 feet of plastic main within the projects completed in 2009. There were a number of reasons why plastic main segments were retired, which were discussed in my testimony in the Rate Case. Some short segments of plastic main existed among the bare steel or cast iron infrastructure. It would have been more costly to try and salvage that main rather than replace it. There existed sections of plastic main at the ends of some distribution systems being retired wherein those segments no longer served any customers; therefore, there was no reason to replace and continue to maintain those segments. Finally, there were sections of existing plastic main that required additional pressure testing in order for them to be operated at the higher maximum allowable operating pressure ("MAOP") applicable to the replaced distribution system – and where during the test the main failed to hold the required pressure. Replacement was a more cost effective option than attempting to find and repair the deficiencies in the existing plastic main.

Q. **Did VEDO move any meters outside as part of the Replacement Program?**

A. Yes. VEDO moved 1,977 meters outside in 2009. Because the newly installed mains operate at a higher pressure (requiring the installation of a service regulator), the cost associated with moving the meters outside was less than if the meter remained inside and the necessary regulation was installed outside. In addition to better utilization of VEDO's capital, moving the meters outside should improve operational efficiency associated with future meter order work and eliminate the need for internal atmospheric corrosion inspections.

Q. Does VEDO believe that the Replacement Program is achieving or will achieve the expected benefits?

A. Yes. VEDO expects to experience improved service reliability and safety through the reduction of leakage and the replacement of the mains and service lines that contribute most to system leaks. Replacing this pipe, moving meters outside, and retiring the older assets will drive workforce efficiencies. The Company was able, in 2009, to achieve improved capital utilization by replacing the existing main infrastructure with fewer miles of new main. Customers and property owners should experience a reduction in the number and frequency of disturbances and inconveniences (such as leak repair, service interruptions, etc.) as the older sections of main are retired. The elimination of active leaks will result in a relatively lower level of lost and unaccounted for gas, although it is impractical to quantify a specific reduction. Finally, VEDO expects long term benefits in terms of reduced impacts on the communities where public infrastructure improvements may occur after these projects were completed.

Q. What operational benefits did VEDO achieve as a result of the Replacement Program in 2009?

A. There are a number of operational benefits that VEDO has achieved as a result of the Replacement Program. The replacement of these assets has reduced the number of active leaks in VEDO's system, will reduce the occurrence of future leaks and leak repair work, and will reduce interruptions, inconveniences and disturbances to customers. Specifically, the replacement projects from 2009 have allowed VEDO to eliminate 79 active leaks, of which 21 would have required a more immediate and less efficient repair. VEDO should be able to reduce a number of asset condition related meter orders (Outside Gas Leak, Gas Emergency, Water in Line, and No Gas orders). The Company has experienced an average of 113 meter orders of these types on the assets that were replaced in 2009. VEDO moved 1,977 inside meters outside. This will eliminate the requirement for a separate atmospheric corrosion check. Certain system components that had been used to address issues associated with assets in poor condition have been eliminated, such as the 47 drips used to remove water from low pressure mains. Ultimately, these types of improvements provide reliability and safety benefits to VEDO's customers or property owners that live in the vicinity of the replacement projects.

Q. **Did VEDO derive cost savings from the 2009 replacement projects?**

A. Yes. VEDO has detailed the reduction of specific work items, assets and the estimated reduction of historically experienced work quantities, all of which allowed VEDO to achieve maintenance cost savings attributable to the Replacement Program (and specific to the assets that were retired). Quantification of the savings achieved in 2009 compared to the baseline amount of $1,192,953 will be discussed later in my testimony.

Q. **Were the construction projects within the 2009 Replacement Program competitively bid?**

A. Yes. VEDO competitively bid the construction work associated with the 2009 projects.

Q. How were the bid packages organized, bid and awarded?

A. Based on the geographical location of the projects, VEDO divided the planned 2009 projects into four bid packages. The bid packages contained both bare steel and cast iron replacement projects as well as riser replacement work. A contractor could bid on any of the four packages but was not required to bid on all packages. The contractors were also able to bid on the projects included in the Replacement Program only, the Riser Program only, or both. Each bid package was independently evaluated.

Six different construction contractors were invited to provide bids for the work. Two of the contractors elected not to bid due to resource constraints. Additional contractors expressed interest in the work either during or after the bid process had begun. Due to the need for those contractors to satisfy operator qualification requirements and the impact a delay would have on the completion of the 2009 projects, these contractors were not included in the bid process; however, they were informed that they would be provided opportunities to bid on work in subsequent years.

A pre-bid meeting was held with all of the contractors to provide direction and to answer questions with regard to the work to be performed and the bids to be submitted. Each contractor was provided with copies of prints for all of the projects and given time to visit the project sites prior to submitting bids.

Bids were submitted based on unit pricing; that is, a fixed price for a given unit of work to be performed. VEDO used the unit prices and the estimated work units for each project to create comparative cost estimates. These comparative estimates were then summarized for each bid package. Each package was evaluated based on overall cost. Additionally, VEDO evaluated each contractor qualitatively based on either personal experience or through feedback on performance from other utilities to ensure that contractors awarded the work were able to meet our performance expectations and time requirements.

Due to the variability in bid prices for the riser replacement work, VEDO elected to award work under the Riser Program separately from the Replacement Program. Each bid package was evaluated independently and awarded accordingly.

Q. What is VEDO's replacement plan for 2010?

A. VEDO's planned replacement projects for 2010 are identified in Exhibit No. JMF-2. VEDO plans to spend approximately $11,000,000 under the Replacement Program, replacing approximately 18 miles of bare steel and cast iron main along with the bare steel service lines served from those mains. As was the case in 2009, VEDO reserves the right to modify the plan as necessary to accommodate additional or different, higher priority projects as circumstances may change throughout the year.

Q. In the Rate Case, VEDO indicated an annual Replacement Program investment of $16,875,000. Why is the actual 2009, and planned 2010, level of investment less than this amount?

A. Based on the economic climate, in the near term VEDO has constrained its planned capital expenditures in an effort to reduce immediate capital needs and potential exposure to higher capital costs. This reduction in the number of capital projects completed in 2009 and planned for 2010 has occurred at each of VUHI's operating utilities. As a result, the investment in the Replacement Program in 2009 and 2010 is less than the level estimated in the Rate Case. On-going assessment of the economic impact on the Company's capital spending levels will continue and may impact the annual level of investment in the Replacement Program. Presented in the Rate Case as a 20 year program, changes in individual year expenditures can be accommodated. Moreover, program progress over time will impact the necessary level of investment in later years. VEDO remains committed to the Replacement Program, is making very good progress as evidenced by the 24.5 miles of pipe retired in 2009, and plans to continue to replace this older infrastructure on an accelerated basis as compared to historical replacement rates.

II. Riser Program

Q. Please describe the Riser Program.

A. As ordered by the PUCO, beginning in 2007 VEDO began conducting an inventory of customer owned service risers in its service territory. VEDO completed its inventory of risers in 2008. The cost for the riser inventory project was included in the initial DRR charge, per the Commission's order in the Rate Case.

In the inventory project, VEDO identified 77,890 field assembled or design-A type risers as "prone-to-failure" as defined by the PUCO. VEDO originally developed a program to replace its prone-to-fail risers over a five year period, beginning in 2009. Subsequently, VEDO determined that a riser type that had not been identified as "prone-to-fail" had been included in the total targeted replacements. As a result of this reassessment, VEDO will replace a total of 58,440 risers under the Riser Program.

Q. How many risers did VEDO replace in 2009?

A. VEDO replaced 16,003 prone-to-fail risers in 2009. The cost to replace these risers was $5,451,132 or $341 per riser. Exhibit No. JMF-3 provides a breakdown of the costs incurred under the Riser Program. VEDO plans to replace the remaining 42,437 "prone-to-fail" risers by the end of 2012.

Q. What methods did VEDO use to replace risers in 2009?

A. Where possible, VEDO used the Perfection Servi-Sert service head adaptor to replace the service riser head. Where the Servi-Sert was not able to be used, the entire riser was replaced.

Q. Was the riser replacement work in 2009 competitively bid?

A. Yes.

Q. How were the bid packages organized, bid and awarded?

A. The Riser Program bid packages were organized geographically into four packages, with the geographic regions matching those of the Replacement Program.

As was the case with the Replacement Program, six different construction contractors were invited to provide bids for the riser work. The same two contractors elected not to bid due to resource constraints.

A pre-bid meeting was held with all of the contractors to answer questions with regard to the work to be performed and the bid packages to be submitted. Each contractor was provided with a count of risers to be replaced by package.

Bids were submitted based on unit pricing for full replacements, service riser head replacements and any associated activities. VEDO used the unit prices to create comparative cost estimates for each package. Each package was evaluated independently, much like the Replacement Program, and awarded accordingly.

Q. Was some of the riser replacement work completed by VEDO crews?

A. Yes. In addition to the contracted crews, VEDO used internal crews to complete a number of replacements.

Q. What is VEDO's riser replacement plan for 2010?

A. VEDO has used a similar process to bid the riser replacement work for 2010 and plans to replace approximately 17,000 risers. The work was once again divided into four geographical regions and each region was bid as a separate package.

III. Service Line Responsibility

Q. Are you able to assess how VEDO's transition to service line responsibility has progressed?

A. VEDO continues to view the transfer of service line responsibility to the Company as a positive for both the Company and its customers. As a result of the change, new policies, processes and procedures for installation, replacement, and repair of service lines and meter settings were developed and implemented. Changes in internal resources and crew make-up were necessary, as were additional contract resources, to perform some of the additional work. VEDO implemented communication programs to ensure all parties affected by this change, including customers, plumbers, material suppliers, contractors and internal personnel were well informed. VEDO worked with the Dayton Area Home Builders Association to understand builders' needs and concerns with this new process along with educating the home building industry about these changes. Additional education on municipality house line inspection and requirements was provided.

In general, VEDO's assumption of service line responsibility has been a benefit to its customers. Customers no longer are required to schedule the services of a plumber to repair or replace their service line, minimizing inconvenience and out of pocket costs for customers. VEDO's response times to leak calls and its repair activities have reduced the amount of time customers have been out of service. The Company's ability to adjust to an ever changing schedule to meet the needs of customers has also been a benefit. Also, confusion over customer responsibility for the service line has been essentially eliminated because there is now a clear delineation of responsibility between the customer and VEDO.

Q. **What are some of the challenges VEDO continues to face as a result of the change in service line responsibility?**

A. The scheduling of internal and contractor resources, to deal with the more immediate and changing customer demands, has been a challenge. Obtaining accurate site readiness, customer need dates, or house line inspection information continues to be a challenge, as VEDO will often find that a site is not ready by the requested date and then its resources must be redirected. VEDO is continuing to refine its processes in an effort to obtain more accurate information from customers. An additional challenge has been the volume of service line replacements beyond those included in the planned projects under the Replacement Program. Because VEDO (and its customers) have a significant number of aged service line assets, the amount of service line replacements has been significant. However, VEDO does expect that as the Replacement Program matures, over time this activity will be reduced.

Q. **How have VEDO's customers benefited from the change in how service lines are operated and maintained?**

A. VEDO has replaced or relocated a number of service lines. Those customers would have incurred an out-of-pocket expense for repairs or replacement absent the change in service line responsibility. When VEDO does replace a service line and completes a relight of customer appliances, the Company is able to assess the condition of the customer appliance(s) prior to completing the relight while it is conducting an atmospheric safety check.

Q. **Has VEDO experienced any incremental O&M expenses as a result of assuming service line responsibility?**

A. Yes. VEDO has had to repair a number of gas leaks on the portion of the buried service line and the above ground meter setting that was previously maintained by the customer. As a result of this change, VEDO has seen both an increase in capital replacements and operations and maintenance expenses to repair these leaks. In 2009, VEDO spent $242,524 on service line leak repairs. This represents a 67% increase over the baseline expense amount of $145,655 experienced in 2007.

IV. <u>Maintenance Savings and Incremental Costs</u>

Q. Did VEDO achieve maintenance savings in 2009 compared to the baseline amount of $1,192,953?

A. Yes. VEDO calculated its maintenance expenses incurred in 2009 by the same method it used to calculate the baseline maintenance expense amount of $1,192,953. The actual comparable maintenance expenses in 2009 were $871,769, resulting in a variance against the baseline of $321,184. Exhibit No. JMF-4 provides the actual 2009 maintenance expenses and a comparison against the baseline expense amount.

Q. Are the maintenance savings fully attributable to the Replacement Program?

A. No. While certainly the elimination of the bare steel and cast iron infrastructure would have driven some of the cost reductions, the change in service line responsibilities also led to some of the savings. The reason for this is that VEDO completed a significant number of service line replacements that would have formerly been at the customer's expense. The resources that previously had been conducting more leak repairs instead completed service line replacements, which are capital expenditures. As such, the maintenance expenses identified in 2009 are not necessarily indicative of the ongoing level of O&M. Rather, they are indicative of the work VEDO actually performed in a single year (2009). As such, the actual maintenance savings as compared to the baseline will change year over year.

Q. Has VEDO experienced any incremental O&M expenses as a result of assuming service line responsibility?

A. Yes. As discussed earlier, VEDO has had to repair a number of gas leaks on the portion of the buried service line and the above ground meter setting that was previously maintained by the customer, resulting in an increase in operations and maintenance expenses. In 2009, VEDO spent $242,524 on leak maintenance of service lines. This represents an incremental cost of $96,869. $25,144 of these incremental costs are reflected in the total maintenance expenses for 2009 attributable to the bare steel and cast iron infrastructure ($871,789). The remaining $71,725 is the expense that VEDO incurred for service lines that are not associated with bare steel or cast iron infrastructure. Exhibit No. JMF-6 provides the calculation of the incremental expenses.

Q. Has VEDO experienced any incremental capital investment as a result of assuming service line responsibility?

A. Yes. VEDO has had to replace a number of service lines in order to eliminate gas leaks on the portion of the buried service line and the above ground meter setting that was previously maintained by the customer. As a result of this change, VEDO has seen an increase in capital costs. In 2009, VEDO spent, on average, $4,953 per service line replaced. This represents an incremental investment of $1,255 per service line replaced over that experienced during the baseline period of 2007. The incremental investment includes the cost for the incremental length of curb to meter service line and meter setting that was formerly installed and maintained by the customer. In 2009, VEDO replaced 1,111 service lines that were not associated with the Replacement Program. This equated to an incremental capital investment of $1,394,305 for service line replacements as a result of the assumption of this responsibility for service lines. Exhibit No. JMF-6 provides the calculation of the incremental investment.

Q. **Does this conclude your testimony?**

A. Yes.

2009 VEDO BS/CI Replacement Program Progress
Actual Install & Retirement

Completion Date	Group Number	City	[illegible]		[illegible]	Plastic Main Installed	Total BS Footage Retired	[illegible]	[illegible]	[illegible]	[illegible]
11/19/2009	09-13	Dayton	$	450,837		2,998	1,620	5,017	6,637	71	0
10/23/2009	09-14	Dayton	$	1,568,269		6,590	3,605	3,092	6,697	190	6
11/16/2009	09-15	Dayton	$	995,773		6,224	1,781	7,180	9,173	150	0
11/20/2009	09-17	Dayton	$	1,259,983		10,465	9,697	0	9,697	207	0
10/23/2009	09-28	Germantown	$	308,312		2,631	2,709	0	2,709	48	0
12/11/2009	09-09	Dayton	$	1,241,332		10,930	6,161	8,970	15,651	113	12
10/7/2009	09-20	Eaton	$	393,975		3,541	4,026	0	4,801	62	0
9/14/2009	09-34	Lewisburg	$	510,392		6,011	5,679	0	5,679	103	2
11/9/2009	09-38	Dayton	$	706,750		6,808	4,741	1,272	6,459	105	0
11/19/2009	09-39	Dayton	$	709,570		9,144	9,617	8,547	18,217	84	23
10/27/2009	09-02	Washington CH	$	235,194		2,440	2,405	0	2,405	25	0
11/19/2009	09-23	Cedarville	$	348,571		5,229	6,376	0	6,462	77	0
10/27/2009	09-27	Xenia	$	136,103		1,286	2,519	0	2,519	25	0
10/15/2009	09-36	Faribom	$	227,909		1,886	2,585	0	2,653	37	1
11/10/2009	09-37	Yellow Springs	$	313,880	4775		2,445	0	2,445	6	0
11/17/2009	09-01	Vandalia	$	81,139		1,833	2,680	0	2,680	14	0
11/12/2009	09-03	Troy	$	165,846		938	2,430	0	2,430	52	0
9/18/2009	09-18	Sidney	$	361,658		4,813	6,519	0	6,519	70	8
8/14/2009	09-29	Piqua	$	698,750		7,830	8,094	0	8,094	190	1
11/19/2009	09-31	Bradford	$	165,598		2,665	2,718	0	3,198	50	4
10/29/2009	09-33	Bellefontaine	$	370,582		5,457	6,739	0	6,739	117	1
		TOTAL	$	11,250,423	4,775	99,719	95,146	34,078	131,864	1,796	58

Note: VEDO Retired 2640 Feet of Plastic Main in 2009

VEDO Bare Steel / Cast Iron Replacement Program
Calendar Year 2010

Project Group #	Operating Center	City	Street	Estimated Install Footage	Estimated Retire Footage	Estimated Project Services	Estimated Project Cost
10-01	Troy	Greenville	N. Broadway,E. Lincoln Dr.,W. Harmon Dr.,E. Harmon Dr.,W. Maple Dr.,W. Maple Dr.,W. Meeker Ave.,N. Broadway,E. Main	4,083	5,058	98	$587,735
10-02	Dayton West	Dayton	Oneida Ave., Maryland Ave.,Ray Ave.,S. Ohio St. (west side),Queen St.,E. Mound St.,S. Main St.(west side),E. Dallas St.,E.	3,820	4,147	161	$772,520
10-03	Troy	Sidney	Park Ave.,Forrer Rd.,Hadley Rd.,Park Rd.,Fels Rd.,Coolidge Dr.,Grandon Rd.,Southwood Ln.,Coolidge Dr.,Monterey Ave.,	11,587	12,000	209	$1,204,568
10-06	Dayton West	Dayton	Grafton Ave.,W. Grand Ave.,North & Grand Ave.,Wroe Ave.,Neal Ave.,Five Oaks Ave.,Homewood Ave.	8,349	9,387	219	$1,077,789
10-13	Centerville	Dayton	Harmon Ave.,Park Ave,Forrer Rd.,Hadley Rd.,Fels Rd.,Coolidge Dr.,Granden Rd.,Southwood Ln.,Monteray Ave.	9,455	11,438	127	$805,559
10-15	Fairborn	Xenia	E. Second St.,Harbison Ave.,E. Third St.,Sims Drive,Mitchel St.,S. Leach St.	6,479	8,297	145	$770,703
10-16	Centerville	Dayton	Anderson St.,Kratochwill,Medford Ave.,Jessie St.,Stewart St.,Irving Ave.	6,316	6,726	206	$882,693
10-27	Troy	Bellefontaine	Erie St.,Huron Ave.,Colton Ave.,Ontario St.,E. Lake Ave,Ludlow St.,Spring Ave.	6,700	7,240	144	$911,040
10-33	Fairborn	Greenfield	S Sixth St.,Mckell Ave.,S. Seventh St.,South St.,Mirabeau St.,Ninth St.,Eight St.,Tenth St.,Wilson St.,Jefferson St.,Lafayette	7,960	7,705	176	$923,305
10-34	Fairborn	Xenia	Church St.,N. Columbus St.,Wilson Dr.,Sutton Drive,N. Columbus St.,N. Monroe St.	1,140	4,456	60	$345,388
10-38	Dayton West	Dayton	Carol Ave. Adair St.,Riverside Dr.Ashwood Ave.,Theodore Ave.,Kathleen Ave.,Malvern Ave.,Fairview Ave,Eastview Ave.	4,335	5,675	102	$426,730
10-39	Centerville	Dayton	King Ave.,King Ave.,Watervliet Ave.,Pursell Ave.,Taggart Ave.,Brookline Ave.,Elliot Ave.,	7,993	8,174	312	$1,303,320
10-40	Dayton West	Dayton	Salem Ave.,Malvern Ave.,Syracuse Ave.,Ridge Ave.,Riverside Dr.,Dalkey Ct.,Marathon Ave.	3,845	4,025	130	$702,853
10-43	Troy	Piqua	Ash St.,Manning St.,	2,696	2,308	45	$305,595
				84,758	96,637	2,134	$10,999,798

VEDO Riser Replacement Program
2009 Costs

Contract Labor	$	2,507,109
Materials	$	1,412,218
Labor	$	524,697
Other Expenses	$	166,124
Overheads	$	840,984
Total	**$**	**5,451,132**
# Risers		**16,003**
Cost per Riser	**$**	**341**

VEDO Maintenance Expense - BS/CI

Meter Order Management		
Meter Orders	[illegible]	[illegible]
Outside Leaks	3467	3411
Investigate Gas Emergency	937	782
No Gas	1831	1651
Water in Service	11	36
Total	6246	5880
% Allocated to BS/CI Facilities	48%	48%
Orders applicable to BS/CI	2998	2822
Maintenance Expenses [illegible]	Baseline	[illegible]
Total Meter Orders	122091	122748
Meter Order Mgmt Actuals	$ 3,542,248	$ 3,814,255
Average Cost per Order	29.01	31.07
Average cost per Asset Condition based Order	58.03	62.15
* Leak investigation order averages approximately 2x's longer than average meter order		
Maintenance Expense Reduction Opportunity	Baseline	[illegible]
Orders Applicable to BS/CI x Average Order Cost per Asset Condition based Order	**$ 173,968**	**$ 175,406**

Leak Repair & Management		
Service Leaks Maintenance Expenses	[illegible]	[illegible]
Service Leak Repair Actuals	$ 145,655	$ 242,524
% of Service BS/CI Leak Repairs	56%	44%
Service O&M Expenses attributable to BS/CI	$ 81,567	$ 106,711
Main Leaks Maintenance Expenses	Baseline	[illegible]
Total Main Leak Repair Actuals	$ 1,610,684	$ 1,060,527
Cost Associated with Soft Surface Repairs	$ 644,274	$ 477,237
% of Soft Surface Repairs on BS/CI Main Leaks	39%	49%
Cost Associated with Hard Surface Repairs	$ 966,410	$ 583,290
% of Hard Surface Repairs on BS/CI Main Leaks	71%	61%
Main O&M Expenses attributable to BS/CI	$ 937,418	$ 589,653
O&M Expense Reduction Opportunity	Baseline	[illegible]
Total Main Leak Reduction Opportunity	**$ 1,018,985**	**$ 696,364**
TOTAL BS/CI MAINTENANCE EXPENSES	**$ 1,192,953**	**$ 871,769**
NET MAINTENANCE EXPENSE REDUCTION		**$ 321,184**

VEDO Incremental Service Line Responsibility O&M Costs

[illegible]	[illegible]	[illegible]	[illegible]
Service Leak Repair Actuals	$ 145,655	$ 242,524	$ 96,869
Service O&M Expenses attributable to BS/CI*	$ 81,567	$ 106,711	$ 25,144
Service O&M Expenses Attributable to All other Assets	$ 64,088	$ 135,813	$ **71,725**

* Expense amounts included in 2009 BS/CI maintenance expenses (see JMF-4)

VEDO Incremental Service Line Responsibility Capital Costs

[illegible]	[illegible]	[illegible]	[illegible]
Service Line Replacements Costs	$ 3,313,867	$ 5,503,748	
Count of Service Lines Replaced	896	1,111	
Average Cost per Service Line Replaced	$ 3,699	$ 4,954	$ 1,255

[illegible]	[illegible]	[illegible]	[illegible]
Total Incremental Capital Investment for Service Line Replacement	$ 1,255	1,111	$ 1,394,305

ATTACHMENT B

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

DIRECT TESTIMONY

OF

JANICE M. BARRETT

DIRECTOR OF REGULATORY AND PLANT ACCOUNTING

ON BEHALF OF

VECTREN ENERGY DELIVERY OF OHIO, INC.

CASE NO. 07 1080-GA-AIR
CASE NO. 10-___-GA-RDR

APRIL 30, 2010

DIRECT TESTIMONY OF JANICE M. BARRETT

INTRODUCTION

Q. Please state your name and business address.

A. Janice M. Barrett. One Vectren Square, Evansville, Indiana 47708.

Q. What position do you hold with Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company")?

A. I am Director of Regulatory and Plant Accounting for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of VEDO. I hold the same position with two other utility subsidiaries of VUHI -- Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") and Indiana Gas Company, Inc. d/b/a/ Vectren Energy Delivery of Indiana, Inc. ("Vectren North").

Q. Please describe your educational background.

A. I am a 1993 graduate of The Ohio State University with a Bachelor of Science Degree in Agriculture. I continued my education at Louisiana State University and Miami University of Ohio and obtained my public accounting certification in 1998. I am a Certified Public Accountant in the State of Indiana.

Q. Please describe your professional experience.

A. From 1996 to 1998, I was employed by KPMG Peat Marwick, LLP first as a staff auditor and ultimately promoted to Supervising Senior. From 1998 to

2001, I was employed by Prime Succession, Inc. where I served as Director of Internal Audit. Since 2001, I have been employed by VUHI and have held various Corporate Accounting positions. In March 2008, I was promoted to Director of Regulatory and Plant Accounting.

Q. What are your present duties and responsibilities as Director of Regulatory and Plant Accounting?

A. I am responsible for and oversee all regulatory and plant accounting functions for VEDO (and VUHI's other utility subsidiaries).

Q. Are you familiar with the books, records, and accounting procedures of VEDO?

A. Yes, I am.

Q. Are VEDO's books and records maintained in accordance with the Uniform System of Accounts ("USoA") and generally accepted accounting principles?

A. Yes.

Q. Have you previously testified before this Commission?

A. No.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony in this proceeding will provide an explanation of the calculation of the revenue requirement for VEDO's Distribution Replacement Rider ("DRR"), which includes the bare steel and cast iron pipe replacement program ("Replacement Program"), natural gas riser replacement program ("Riser Program") and incremental costs associated with the Company's assumption of service line responsibility. I will also provide an explanation of the accounting procedures the Company uses to record and segregate the costs associated with the DRR.

Q. What exhibits are attached to your testimony?

A. The following exhibits are attached to my testimony:

Exhibit No. JMB-1 - Summary of DRR Revenue Requirement

Exhibit No. JMB-2 – Revenue Requirement for Main Replacement Program

Exhibit No. JMB-2a – Annualized Property Tax Expense for Main Replacement Program

Exhibit No. JMB-2b – Deferred Taxes on Liberalized Depreciation for Main Replacement Program

Exhibit No. JMB-3 – Revenue Requirement for Service Line and Riser Replacement Programs

Exhibit No. JMB-3a – Annualized Property Tax Expense for Service Line and Riser Replacement Programs

Exhibit No. JMB-3b – Deferred Taxes on Liberalized Depreciation for Service Line and Riser Replacement Programs

Exhibit No. JMB-4 – DRR Variance of Deferred Natural Gas Riser Investigation and Replacement Expenses

ACCOUNTING PROCEDURES

Q. Please explain the work order process that VEDO utilizes to segregate and record the capital costs of the replacement program, riser program and service line responsibility (collectively "Programs") while the projects are under construction ("Program Construction Costs").

A. To ensure proper accumulation and segregation of Program Construction Costs, a project number is assigned to each capital work order. All Program Construction Costs, as incurred, are recorded to the assigned project number and are maintained in the Company's Financial Information System ("FIS") Projects Accounting ("PA") module. The project number is required for the recording of all Program Construction Costs into any of the FIS feeder systems. Each of the feeder systems, which include payroll, accounts payable, and material inventory, interface with the PA module. Total incurred Program Construction Costs can be viewed and/or reported by the project number at any time as the Programs progress.

Q. What types of costs did VEDO include in the value of the property under construction for purposes of the DRR?

A. The DRR includes the construction costs of the Programs, as well as engineering and project management, permitting, consulting services, site preparation, equipment and installation, cost of retirement, allowance for funds used during construction ("AFUDC"), an allocation of administrative overhead, and other related expenses.

Q. How is AFUDC recorded as a cost of the Program Construction Costs?

A. AFUDC is recorded as part of the Program Construction Costs in accordance with USoA and at the AFUDC rate used for all other VEDO construction projects, currently 8.55%.

Q. When does VEDO discontinue recording AFUDC on the Program Construction Costs?

A. VEDO ceases the accrual of AFUDC when work orders are placed in service and, at the same time, begins accruing post in service carrying costs ("PISCC") at an annual rate of 7.02%, as provided for in the order in Case No. 07-1080-GA-AIR. The PISCC deferred as of December 31, 2009 has been reflected on Exhibit No. JMB-2, Line 11 for mains and Exhibit No. JMB-3, Line 14 for service lines.

Q. Please explain PISCC and how it works.

A. PISCC is an allocation of interest cost on the investment made in the Replacement Program and is accumulated from the in service date through the date the Replacement Program costs are included for recovery in the DRR or in base rates. The PISCC is recorded at a rate of 7.02% as ordered in Case No. 07-1080-GA-AIR.

Q. Does the Replacement Program include retirements and cost of removal of utility plant assets?

A. Yes. Existing bare steel and cast iron mains and service lines are being retired as part of the Replacement Program. VEDO discontinued the installation of bare steel and cast iron for mains in the 1950's; therefore any retirements of these types of mains and service lines represent fully depreciated plant in service. As the retirements are performed, VEDO is also recording the cost to retire or remove the bare steel and cast iron assets as part of the Replacement Program.

Q. How did VEDO account for the asset retirements and associated cost of removal?

A. In accordance with the USoA, the retirement of utility assets, at original cost, and the retirement's related cost of removal made necessary by the Replacement Program were charged to the associated depreciation reserve(s). The Replacement Program's original cost retirements are reflected on Exhibit No. JMB-2, Lines 4 and 9 for mains, and on Exhibit No. JMB-3, Lines 6 and 12 for service lines, and cost of removal is reflected on Exhibit No. JMB-2, Line 8 for mains and Exhibit No. JMB -3, Line 11 for service lines.

Q. What operating expenses are included in the DRR revenue requirement calculation?

A. VEDO has reflected the annualized property tax (Exhibit No. JMB-2, Line 18 (mains) and Exhibit No. JMB-3, Line 21 (service lines and risers)) and annualized depreciation expense (Exhibit No. 2, Line 19 (mains) and Exhibit No. JMB-3, Line 22 (service lines and risers)) based on the net additions to plant in service as shown on Exhibit No. JMB-2, Line 5, mains, and Exhibit No. JMB-3, Line 7, service lines. The annualized depreciation expense was calculated using the depreciation rates approved in VEDO's base rate case, Case No. 04-0571-GA-AIR, and property tax expense is supported by Exhibit Nos. JMB-2a, mains, and JMB-3a, service lines and risers.

VEDO has also included the incremental cost associated with assuming responsibility for service lines. This expense is reflected on Exhibit No. JMB-2, Line 23. VEDO witness Francis provides the support for the incremental expense on Exhibit No. JMF-5.

Q. Are there maintenance expense adjustments associated with the Programs?

A. Yes. As described by VEDO witness Francis, the maintenance expense adjustments are measured by comparing actual maintenance expenses for leak (mains and services) and meter maintenance for the twelve months ended December 31, 2009 to baseline maintenance expense of $1,192,953 as defined in VEDO's last base rate case, Case No. 07-1080-GA-AIR. VEDO witness Francis' Exhibit No. JMF-4 provides the actual to baseline comparison and defines the adjustments applicable to this filing, which are reflected in the revenue requirement on Exhibit No. JMB-2, Line 20 for mains and Exhibit No. JMB-3, Line 24 for service lines.

EXPLANATION OF EXHIBITS

Q. Please explain Exhibit No. JMB-1.

A. Exhibit No. JMB-1 summarizes the annual DRR revenue requirement, which is supported by Exhibit Nos. JMB-2 through JMB-4.

Q. Please explain Exhibit No. JMB-2 and Exhibit No. JMB-3.

A. Exhibit Nos. JMB-2 and JMB-3 represent the revenue requirement calculation for VEDO's DRR based on net rate base at December 31, 2009 inclusive of post in service carrying costs ("PISCC") and deferred taxes related to depreciation and PISCC. Exhibit No. JMB-2 represents the revenue requirement calculation for the main replacement program and Exhibit No. JMB-3 represents the revenue requirement calculation for service line and riser replacements.

Q. Please explain Exhibit No. JMB-2a and Exhibit No. JMB-3a.

A. Exhibit Nos. JMB-2a and JMB-3a provide the calculation of the annualized property tax expense based on the net additions (mains, service lines and *risers) to Plant In-Service from the Programs. This calculation follows the* process used in VEDO's Annual Report to the Ohio Department of Taxation to determine the Net Property Valuation and uses the latest known average property tax rate. Exhibit No. JMB-2a provides information for the net main additions and Exhibit No. JMB-3a provides information for the net service line and riser additions.

Q. Please explain Exhibit No. JMB-2b and Exhibit No. JMB-3b.

A. Exhibit Nos. JMB-2b (mains) and JMB-3b (service lines/risers) provide the calculation of deferred taxes on depreciation for the Programs' capital investments placed in service during 2009.

Q. Please explain Exhibit No. JMB-4.

A. Exhibit No. JMB-4 provides the calculation of the DRR variance for the 12 months ended February 28, 2010. This variance relates to the deferred expenses associated with VEDO's natural gas riser investigation and replacements.

Q. Does this conclude your direct testimony?

A. Yes.

**VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
SUMMARY OF DRR REVENUE REQUIREMENT**

Line	Description	Amount	Reference
1	Mains Revenue Requirement	$ 650,164	Exhibit No. JMB-2, Line 23
2	Service Lines Revenue Requirement	2,225,847	Exhibit No. JMB-3, Line 27
3	**Annual DRR Revenue Requirement**	**$ 2,876,011**	Line 1 + Line 2

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - MAINS

Line	Description		Amount	Reference
1	Return on Investment:			
2	Plant In-Service at December 31, 2009			
3	Additions - Main Replacements	$	7,062,973	
4	Original Cost - Retired Mains		(174,052)	
5	Total Plant In-Service	$	6,888,921	Line 3 + Line 4
6	Less: Accumulated Depreciation at December 31, 2009			
7	Depreciation Expense - Mains	$	(33,881)	
8	Cost of Removal - Mains		407,719	
9	Original Cost - Retired Mains		174,052	Line 4
10	Total Accumulated Depreciation	$	547,890	Sum of Lines 7 - 9
11	Post In-Service Carrying Costs (PISCC)	$	98,323	(3)
12	Net Deferred Tax Balance - PISCC	$	(34,413)	Line 11 x 35%
13	Deferred Taxes on Depreciation	$	(1,285,263)	Exhibit No. JMB-2b, Line 14
14	Net Rate Base	$	6,215,458	Sum of Lines 5 and 10-13
15	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
16	**Annualized Return on Rate Base - Mains**	$	725,344	Line 14 * Line 15
17	Operations and Maintenance Expenses			
18	Annualized Property Tax Expense	$	150,651	Exhibit No. JMB-2a, Line 15
19	Annualized Depreciation Expense	$	121,934	Line 5 x 1.77% (1)
20	Annualized Maintenance Adjustment	$	(347,765)	(2)
21	**Total Incremental Operating Expenses - Mains**	$	(75,180)	Sum of Lines 18-20
22	**Variance**	$	-	(4)
23	**Total Annual Revenue Requirement - Mains**	$	650,164	Line 16 + Line 21 + Line 22

(To Exhibit No. JMB-1 and Exhibit No. SEA-1, page 1 of 6)

(1) FERC Account 676 depreciation rate approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Main Leaks Maintenance Expense 2009 expense less Baseline expense attributable to Bare Steel/Cast Iron.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate.
(4) Not applicable as this represents Vectren Energy Delivery Ohio, Inc.'s first annual DRR filing.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUALIZED PROPERTY TAX EXPENSE - MAIN REPLACEMENTS

Line	Description	Amount	Reference
1	Mains Replacements - Book Value	$ 7,062,973	Exhibit No. JMB-2, Line 3
2	% Good	98.3%	
3	Tax Value	$ 6,942,902	Line 1 x Line 2
4	x 25%	25.0%	
5	Taxable Value/Assessment	$ 1,735,726	Line 3 x Line 4
6	VEDO's Average 2010 Property Tax Rate	8.76%	
7	**Annual Property Tax Expense - Main Replacements**	**$ 152,050**	Line 5 x Line 6
8	Mains Retired - Book Value	$ (174,052)	Exhibit No. JMB-2, Line 4
9	% Good	36.7%	
10	Tax Value	$ (63,877)	Line 8 x Line 9
11	x 25%	25.0%	
12	Taxable Value/Assessment	$ (15,969)	Line 10 x Line 11
13	VEDO's Average 2010 Property Tax Rate	8.76%	
14	**Annual Property Tax Reduction - Main Retirements**	**$ (1,399)**	Line 12 x Line 13
15	**Annualized Property Tax Expense - Mains**	**$ 150,651**	Line 7 + Line 14
		(To Exhibit No. JMB-2, Line 15)	

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DEFERRED TAXES ON LIBERALIZED DEPRECIATION - MAINS

Line	Description		Amount	Reference
1	Plant in Service at December 31, 2009:			
2	Mains - Bare Steel/Cast Iron Replacements	$	7,062,973	Exhibit No. JMB-2, Line 3
3	Book to Tax Basis Adjustment - Capitalized Interest	$	(3,810)	
4	Book to Tax Basis Adjustment - Bonus Depreciation		(3,529,582)	(Line 2+Line 3) * 50%
5	Total Income Tax MACRS Depreciation Base	$	3,529,581	Sum of Lines 2-4
6	Tax Depreciation:			
7	MACRS - 15 Year	$	176,479	Line 5 * 5%
8	Bonus Depreciation		3,529,582	Line 4
9	Total Tax Depreciation	$	3,706,061	Line 7 + Line 8
10	Book Depreciation:			
11	Mains	$	33,881	Exhibit No. JMB-2, Line 7
12	Tax Depreciation in Excess of Book Depreciation	$	(3,672,180)	Line 11 - Line 9
13	Federal Deferred Taxes at 35%		35%	
14	**Deferred Tax Balance at December 31, 2009 - Mains**	**$**	**(1,285,263)**	Line 12 * Line 13

(To Exhibit No. JMB-2, Line 13)

Exhibit No. JMB-3
Page 1 of 1

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - SERVICE LINES

Line	Description		Amount	Reference
1	Return on Investment:			
2	Plant In-Service at December 31, 2009			
3	Additions - Services Replacements (Bare Steel/Cast Iron)	$	4,187,450	
4	Additions - Services Replacements (Service Line Responsibility)		1,394,305	(5)
5	Additions - Risers		5,451,132	
6	Original Cost - Retired Services		(30,202)	
7	Total Plant In-Service	$	11,002,685	Sum of Lines 3 - 6
8	Less: Accumulated Depreciation at December 31, 2009			
9	Depreciation Expense - Services	$	(93,255)	
10	Depreciation Expense - Risers		(89,392)	
11	Cost of Removal - Services		319,526	
12	Original Cost - Retired		30,202	Line 6
13	Total Accumulated Depreciation	$	167,081	Sum of Lines 9 - 12
14	Post In-Service Carrying Costs (PISCC)	$	57,709	(3)
15	Net Deferred Tax Balance - PISCC	$	(20,198)	Line 14 x 35%
16	Deferred Taxes on Depreciation	$	(1,962,946)	Exhibit No. JMB-3b, Line 19
17	Net Rate Base	$	9,244,331	Sum of Lines 7 and 13-16
18	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
19	**Annualized Return on Rate Base -Service Lines**	$	1,078,813	Line 17 * Line 18
20	Operations and Maintenance Expenses			
21	Annualized Property Tax Expense	$	237,269	Exhibit No. JMB-3a, Line 22
22	Annualized Depreciation Expense	$	578,741	Line 7 x 5.26% (1)
23	Incremental O&M - Service Line Responsibility	$	71,725	(2)
24	Annualized Maintenance Adjustment	$	26,581	(6)
25	**Total Incremental Operating Expenses - Service Lines**	$	914,316	Sum of Lines 21-24
26	**Variance (4)**	$	232,718	Exhibit No. JMB-4, Line 5
27	**Total Revenue Requirement - Service Lines**	$	2,225,847	Line 19 + Line 25 + Line 26

(To Exhibit No. JMB-1 and Exhibit No. SEA-1, page 1 of 3)

(1) FERC Account 680 depreciation rate approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-5.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate.
(4) Variance represents the initial DRR charge associated with deferred natural gas riser investigation and replacement expenses.
(5) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Service Leaks and Meter Maintenance Expense. 2009 expense less Baseline expense attributable to Bare Steel/Cast Iron.
(6) Support provided by VEDO Witness James Francis, Exhibit No. JMF-6.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUALIZED PROPERTY TAX EXPENSE - SERVICE LINES

Line	Description	Amount	Reference
1	Service Replacements - Book Value	$ 5,581,755	Exhibit No. JMB-3, Line 3 & Line 4
2	% Good	98.3%	
3	Tax Value	$ 5,488,866	Line 1 x Line 2
4	x 25%	25.0%	
5	Taxable Value / Assessment	$ 1,371,716	Line 3 x Line 4
6	VEDO Average 2010 Property Tax Rate	8.76%	
7	**Annual Property Tax Expense - Service Line Replacements**	$ 120,162	Line 5 x Line 6
8	Services Retired - Book Value	$ (30,202)	Exhibit No. JMB-3, Line 6
9	% Good	36.7%	
10	Tax Value	$ (11,084)	Line 8 x Line 10
11	x 25%	25.0%	
12	Taxable Value / Assessment	$ (2,771)	Line 10 x Line 11
13	VEDO Average 2010 Property Tax Rate	8.76%	
14	**Annual Property Tax Reduction - Service Line Retirements**	$ (243)	Line 12 x Line 13
15	Risers Replacements - Book Value	$ 5,451,132	Exhibit No. JMB-3, Line 5
16	% Good	98.3%	
17	Tax Value	$ 5,358,463	Line 15 x Line 16
18	x 25%	25.0%	
19	Taxable Value / Assessment	$ 1,339,616	Line 17 x Line 18
20	VEDO Average 2010 Property Tax Rate	8.76%	
21	**Annual Property Tax Expense - Natural Gas Risers**	$ 117,350	Line 19 x Line 20
22	**Annualized Property Tax Expense - Service Lines**	$ 237,269 (To Exhibit No. JMB-3, Line 21)	Line 7+ Line 14 + Line 21

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DEFERRED TAXES ON LIBERALIZED DEPRECIATION - SERVICE LINES

Line	Description	Amount	Reference
1	**Plant in Service at December 31, 2009:**		
2	Service Additions - Bare Steel/Cast Iron Replacements	$ 4,187,450	Exhibit No. JMB-3, Line 3
3	Service Additions - Service Line Ownership	1,394,305	Exhibit No. JMB-3, Line 4
4	Additions of Natural Gas Risers	5,451,132	Exhibit No. JMB-3, Line 5
5	Total Plant in Service	$ 11,032,887	
6	Book to Tax Basis Adjustment - Capitalized Interest	$ (2,287)	
7	Book to Tax Basis Adjustment - Bonus Depreciation	(5,515,300)	(Line 2+Line 3+Line 4+Line 6) * 50%
8	Total Income Tax MACRS Depreciation Base	$ 5,515,300	Sum Lines 5-8
9	**Tax Depreciation:**		
10	MACRS - 15 Year	$ 275,765	Line 8 * 5%
11	Bonus Depreciation	5,515,300	Line 8
12	Total Tax Depreciation	$ 5,791,065	Line 10 + Line 11
13	**Book Depreciation:**		
14	Services	$ 93,255	Exhibit No. JMB-3, Line 9
15	Natural Gas Risers	89,392	Exhibit No. JMB-3, Line 10
16	Total Book Depreciation	$ 182,647	Line 14 + Line 15
17	Tax Depreciation in Excess of Book Depreciation	$ (5,608,418)	Line 16 - Line 12
18	Federal Deferred Taxes at 35%	35%	
19	**Deferred Tax Balance at December 31, 2009 - Service Lines**	$ (1,962,946) (To Exhibit No. JMB-5, Line 16)	Line 17 * Line 18

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DRR VARIANCE - INITIAL DRR CHARGE AND RISER INVESTIGATION AND REPLACEMENT

Line	Description	Amount	Reference
1	Deferred Natural Gas Riser Investigation and Replacement Expense at July 31, 2008	$ 2,510,057	(1)
2	Less: DRR Recoveries March 2009 through February 2010	(2,532,112)	Line 21
3	Initial DRR Charge Variance - Over Recovery	$ (22,055)	Line 1 + Line 2
4	Natural Gas Riser Investigation and Replacement Expenses Deferred from August 1, 2008 - February 28, 2009	$ 254,773	
5	Total DRR Variance	$ 232,718 (To Exhibit No. JMB-3, Line 28)	Line 3 + Line 4

6 DRR Recoveries by Month:

Line		Revenue - $
7		Revenue - $
8	March 2009	$ 156,410
9	April 2009	263,233
10	May 2009	196,018
11	June 2009	194,840
12	July 2009	196,769
13	August 2009	185,543
14	September 2009	193,516
15	October 2009	195,593
16	November 2009	207,534
17	December 2009	218,993
18	January 2010	248,420
19	February 2010	230,945
20	March 2010	44,298
21	Total DRR Recoveries	$ 2,532,112

(1) Included in initial DRR charge as approved in Case No. 07-1080-GA-AIR.

ATTACHMENT C

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

DIRECT TESTIMONY

OF

SCOTT E. ALBERTSON

DIRECTOR OF REGULATORY AFFAIRS

ON BEHALF OF

VECTREN ENERGY DELIVERY OF OHIO, INC.

CASE NO. 07-1080-GA-AIR
CASE NO. 10-___-GA-RDR

APRIL 30, 2010

DIRECT TESTIMONY OF SCOTT E. ALBERTSON

INTRODUCTION

Q. Please state your name and business address.

A. Scott E. Albertson
One Vectren Square
Evansville, Indiana 47708

Q. What position do you hold with Applicant Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company")?

A. I am Director of Regulatory Affairs for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of VEDO. I hold the same position with two other utility subsidiaries of VUHI – Southern Indiana Gas and Electric Company d/b/a/ Vectren Energy Delivery of Indiana ("Vectren South") and Indiana Gas Company, Inc. d/b/a/ Vectren Energy Delivery of Indiana ("Vectren North").

Q. Please describe your educational background.

A. I received a Bachelor of Science degree in mechanical engineering from Rose-Hulman Institute of Technology in 1984.

Q. Are you a Registered Professional Engineer?

A. Yes. I have been a professional engineer in Indiana since 1990 (registration number 900464).

Q. Please describe your professional experience.

A. I have over 25 years' experience in the utility industry, primarily in the operations and engineering areas. I began my career with Ohio Valley Gas Corporation in a project engineering position. I have worked at VUHI and its predecessor companies since 1987 in a variety of positions including Operations Staff Manager, Assistant Chief Engineer, Director of Engineering Projects, and Director of Engineering. Prior to assuming my current role in 2004, I was Director of Technical Services with responsibility for engineering and technical support for all VUHI utility operations.

Q. What are your present duties and responsibilities as Director of Regulatory Affairs?

A. I have responsibility for regulatory matters of the regulated utilities within VUHI, including proceedings before the Indiana and Ohio utility regulatory commissions.

Q. Have you previously testified before this Commission?

A. Yes. I filed testimony in the Company's most recent general rate case, Case No. 07-1080-GA-AIR; its Merchant Function Exit proceeding, Case No. 07-1285-GA-EXM; and in a number of other proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony in this proceeding supports the proposed Distribution Replacement Rider ("DRR") charges, as well as the proposed tariff sheet, and associated bill impacts.

Q. What exhibits are attached to your testimony?

A. The following exhibits which have been prepared by me or under my supervision are attached to my testimony:

Exhibit No. SEA-1, Pages 1 *through* 5 – DRR – *Derivation of Charges;*

Exhibit No. SEA-2, Page 1 of 1 – DRR – Tariff Sheet; and

Exhibit No. SEA-3, Page 1 of 1 – DRR – Annual Residential Customer Bill Impact.

BACKGROUND

Q. What is the DRR?

A. The Public Utilities Commission of Ohio ("Commission") approved a Stipulation and Recommendation in VEDO's last general rate case, Case No. 07-1080-GA-AIR ("Approved Stipulation"). The DRR was part of the Approved Stipulation, and recovers

- a return on and of investments made by the Company under an accelerated bare steel and cast iron pipeline replacement program ("Replacement Program"), inclusive of capitalized interest (or post-in-service carrying costs ("PISCC")) associated with the Replacement Program,
- the actual deferred costs resulting from compliance with the Commission-ordered riser investigation in Case No. 05-463-GA-COI,
- the costs associated with the replacement of prone-to-fail risers over

a five year period ("Riser Program"), and

- the incremental costs of assuming responsibility for service lines.

Savings of certain Operation and Maintenance ("O&M") expenses are also included as a credit in the derivation of the DRR revenue requirement.

Q. How will VEDO's customers benefit from the DRR?

A. As more fully described in VEDO witness Francis' testimony, VEDO customers will realize significant benefits as a direct result of the Replacement and Riser Programs and the DRR mechanism. Because the Company is provided an opportunity to more quickly recover its investments under the programs, VEDO's customers will more quickly realize enhanced service reliability levels than would be realized under a more traditional regulatory paradigm. Customers will also benefit from a diminution of O&M costs. Moreover, the elimination of active leaks achieved by replacement of bare steel and cast iron pipelines in a given year will result in O&M savings reflected in the DRR and/or base rates prospectively. Finally, customers are no longer required to directly bear the out-of-pocket cost of service line repair or replacement since the Company has assumed that responsibility.

PROPOSED DRR

Q. Please describe the DRR proposed herein.

A. VEDO has proposed a DRR based upon Replacement Program and Riser

Program costs for all projects placed in service as of December 31, 2009. The DRR revenue requirement proposed by VEDO witness Barrett, which also includes the other cost components described previously, is used to derive the DRR charges which are presented in the attached Exhibit No. SEA-1, Pages 1 through 5.

Q. **Please describe the components of Exhibit No. SEA-1.**

A. Exhibit No. SEA-1 contains the associated filing schedules to support the Company's proposed DRR.

Exhibit No. SEA-1, Page 1 of 5 shows the derivation of the DRR revenue requirement and charges by rate schedule. The rate schedule allocation factors from page 2 of 5 (described below) are multiplied by the total revenue requirement (from Exhibit No. JMB-1) to determine the allocated revenue requirement by rate schedule. For residential (Rates 310, 311 and 315), small general service (Group 1 customers under Rates 320, 321 and 325; hereinafter referred to as "Group 1 Customers"), and Rate 341 customers, the allocated revenue requirement for each rate schedule is then divided by the number of customers in each rate schedule, and then divided by 12, to determine the monthly DRR charge applicable to customers in those rate schedules. For larger customers (Group 2 and Group 3 customers under Rates 320, 321 and 325, hereinafter referred to as "Group 2 and Group 3 Customers") and all customers receiving service under Rates 345 and 360, the allocated revenue requirement for each rate schedule is divided by the projected annual throughput for each rate schedule to determine the DRR charge per Ccf applicable to those rate schedules.

Exhibit No. SEA-1, Page 2 of 5 lists the rate schedule distribution mains and service lines allocation factors from Case No. 07-1080-GA-AIR. These allocation factors are used to allocate the mains and service lines revenue requirements to the various rate schedules.

Exhibit No. SEA-1, Page 3 of 5 shows how the general service customer revenue requirement allocation is determined. Due to the similarity in facilities required to serve Group 1 Customers and those required to serve residential customers, and consistent with the Commission's order in Case No. 07-1080-GA-AIR, VEDO presents a DRR charge to Group 1 Customers equal to the DRR charge applicable to residential customers. The residential DRR charge is multiplied by the number of Group 1 Customers, with that result multiplied by 12 to determine the annual DRR revenue requirement to be recovered from Group 1 Customers. The Group 1 Customer revenue requirement is then subtracted from the total revenue requirement allocated to Rates 320, 321 and 325. The resulting amount is then divided by the projected annual throughput for Group 2 and Group 3 Customers to determine the DRR charge per Ccf applicable to those customers.

Exhibit No. SEA-1, Page 4 of 5 shows the impact of the proposed DRR on each rate schedule.

Exhibit No. SEA-1, Page 5 of 5 identifies the recoveries applicable to the periods September 2010 through December 2010 and January 2011 through August 2011. These are the twelve months during which the proposed DRR is projected to be in effect. The purpose of this schedule is to provide the basis for determining the revenue requirement recovery variance applicable to the period of September through December 2010, since in the next annual DRR filing VEDO will reconcile actual costs and actual recoveries through December 2010. The variance determined on that schedule (in the next filing) will then be allocated to mains and services based upon the approved revenue requirement in this proceeding, and the allocated variances will be added to the revenue requirements for mains and services, respectively, for investments made in 2011. Likewise, in the 2012 DRR filing the variance applicable to the period of January through August 2011 will be based upon the recoveries for that period as identified on Page 5. My testimony in Case No. 07-1080-GA-AIR supported this methodology.

Q. Please describe Exhibit No. SEA-2.

A. Exhibit No. SEA-2, Page 1 of 1 illustrates the proposed DRR tariff sheet containing the proposed DRR charges. Tariff Sheet No. 45, Fourth Revised Page 2 of 2 will replace the currently effective Third Revised Page 2 of 2.

Q. Please describe Exhibit No. SEA-3.

A. The annual impact of the proposed DRR on a residential customer is shown on Exhibit No. SEA-3, Page 1 of 1.

Q. In your opinion, has the Company met all requirements set forth in the Approved Stipulation filed in Case No. 07-1080-GA-AIR?

A. Yes, the Company has filed an application for approval of the successor DRR charge. The application has been served electronically on the Parties to the Approved Stipulation and includes all supporting information for the costs incurred in calendar year 2009. As contained in VEDO witness Francis' testimony, the Company is providing a summary of its construction plans for 2010 including expected investment, expected location of the infrastructure replacement work and the expected miles of pipe to be replaced. Finally, the Company has not exceeded the cap on DRR charges consistent with the Approved Stipulation.

Q. Please elaborate on the approved cap.

A. As per the Approved Stipulation, the monthly DRR charge applicable to Residential and Group 1 Customers in the first annual DRR application shall not exceed $1.00 per customer. The cap for successor DRR charges applicable to Residential and Group 1 Customers may increase in increments of $1.00 per year, beginning with the DRR charge proposed by the Company in the May 1, 2011 filing. Since the DRR charge for Residential and Group 1 Customers proposed herein is less than $1.00 per customer per month, the Company has complied with the Approved Stipulation in this regard.

Q. Has VEDO recovered all costs associated with the Commission-ordered riser investigation?

A. VEDO implemented initial DRR charges on March 1, 2009 which were designed to recover deferred expenses through July 2008 associated with the Commission-ordered riser investigation. In compliance with the Approved Stipulation, all DRR charges were removed from the tariff (i.e. reset to zero) after 12 months, and the remaining variance has been included in the determination of the DRR revenue requirement proposed in this proceeding and sponsored by VEDO witness Barrett.

Q. Does this conclude your direct testimony?

A. Yes, at this time.

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES

Line	Rate Schedule	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)		(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (d)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	$399,718	$1,896,063	$2,295,781		287,775	$0.66		
2	320/321/325	$152,070	$315,632	$467,702					
3	Group 1			$127,623	(e)	16,114	$0.66		
4	Group 2 & 3			$340,079	(e)			74,512,297	$0.00456
5	341	$30	$50	$80		2	$3.33		
6	345	$39,921	$9,775	$49,696				41,357,001	$0.00120
7	360	$58,425	$4,327	$62,752				53,763,331	$0.00117
8	Total (a)	$860,164	$2,225,847	$2,876,011					

(a) Revenue requirement from Exhibit No. JMB-1
(b) Reflects revenue requirement multiplied by allocation factors found on Exhibit No. SEA-1, Page 2
(c) Average customer count for CY 2009
(d) 2010 Budget Volumes
(e) From Exhibit No. SEA-1, Page 3

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE ALLOCATION FACTORS

Line	Rate Schedule	Description	Mains Allocation Factors (a) (%)	Service Line Allocation Factors (b) (%)
1	310/311/315	Residential DSS/SCO/Transportation	61.480%	85.184%
2	320/321/325	General Service DSS/SCO/Transportation	23.390%	14.180%
3	341	Dual Fuel	0.005%	0.002%
4	345	Large General Transportation	6.140%	0.439%
5	360	Large Volume Transportation	8.986%	0.194%
6		Total	100.000%	100.000%

(a) Mains Allocation Factor as presented in Case No. 07-1080-GA-AIR
(b) Service Lines Allocation Factor as presented in Case No. 07-1080-GA-AIR

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ALLOCATION OF REVENUE REQUIREMENT - RATES 320, 321 AND 325

Line	Description	Amount		Source
1	Proposed DRR - Rate 310/311/315	$0.66	Per Month	Exhibit No. SEA-1, Page 1
2	Proposed DRR - Rate 320/321/325 - Group 1	$0.66	Per Month	Line [1]
3	Customer Count - Group 1	16,114		Exhibit No. SEA-1, Page 1
4	Revenue Requirement - Group 1 (1)	$127,623		Line [2] x Line [3] x 12
5	Revenue Requirement - Total 320/321/325	$467,702		Exhibit No. SEA-1, Page 1
6	Revenue Requirement - Group 2 & 3 (1)	$340,079		Line [5] - Line [4]

Notes:
(1) to Exhibit No. SEA-1, Page 1

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE BILL IMPACTS

Line	Rate Schedule	(A) Present Revenue (a)	(B) Previous DRR Revenue Requirement	(C) Current DRR Revenue Requirement (c)	(D) Incremental DRR Revenue Requirement (C)-(B)	(E) % Increase (D)/(A)	
1	310/311	$173,903,267	$0	$1,609,779	$1,609,779	0.93%	(d)
2	315	$24,340,895	$0	$686,002	$686,002	2.82%	(b) (d)
3	320/321	$63,209,467	$0	$328,241	$328,241	0.52%	(d)
4	325	$7,096,433	$0	$139,462	$139,462	1.97%	(b) (d)
5	341	$20,339	$0	$80	$80	0.39%	
6	345	$7,584,911	$0	$49,696	$49,696	0.65%	(b) (e)
7	360	$6,593,932	$0	$62,762	$62,762	0.95%	(b) (e)
8	Total	$262,749,244	$0	$2,876,011	$2,876,011	1.09%	

(a) Twelve months ending December 31, 2009
(b) Does not include gas costs
(c) From Exhibit No. SEA-1, Page 2
(d) Current revenues calculated as unit rate times Number of customers
(e) Present revenues include allocation of former Rate 330 revenues

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DETERMINATION OF APPROVED RECOVERIES
BY CALENDAR MONTH

	(A)	(B)	(C)
Line	Month	Allocation Factor (1)	Approved Recoveries (2)
1	September-10	7.31%	$210,253
2	October-10	7.67%	$226,470
3	November-10	8.66%	$249,013
4	December-10	9.72%	$279,469
5	Subtotal (To Second Annual DRR Filing)		$965,206
6	January-11	10.23%	$294,320
7	February-11	9.57%	$275,164
8	March-11	9.12%	$262,422
9	April-11	7.96%	$228,906
10	May-11	7.56%	$217,443
11	June-11	7.35%	$211,505
12	July-11	7.33%	$210,708
13	August-11	7.31%	$210,337
14	Subtotal (To Third Annual DRR Filing)		$1,910,805

(1) Based on monthly volumes / customer count (as applicable) as a percentage of annual, in 2010 Budget.
(2) Allocation Factor in Column B times total revenue requirement.

VECTREN ENERGY DELIVERY OF OHIO, INC.
Tariff for Gas Service
P.U.C.O. No. 3

Sheet No. 45
Fourth Revised Page 2 of 2
Cancels Third Revised Page 2 of 2

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$0.66	
320, 321 and 325 (Group 1)	$0.66	
320, 321 and 325 (Group 2 and 3)		$0.00456
341	$3.33	
345		$0.00120
360		$0.00117

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ANNUAL RESIDENTIAL CUSTOMER BILL IMPACT

Line		
1	Proposed Residential DRR Per Customer Per Month	$0.66
2	Months	12
3	Annual Bill Impact	$7.92

Industrial Energy Consumers of Ohio Power Company et al., Appellants, v. Public Utilities Commission of Ohio et al., Appellees.

[Cite as Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm. (1994), Ohio St.3d .]

Public Utilities Commission -- Electric utilities -- Acid rain control -- Commission's determination approving an environmental compliance plan affirmed, when.

(No. 93-505 -- Submitted December 14, 1993 -- Decided March 30, 1994.)

Appeal from the Public Utilities Commission of Ohio, No. 92-790-EL-ECP.

This case involves an order of the Public Utilities Commission of Ohio ("commission"), appellee, approving an environmental compliance plan under R.C. Chapter 4913. For a complete understanding of the facts giving rise to this appeal, a brief introduction to the state and federal laws involved is necessary.

R.C. Chapter 4913 was enacted by the General Assembly in response to Title IV of the federal Clean Air Act Amendments of 1990 ("CAAA"), Sections 7651, Title 42, U.S.Code. The purpose of the CAAA is to reduce the adverse effects of acid deposition from the atmosphere by controlling, among other things, emissions of sulfur dioxide by electric utilities. Section 7651(a) and (b).

Compliance with the CAAA is to occur nationwide in two phases. In "Phase I," which begins in 1995, certain identified electric utility generating plants (Phase I affected units) must reduce annual emissions of sulfur dioxide to specified levels. Section 7651c. In "Phase II," which begins in the year 2000, most other electric utility generating units must achieve reductions in sulfur dioxide emissions. Section 7651d.

One of the primary components of the CAAA is the establishment of a system of emission "allowances" to control the amount of sulfur dioxide emitted from affected units on an annual basis. See Section 7651b. Each emission "allowance" is a limited authorization allocated to an affected unit to emit one ton of sulfur dioxide during, or after, the calendar year in which the allowance is issued. Section 7651a(3). Under the CAAA, Phase I affected units are to be assigned annual allowances equal to the number of authorized tons of sulfur dioxide emissions. See, generally, Section 7651b(a)(1). Beginning in the year 1995, a Phase I affected unit will be required to have an emission allowance for each ton of sulfur dioxide emitted from that facility. See Section 7651c. However, the CAAA provides that emission allowances may be transferred among the designated representatives of the owners or operators of affected sources and any other person who holds such allowances. See Section 7651b(b).

The CAAA does not specify which of a variety of possible compliance options are to be employed by an electric utility to achieve Phase I emission reductions. That matter is apparently left for the utility to decide. However, in simplest terms, a utility can meet the Phase I requirements of the CAAA at any given Phase I affected unit by reducing the amount of sulfur dioxide emitted (through, for example, a switch to lower-sulfur coal or natural gas, or by installing flue gas desulfurization equipment, i.e., "scrubbers"), by acquiring additional allowances, or by some combination of these compliance strategies. It is also possible for a utility to essentially "overcomply" at one or more of its affected units (by reducing emissions below the level necessary for compliance) and save or "bank" any unused emission allowances for use at other Phase I affected units.

R.C. Chapter 4913 permits an electric light company to seek commission review and approval of an environmental compliance plan1 developed by the company to meet the requirements of the CAAA at the company's Phase I affected units. R.C. 4913.02(A). Pursuant to R.C. 4913.04(A), the commission is required to approve a plan that is adequately documented if the commission makes all the findings listed in R.C. 4913.04(A)(1) through (7), including the finding set forth in R.C. 4913.04(A)(2) that the plan constitutes "a reasonable and least-cost strategy for compliance with the applicable acid rain control requirements that is consistent with providing reliable, efficient, and economical electric service."2 If the commission does not make all the findings listed in R.C. 4913.04(A)(1) through (7), the commission must disapprove the plan. R.C. 4913.04(B). If the commission approves the plan of an electric light company that is a public utility, the company's decision to implement a compliance measure contained in the approved plan is deemed to constitute a prudent management decision. See R.C. 4909.157(A).3

On April 29, 1992, Ohio Power Company ("Ohio Power"), appellee, a subsidiary of American Electric Power Company ("AEP"), submitted an application to the commission under R.C. 4913.02 seeking review and approval of a least-cost plan to comply with the Phase I requirements of the CAAA. Ohio Power's environmental compliance plan was based upon an AEP system-wide acid rain compliance report.4 In accordance with that report, Ohio Power's plan called for installing scrubbers at Gavin Units 1 and 2, switching to lower-sulfur coal at four other Phase I affected units (Kammer Units 1-3 and Muskingum Unit 5), and continuing to burn existing coal supplies at Ohio Power's seven remaining Phase I affected units (Cardinal Unit 1, Muskingum Units 1-4, and Mitchell Units 1 and 2). Under the plan, any compliance action to be taken at Cardinal Unit 1 and Muskingum Units 1-4 was to be deferred until Phase II, at which time Cardinal Unit 1 was to be "fuel-switched" from high-sulfur coal to low-sulfur coal and Muskingum Units 1-4 were to be fuel-switched from coal to natural gas.5

Ohio Power's plan was supported by a number of case studies offered to show that the plan was the least-cost strategy for Phase I compliance when viewed in the context of the overall AEP system-wide plan. The studies evaluated two principal compliance strategies for the Gavin power plant, with each study assuming a Phase I fuel-switch at Muskingum Unit 5 and Kammer Units 1-3 as proposed in Ohio Power's plan. The case studies projected the effects on AEP's revenue requirements if Gavin was fuel-switched from high-sulfur to low-sulfur coal (Case 1) or retrofitted with scrubbers (Case 2); evaluated the effects of escalating fuel prices on these options (Case 1S and 2S); and examined compliance through the sale of allowances (Case 3). The studies revealed that, in the long run, installing scrubbers at Gavin, as opposed to a Gavin fuel-switch, was the least-cost alternative for Phase I compliance.

At a hearing conducted on Ohio Power's plan, appellant Sierra Club offered evidence to show that a least-cost compliance plan would have included, as an additional compliance measure, a Phase I fuel-switch at Cardinal Unit 1. Similarly, the commission's staff suggested that a fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 at the beginning of Phase I may constitute additional cost-effective measures to be included in Ohio Power's plan. However, commission staff witness Carl R. Evans concluded that Ohio Power's plan to install scrubbers at Gavin and to fuel-switch Muskingum Unit 5 would constitute part of any least-cost compliance plan.

On rebuttal, Ohio Power offered additional case studies to address the concerns of the commission's staff that an accelerated fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 could result in an even lower-cost compliance plan. Case 1E identified the effects of these additional compliance measures on the Gavin fuel-switch (Case 1) scenario. Case 2E identified the effects of a Phase I fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 on the Gavin-scrubber (Case 2) scenario. The studies revealed that a fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 at the beginning of Phase I might, in the long run, moderately reduce AEP revenue requirements under the Gavin fuel-switch and Gavin-scrubber cases. However, the studies confirmed that installing scrubbers at Gavin was the least-cost alternative for Phase I compliance whether Cardinal Unit 1 and Muskingum Units 1-4 were fuel-switched in Phase I or Phase II.

Ohio Power's witness, Henry W. Fayne, urged that the company's compliance strategy should not be changed to include a fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 in Phase I. Fayne testified that there were increased risks and uncertainties associated with an earlier fuel-switch at these facilities, and that an earlier fuel-switch would necessitate closure of company-affiliated mines, resulting in the loss of a significant number of Ohio jobs. Moreover, Fayne testified that Ohio Power would already be overcomplying with the federal law in Phase I and, therefore, additional Phase I compliance strategies were unnecessary for Ohio Power. Fayne also cautioned that according to company studies, a Phase I fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 would not necessarily be less costly for Ohio Power customers.

During the pendency of the case, a stipulation was entered into in a companion electric fuel component case, which stipulation has been challenged on appeal. See Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm. (1994), Ohio St.3d , N.E.2d . This stipulation, among other things, set a predetermined price for calculating Ohio Power's electric fuel component rate for all coal burned at Gavin, Muskingum, Mitchell and Cardinal for a three-year period; set a "station cap" for the cost of coal burned at Gavin; and "capped" the costs for which Ohio Power could seek recovery in connection with the installation of scrubbers at Gavin. As a result of this stipulation, a further case study was generated to show the effect of the stipulation on Ohio Power's plan. That study (Case 2CS) showed that the stipulation would further reduce AEP revenue requirements in the Case 2 scenario, making the installation of scrubbers at Gavin an even more cost-effective compliance option. However, Case 2CS was merely a variation of Case 2 and, thus, it also assumed that Cardinal Unit 1 and Muskingum Units 1-4 would be fuel-switched at the beginning of Phase II.

In an order dated November 25, 1992, the commission found that Ohio Power's environmental compliance plan which incorporated the effects of the stipulation in the electric fuel component proceeding -- Case 2CS -- was a reasonable and least-cost strategy for compliance with the CAAA. The commission determined that the next least-cost strategy was represented in Case 2, which study also assumed that Gavin would be retrofitted with scrubbers. Additionally, the commission found that a Phase I fuel-switch at Cardinal Unit 1, if carried out, would constitute a further "least-cost measure" to be undertaken by Ohio Power. In this regard, the commission suggested that Ohio Power prepare to fuel-switch Cardinal Unit 1 in Phase I, and that Ohio Power designate Conesville Unit 4 (another AEP Phase I affected unit) and Muskingum Units 1-4 as "transfer units." The commission found that Ohio Power's plan was adequately documented, and specifically determined that all seven factors listed in R.C. 4913.04(A) had been satisfied. However, the commission's order was unclear as to whether Ohio Power's plan had been approved as filed, or whether the plan had been modified by a required Phase I fuel-switch at Cardinal.

Industrial Energy Consumers of Ohio Power Company ("IEC") and the Sierra Club, appellants, applied for rehearing. In an entry denying rehearing, the commission stated that Ohio Power's plan had been approved as filed, and that the commission had only "strongly suggested" that Ohio Power take steps to have Cardinal available for fuel-switching in Phase I while designating Conesville Unit 4 and Muskingum Units 1-4 as transfer units. The commission also stated that it would expect Ohio Power in subsequent fuel cases "to demonstrate a reduced revenue requirement at least equal to the total revenue requirement benefit identified in this case resulting from a Cardinal fuel switch * * *."

The cause is now before this court upon an appeal as of right.

Emens, Kegler, Brown, Hill & Ritter, Samuel C. Randazzo, Richard P. Rosenberry and Denise C. Clayton, for appellant Industrial Energy Consumers of the Ohio Power Company.

Hahn, Loeser & Parks, Janine L. Migden and Maureen R. Grady, for intervening appellant Sierra Club.

Lee Fisher, Attorney General, James B. Gainer, Thomas W. McNamee and Craig S. Myers, Assistant Attorneys General, for appellee commission.

Edward J. Brady, Kevin F. Duffy and Richard Cohen, for intervening appellee Ohio Power Company.

Douglas, J. The primary issue which has been properly raised in this appeal is whether the commission approved an environmental compliance plan that was not least-cost, thereby constituting a violation of R.C. 4913.04. For the reasons that follow, we decline to disturb the commission's determination approving Ohio Power's plan. Accordingly, we affirm the commission's order.

I

To begin our discussion, we note that this court is ordinarily called upon to review commission decisions involving ratemaking. Although the case before us obviously affects rates (as is true with virtually everything the commission does), we are confronted here with a decision of the commission which ventures into the field of policymaking concerning the best and least-cost way for a utility to comply with the CAAA. While the standard of review remains the same (to wit: the "unlawful or unreasonable" standard specified in R.C. 4903.13), we nevertheless recognize that in reviewing such determinations, we are being called upon not only to review the lawfulness of the commission's order, but also to review its wisdom in reaching its conclusions. Because such a review could tend to also place this court in the policymaking arena, we continue our policy of not second-guessing the commission in its fundamental determinations which are not unlawful or unreasonable. We are cognizant of the fact that our decision in this case has significant implications concerning the continued viability of Ohio's high-sulfur coal mining industry, but our judgment is based strictly on the CAAA and the commission's prerogatives in approving a least-cost environmental compliance plan which satisfies the requirements of the federal law.

II

Ohio Power's environmental compliance plan was submitted to the commission for review and approval in the context of the overall AEP system-wide compliance plan. While we recognize that this was necessary for purposes of evaluating the Ohio Power plan, it is important to realize that only Ohio Power's plan for compliance with the CAAA is at issue in this case. The commission's order and the arguments of the parties, both for and against the commission's ultimate determination, are less than a model of clarity, but that may be driven by the fact that the information being reviewed, the federal and state laws and the reports, studies and expert testimony, is voluminous and very technical. Nevertheless, it is apparent to us what the commission sought to do in this case, and we find that the commission's order is neither unlawful nor unreasonable.

III

Pursuant to R.C. 4913.04(A), the commission was required to make a number of findings in approving Ohio Power's plan. The specific commission finding, around which the present controversy swirls, is that Ohio Power's plan constitutes a reasonable and least-cost strategy for compliance with the Phase I acid rain control requirements of the CAAA. R.C. 4913.04(A) provides, in pertinent part:

"[T]he public utilities commission shall issue an order approving a proposed environmental compliance plan submitted by an electric light company under section 4913.02 of the Revised Code, and the estimated costs of and schedule for implementing the plan, only if the commission finds that the plan is adequately documented and makes all of the following findings regarding the plan:

"* * *

"(2) The plan constitutes a reasonable and least-cost strategy for compliance with the applicable * * * [Phase I acid rain control requirements of the CAAA] that is consistent with providing reliable, efficient, and economical electric service. Least-cost shall be measured over the period of both the Phase I and Phase II acid rain control requirements under * * * [the CAAA]."

By far the most significant issue litigated at the commission level involved the question whether it would be more cost effective to fuel-switch or to install scrubbers at Ohio Power's Gavin plant. The Gavin power plant is the single largest emitter of sulfur dioxide in the entire AEP system and represents a significant portion of the AEP system capacity. For this reason, among others, the Phase I compliance action to be taken at Gavin was the cornerstone of the AEP system-wide acid rain compliance plan upon which Ohio Power's plan was based.

In a detailed and comprehensive decision, the commission determined that Ohio Power's plan to install scrubbers at Gavin was the least-cost alternative for Phase I compliance. Under the applicable standard of review, we will not reverse the commission's decision as to questions of fact where sufficient probative evidence is contained in the record to show that the commission's decision is not manifestly against the weight of the evidence and is not so clearly unsupported by the record as to show misapprehension, mistake, or willful disregard of duty. See MCI Telecommunications Corp. v. Pub. Util. Comm. (1988), 38 Ohio St.3d 266, 268, 527 N.E.2d 777, 780.

Ohio Power's case studies showed that on an eighteen-year net present value basis, AEP's revenue requirements under the plan to install scrubbers at Gavin (Case 2) was an estimated $121 million less than the estimated revenue requirements for the Gavin fuel-switch (Case 1) alternative. Further, if low-sulfur coal costs were to escalate more rapidly, and high-sulfur coal more slowly, than was assumed in Cases 1 and 2, the estimated revenue requirements under the Gavin-scrubber plan were shown to be $244 million less than the Gavin fuel-switch alternative (Case 1S compared to Case 2S). Moreover, when Ohio Power's plan was considered in light of the stipulation entered into in the electric fuel component proceeding (Case 2CS), installing scrubbers at Gavin was shown to be an even less costly compliance measure than had been projected in Case 2. This evidence and more contained in the record supports the commission's factual determination under R.C. 4913.04(A)(2) that Ohio Power's proposal to install scrubbers at Gavin was an integral part of a reasonable and least-cost plan for Phase I compliance.

Nevertheless, appellants contend that the evidence in this case establishes that had Ohio Power's plan also included a Phase I fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4, that plan would further reduce compliance costs for the AEP system. On this basis, appellants urge that the commission's finding under R.C. 4913.04(A)(2) was unlawful since the plan approved by the commission did not provide for a Phase I fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 and, thus, the plan did not constitute the least-cost compliance strategy. Our response to appellants' arguments is threefold.

First, R.C. 4913.04(A)(2) requires a finding that an environmental compliance plan constitutes a reasonable and least-cost strategy for compliance with the Phase I acid rain control requirements of the CAAA. The evidence in this case is in conflict as to the reasonableness of requiring a fuel-switch at Cardinal Unit 1 and Muskingum

Units 1-4 in Phase I. The evidence shows that such additional compliance strategies are unnecessary for Ohio Power, which will already be substantially overcomplying with the applicable federal mandates in Phase I. Further, a question remains as to whether a Phase I fuel-switch at these facilities would, in fact, be a least-cost strategy for Ohio Power. The commission chose not to disturb the company's decision to delay compliance action at these facilities. As in rate cases, it is not our job to question the wisdom of the commission on matters such as this, where the commission has made a determination on a fairly debatable issue within its expertise and understanding. See, generally, AT&T Communications of Ohio, Inc. v. Pub. Util. Comm. (1990), 51 Ohio St.3d 150, 154, 555 N.E.2d 288, 292-293.

Second, we are extremely skeptical of an interpretation of R.C. 4913.04(A)(2) that would make commission approval of an environmental compliance plan contingent upon the company's having proposed to undertake every cost-efficient compliance action possible, regardless whether such action is necessary for the company to achieve compliance with the CAAA. In our judgment, the question to be answered under R.C. 4913.04(A)(2) is whether the compliance measures chosen by the company are the least-cost measures to bring the company into Phase I compliance. For the commission or this court to interpret R.C. 4913.04(A)(2) as requiring disapproval of a plan that satisfies the minimum requirements of the federal law in a least-cost manner, on the basis that it may be more cost-efficient for the company to take additional compliance action during Phase I, would be to subject those affected by the CAAA to even more burdensome requirements than have already been exacted by virtue of the federal law. In the case at bar, the record is clear that Ohio Power will be able to achieve compliance with the applicable federal mandates by installing scrubbers at Gavin alone. As we have indicated, the commission's finding that installing scrubbers at Gavin is a reasonable and least-cost compliance strategy is a factual determination which we will not disturb, given the standard by which such a determination must be judged.

Third, and finally, even if we were to assume that the commission erred in approving the plan because of the Cardinal/Muskingum fuel-switch controversy, we would nevertheless find that appellants have not been prejudiced by the commission's decision. In its order, the commission apparently considered Ohio Power's proposal to delay the fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 as a "scheduling" issue involving implementation of the plan. The commission apparently sought to approve Ohio Power's plan to fuel-switch Cardinal Unit 1 and Muskingum Units 1-4, but to defer final judgment on the scheduling/timing of the fuel-switch at these facilities. In this regard, counsel for the commission has suggested that Ohio Power's plan to delay compliance action at Cardinal Unit 1 and Muskingum Units 1-4 may be considered by the commission in its two-year review of the plan under R.C. 4913.05. Counsel for the commission also suggests that since Ohio Power could achieve Phase I emission reductions by installing scrubbers at Gavin alone, the R.C. 4909.157(A) "prudence" protection associated with commission approval of an environmental compliance plan does not extend to Ohio Power's decision to delay a fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4.

In its brief, Ohio Power argues, among other things, that since a Phase I fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4 is unnecessary for Ohio Power to meet the Phase I requirements of the CAAA, such compliance measures were arguably beyond the proper scope of the commission's inquiry in this case. Thus, Ohio Power apparently agrees that the commission's approval of the plan did not extend any protections to Ohio Power with respect to the company's proposal to delay compliance action at Cardinal Unit 1 and Muskingum Units 1-4. Ohio Power's position on this issue was further clarified at oral argument, where Ohio Power conceded that it will be willing to do whatever the commission requests at the two-year review of the plan which is shown to be prudent and least-cost with respect to the implementation of compliance measures at Cardinal Unit 1 and Muskingum Units 1-4.

Under these circumstances, even if we were to conclude that Ohio Power's plan was not least-cost, we would nevertheless find that appellants have not been harmed by the commission's approval of the plan. At the R.C. 4913.05 review, appellants will be able to voice their concerns regarding the scheduling/implementation of the fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4. Additionally, we note that in its entry denying rehearing, the commission "strongly suggested" that Ohio Power prepare to fuel-switch Cardinal Unit 1 in Phase I while designating Muskingum Units 1-4 as transfer units. The commission has indicated, in no uncertain terms, that it intends to enforce compliance with its order to ensure cost-effective implementation of the plan. With mechanisms peculiar to and within its control, the commission will almost certainly be able to make its "suggestions" much more than that.

IV

Appellants also challenge the commission's finding that Ohio Power's plan was adequately documented. However, we find that the record does not support appellants' contentions. Although the plan may not have been documented to the degree appellants would have preferred, we have no quarrel with the commission in this regard. Appellants also contend that the commission erred in failing to address certain issues raised in their application for rehearing. However, on the basis of the record before us, we are unable to conclude that the commission's decision would have been any different had the arguments raised by appellants been addressed. Appellants also suggest that the commission's decision must be reversed if the stipulation at issue in Indus.

Energy Consumers of Ohio Power Co. v. Pub. Util. Comm. (1994), Ohio St.3d , N.E.2d , is found to be unlawful. However, in that case, we upheld the validity of the stipulation.

Appellant IEC further challenges the commission's decision, claiming that Ohio Power and/or the commission unlawfully modified the proposed plan. We find no support for this proposition in the record. Ohio Power's plan called for installing scrubbers at Gavin, switching to lower-sulfur coal at Muskingum Unit 5 and Kammer Units 1-3, and continuing to burn existing fuel supplies at Ohio Power's remaining Phase I affected units. The plan proposed by Ohio Power was based upon the AEP system-wide compliance strategy which included provisions for a Phase II fuel-switch at Cardinal Unit 1 and Muskingum Units 1-4. Throughout the entire proceeding, Ohio Power's compliance strategy remained unchanged. Thus, no modification occurred. Additionally, with regard to the commission's alleged modification of the plan, the commission specifically stated in its entry denying rehearing that Ohio Power's plan had been approved as filed. Furthermore, even if the commission did modify the plan by requiring a Phase I fuel-switch at Cardinal Unit 1, that is precisely what IEC has suggested would have resulted in a least-cost plan. Thus, IEC would not have been prejudiced by the alleged modification.

Finally, appellants raise a number of arguments concerning the constitutionality of Am.Sub.S.B. No. 143, 144 Ohio Laws, Part I, 817, the legislation which enacted, inter alia, R.C. Chapter 4913. Appellants claim that Am.Sub.S.B. No. 143, through its various provisions, creates a preference for Ohio high-sulfur coal, discriminates against out-of-state low-sulfur coal suppliers, and, thus, violates the Commerce Clause of the United States Constitution. However, we find that appellants lack standing to challenge the constitutionality of this legislation.

In Palazzi v. Estate of Gardner (1987), 32 Ohio St.3d 169, 512 N.E.2d 971, syllabus, this court held that:

"The constitutionality of a state statute may not be brought into question by one who is not within the class against whom the operation of the statute is alleged to have been unconstitutionally applied and who has not been injured by its alleged unconstitutional provision."

The class against whom Am.Sub.S.B. No. 143 is alleged to be unconstitutionally applied is out-of-state coal suppliers. Appellants are not members of that class. Moreover, appellants have failed to demonstrate, to our satisfaction, that they have been injured by the provisions of the legislation which are alleged to be unconstitutional. Insofar as appellants lack standing to challenge the constitutionality of Am.Sub.S.B. No. 143, it would be wholly inappropriate at this time to make any further comment on the issue.

V

For the foregoing reasons, we affirm the commission's order approving Ohio Power's environmental compliance plan.

Order affirmed.

Moyer, C.J., A.W. Sweeney, Resnick, F.E. Sweeney and Pfeifer, JJ., concur.

Fain, J., dissents.

Mike Fain, J., of the Second Appellate District, sitting for Wright, J.

FOOTNOTES:

1 "Environmental compliance plan" is defined in R.C. 4913.01(B) to mean "a plan developed by an electric light company to comply with the acid rain control requirements at all generating facilities owned by the company that are affected by the Phase I acid rain control requirements."

2 "Acid rain control requirements" is defined in R.C. 4913.01(D) to mean the Phase I acid rain control requirements of the CAAA.

3 R.C 4909.157(A) provides that after the commission has approved an environmental compliance plan under R.C. Chapter 4913, the commission cannot reconsider the approval of the plan or the appropriateness or prudence of any compliance measure contained therein, except as otherwise provided in R.C. 4913.05 or 4913.06. R.C. 4913.05 mandates that the commission must review a plan which has been approved under R.C. 4913.04 between two and two and one-half years after the approval, or earlier in the event of an extraordinary change of circumstances. R.C. 4913.06 permits an electric light company to seek review and approval of a modified plan. However, nothing in R.C. 4909.157(A) limits the commission's authority under R.C. Chapters 4901, 4903, 4905 or 4909 to examine the management policies and practices of an electric light company that is a public utility in implementing a compliance measure contained in an approved plan or to examine the costs incurred by the company for implementing any such compliance measure. R.C 4909.157(B). Nor do the provisions of R.C. 4909.157(A) limit the commission's authority under R.C. Chapters 4901, 4903, 4905 or 4909 to examine the company's fuel procurement policies and practices. R.C. 4909.157(C).

4 In that report, AEP developed a least-cost strategy for Phase I compliance for the AEP system. The AEP "system" includes electric utilities which service customers in parts of Ohio and other states. In formulating its least-cost compliance strategy, AEP determined the compliance options for each Phase I affected electric utility generating unit within the system and ranked those options in terms of cost effectiveness, i.e., cost per ton of sulfur dioxide removed. The options were then selected in order of increasing cost per ton until compliance was achieved. Specifically, compliance strategies with a cost effectiveness of less than four hundred dollars per ton were selected for implementation to meet the Phase I requirements of the CAAA, with the exception of Ohio Power's Cardinal Unit 1. The compliance measure deemed applicable to that unit (fuel-switching from high-sulfur coal to low-sulfur coal) was deferred until Phase II. The AEP report concluded that the least-cost compliance

strategy for the AEP system would include installation of scrubbers at Ohio Power's Gavin Units 1 and 2, a fuel-switch at Ohio Power's Muskingum Unit 5 from high-sulfur coal to low-sulfur coal, and a fuel-switch at Ohio Power's Kammer Units 1-3 from high-sulfur coal to moderate-sulfur coal.

5 According to the AEP report, the decision to delay compliance action at Cardinal Unit 1 was made because implementing a fuel-switch at that unit would be the highest-cost option for Ohio jurisdictional customers, when Ohio Power would already be overcomplying with the federal law on a "stand-alone" basis. Further, a fuel-switch at Cardinal Unit 1 would necessitate closure of a company-affiliated mine.

Fain, J., dissenting. The majority opinion is an admirably practical way of dealing with an admittedly difficult problem, but I cannot read R.C. 4913.04(A)(2) in the same way. That provision requires that a plan for complying with the federal Clean Air Act Amendments of 1990, in order to be approved by the Public Utilities Commission, must, among other requirements, constitute "a reasonable and least-cost strategy for compliance with the applicable acid rain control requirements that is consistent with providing reliable, efficient, and economical electric service." Once a plan has been approved, a utility's implementation of the plan is declared by statute to be a prudent management decision for rate-making purposes. R.C. 4909.157(A).

Although Ohio Power's plan called for switching from high-sulfur coal at several locations when Phase I of the federal Act begins in 1995, and also for using scrubbers at the Gavin locations at that time, the plan for several other locations called for no changes until Phase II, in 2000. Ohio Power has never sought to modify its plan.

There may have been conflicting evidence as to whether the alternative strategy of switching to low-sulfur coal or natural gas at the other locations (Cardinal Unit I and Muskingum Units 1-4) in 1995 would cost less than waiting until 2000 to do so, but the fact is that the commission found that the earlier fuel switch at those locations would cost less, and there is evidence in the record to support that finding.

In view of the commission's finding that a strategy of switching to low-sulfur fuels at the other locations in 1995, rather than waiting until 2000 to do so, would cost significantly less, I cannot conclude that the plan actually submitted by Ohio Power is a "reasonable and least-cost strategy" for compliance with applicable acid rain control requirements. It may lie within the universe of all "reasonable" strategies for compliance, but it is not "least-cost," and the requirement is in the conjunctive.

I would reverse the commission's approval of the plan submitted by Ohio Power, and remand this matter to the commission, which could, and should, encourage Ohio Power to modify its plan to provide for earlier fuel switches at

Cardinal Unit I and Muskingum Units 1-4.

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO 2010 JUL 23 PM 3:10

PUCO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

SUPPLEMENTAL DIRECT TESTIMONY OF
SCOTT E. ALBERTSON
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

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July 23, 2010

Attorneys for Vectren Energy Delivery of Ohio, Inc.

SUPPLEMENTAL DIRECT TESTIMONY OF SCOTT E. ALBERTSON

INTRODUCTION

Q. Please state your name and business address.

A. Scott E. Albertson
One Vectren Square
Evansville, Indiana 47708

Q. Are you the same Scott E. Albertson who previously filed direct testimony and exhibits in these cases?

A. Yes. I provided testimony and exhibits to support the derivation of the DRR charges, bill impacts and the DRR tariff sheet.

Q. What is the purpose of your supplemental direct testimony in these proceedings?

A. The purpose of my supplemental direct testimony is to address the changes in proposed DRR charges, along with associated bill impacts and a revised tariff sheet, reflecting the change in the DRR revenue requirement sponsored by VEDO witness Janice M. Barrett.

Q. What exhibits are attached to your supplemental direct testimony?

A. The following exhibits are attached to my supplemental testimony:

Exhibit No. SEA-S1, Pages 1 through 5 – DRR – Derivation of Charges;

Exhibit No. SEA-S2, Page 1 of 1 – DRR – Tariff Sheet; and

Exhibit No. SEA-S3, Page 1 of 1 – DRR – Annual Residential Customer

Bill Impact.

EXPLANATION OF CHANGES

Q. Please explain Exhibit No. SEA-S1.

A. Exhibit No. SEA-S1, Pages 1, 3, and 4 have been revised to reflect the modification of the DRR revenue requirement as discussed by VEDO witness Janice M. Barrett. The DRR revenue requirement is shown on Page 1 of 5, Line 8. The reduction to the DRR revenue requirement results in a slight reduction in dollars allocated to each rate schedule, but not the allocation factors themselves (as shown on Exhibit No. SEA-S1, Page 2 of 5). Although Page 2 does not change with this supplemental filing, it is included herein to avoid confusion.

Q. Does Exhibit No. SEA-S1 contain any other changes?

A. The allocation factors shown on Page 5 of 5 have been revised to reflect the DRR revenue requirement. The allocation of recoveries to specific months is a function of the dollars recovered volumetrically versus those recovered through a fixed charge per customer. Because the DRR revenue requirement is allocated differently for mains and service lines costs, when the revenue requirement for each is modified, the resulting recoveries, which are volume-dependent, and those which are customer-dependent, vary slightly. This drives a change in the monthly allocation factors shown on page 5. As explained in my direct testimony in these proceedings, this schedule is used as the basis for determining the recovery variance in future DRR filings.

Q. What is the resulting change in the monthly charge per residential customer?

A. The proposed DRR charge for residential customers has changed from \$0.66 per customer per month to \$0.65 per customer per month.

Q. What other changes have been made to your exhibits as a result of the new DRR revenue requirement?

A. Exhibit No. SEA-S2 is the proposed DRR tariff sheet reflecting the revised DRR charges. Exhibit No. SEA-S3 illustrates the associated annual residential bill impact, which has decreased from \$7.92 to \$7.80 per customer.

Q. Are there any other changes to your exhibits as a result of the new DRR revenue requirement?

A. No.

CONCLUSION

Q. Does this conclude your supplemental direct testimony?

A. Yes, it does.

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES

Line	Rate Schedule	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (d)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	$400,516	$1,846,016	$2,246,532	287,776	$0.65		
2	320/321/325	$152,374	$307,301	$459,676				
3	Group 1			$125,689 (e)	16,114	$0.65		
4	Group 2 & 3			$333,986 (e)			74,512,297	$0.00448
5	341	$30	$49	$79	2	$3.27		
6	345	$40,001	$9,517	$49,517			41,357,001	$0.00120
7	360	$58,542	$4,213	$62,755			53,763,391	$0.00117
8	Total (a)	$651,463	$2,167,095	$2,818,558				

(a) Revenue requirement from Exhibit No. JMB-S1
(b) Reflects revenue requirement multiplied by allocation factors found on Exhibit No. SEA-S1, Page 2
(c) Average customer count for CY 2009
(d) 2010 Budget Volumes
(e) From Exhibit No. SEA-S1, Page 3

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE ALLOCATION FACTORS

Line	Rate Schedule	Description	Mains Allocation Factors (a) (%)	Service Line Allocation Factors (b) (%)
1	310/311/315	Residential DSS/SCO/Transportation	61.480%	85.184%
2	320/321/325	General Service DSS/SCO/Transportation	23.390%	14.180%
3	341	Dual Fuel	0.005%	0.002%
4	345	*Large General Transportation*	6.140%	0.439%
5	360	Large Volume Transportation	8.986%	0.194%
6		Total	100.000%	100.000%

(a) Mains Allocation Factor as presented in Case No. 07-1080-GA-AIR
(b) Service Lines Allocation Factor as presented in Case No. 07-1080-GA-AIR

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ALLOCATION OF REVENUE REQUIREMENT - RATES 320, 321 AND 325

Line	Description	Amount		Source
1	Proposed DRR - Rate 310/311/315	$0.65	Per Month	Exhibit No. SEA-S1, Page 1
2	Proposed DRR - Rate 320/321/325 - Group 1	$0.65	Per Month	Line [1]
3	Customer Count - Group 1	16,114		Exhibit No. SEA-S1, Page 1
4	Revenue Requirement - Group 1 (1)	$125,689		Line [2] x Line [3] x 12
5	Revenue Requirement - Total 320/321/325	$459,675		Exhibit No. SEA-S1, Page 1
6	Revenue Requirement - Group 2 & 3 (1)	$333,986		Line [5] - Line [4]

Notes:
(1) to Exhibit No. SEA-S1, Page 1

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RATE SCHEDULE BILL IMPACTS

Line	Rate Schedule	(A) Present Revenue (a)	(B) Previous DRR Revenue Requirement	(C) Current DRR Revenue Requirement (c)	(D) Incremental DRR Revenue Requirement (C)-(B)	(E) % Increase (D)/(A)	
1	310/311	$173,803,267	$0	$1,576,246	$1,576,246	0.91%	(d)
2	315	$24,340,895	$0	$671,285	$671,285	2.76%	(b) (d)
3	320/321	$63,209,467	$0	$322,609	$322,609	0.51%	(d)
4	325	$7,096,433	$0	$137,066	$137,066	1.93%	(b) (d)
5	341	$20,339	$0	$79	$79	0.39%	
6	345	$7,584,911	$0	$49,517	$49,517	0.64%	(b) (e)
7	360	$6,593,932	$0	$62,755	$62,755	0.95%	(b) (e)
8	Total	$282,749,244	$0	$2,818,558	$2,818,558	1.00%	

(a) Twelve months ending December 31, 2009
(b) Does not include gas costs
(c) From Exhibit No. SEA-S1, Page 2
(d) Current revenues calculated as unit rate times Number of customers
(e) Present revenues include allocation of former Rate 330 revenues

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DETERMINATION OF APPROVED RECOVERIES
BY CALENDAR MONTH

Line	(A) Month	(B) Allocation Factor (1)	(C) Approved Recoveries (2)
1	September-10	7.44%	$209,719
2	October-10	7.94%	$223,786
3	November-10	8.61%	$242,644
4	December-10	9.52%	$268,230
5	Subtotal (To Second Annual DRR Filing)		$944,379
6	January-11	9.95%	$280,398
7	February-11	9.40%	$264,934
8	March-11	9.03%	$254,527
9	April-11	8.03%	$226,215
10	May-11	7.68%	$216,453
11	June-11	7.50%	$211,363
12	July-11	7.46%	$210,374
13	August-11	7.45%	$209,914
14	Subtotal (To Third Annual DRR Filing)		$1,874,179

(1) Based on monthly volumes / customer count (as applicable) as a percentage of annual, in 2010 Budget.
(2) Allocation Factor in Column B times total revenue requirement.

VECTREN ENERGY DELIVERY OF OHIO, INC.
Tariff for Gas Service
P.U.C.O. No. 3

Sheet No. 45
Fourth Revised Page 2 of 2
Cancels Third Revised Page 2 of 2

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$0.65	
320, 321 and 325 (Group 1)	$0.65	
320, 321 and 325 (Group 2 and 3)		$0.00448
341	$3.27	
345		$0.00120
360		$0.00117

Filed pursuant to the Finding and Order dated ________ in Case No. __________ of the Public Utilities Commission of Ohio.

Issued: _________ Issued by: Jerrold L. Ulrey, Vice President Effective: ________

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ANNUAL RESIDENTIAL CUSTOMER BILL IMPACT

Line		
1	Proposed Residential DRR Per Customer Per Month	$0.65
2	Months	12
3	Annual Bill Impact	$7.80

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Supplemental Direct Testimony of Scott E. Albertson* has been served by first class mail, postage prepaid, or hand-delivered, this 23rd day of July, 2010, to the following parties of record.

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	)	Case No. 10-595-GA-RDR

SUPPLEMENTAL DIRECT TESTIMONY OF
JANICE M. BARRETT
ON BEHALF OF
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July 23, 2010

Attorneys for Vectren Energy Delivery of Ohio, Inc.

SUPPLEMENTAL DIRECT TESTIMONY OF JANICE M. BARRETT

INTRODUCTION

Q. Please state your name and business address.

A. Janice M. Barrett. One Vectren Square, Evansville, Indiana 47708.

Q. Are you the same Janice M. Barrett who previously filed direct testimony in these cases?

A. Yes. In addition to direct testimony, I also sponsored eight (8) exhibits, which calculated and/or supported the revenue requirement for VEDO's Distribution Replacement Rider ("DRR").

Q. What is the purpose of your supplemental direct testimony in these proceedings?

A. The purpose of my supplemental direct testimony is to discuss the overall reduction of VEDO's DRR revenue requirement by $57,453. This minor reduction represents primarily an update of estimates to actual amounts for retirements and other minor corrections. VEDO has also included the amortization of post in service carrying costs, which was not in VEDO's original DRR filing. The revenue requirement adjustments are summarized on Exhibit No. JMB-S5.

Q. In addition to Exhibit No. JMB-S5, what exhibits are attached to your supplemental direct testimony?

A. The following exhibits are attached to my supplemental direct testimony as support for the revenue requirement reductions described on Exhibit No. JMB-S5:

Exhibit No. JMB-S1 - Summary of DRR Revenue Requirement

Exhibit No. JMB-S2 – Revenue Requirement for Main Replacement Program

Exhibit No. JMB-S2a – Annualized Property Tax Expense for Main Replacement Program

Exhibit No. JMB-S2b – Deferred Taxes on Liberalized Depreciation for Main Replacement Program

Exhibit No. JMB-S3 – Revenue Requirement for Service Line and Riser Replacement Programs

Exhibit No. JMB-S3a – Annualized Property Tax Expense for Service Line and Riser Replacement Programs

Exhibit No. JMB-S3b – Deferred Taxes on Liberalized Depreciation for Service Line and Riser Replacement Programs

Exhibit No. JMF-S6 – Incremental Service Line Responsibility Capital Costs

Q. **Was Exhibit No. JMB-4 impacted by the calculation of the revised DRR revenue requirement?**

A. No.

EXPLANATION OF EXHIBITS

Q. Please explain Exhibit No. JMB-S5.

A. Exhibit No. JMB-S5 summarizes the adjustments to the mains and service line revenue requirements on Exhibit Nos. JMB-S2 through JMB-S3b.

Q. Please explain Lines 2 - 5 of Exhibit No. JMB-S5.

A. VEDO is requesting an increase in the mains revenue requirement of $1,299 as reflected on Line 5. This increase is comprised of three items.

(1) Lines 2 and 3 include the increase in annualized depreciation and property tax expense associated with adjusting bare steel/cast iron replacement program ("Program") retirements from estimated to actual retirements, per the continuing property record, for retirements which were processed subsequent to the original filing.

(2) Line 3 also includes a reduction in property tax expense due to a change in the property tax rate from 8.76 percent, an estimate in the original filing, to 8.72 percent. 8.72 percent is VEDO's actual average property tax rate for 2009 taxes paid in 2010 or its most recent average property tax rate.

(3) Line 4 reflects the annual amortization of post in service carrying costs for the Program capital investments. The amortization period is consistent with the average service life approved in Case No. 04-0571-GA-AIR. This amortization was not reflected in the original filing.

Q. Please explain Lines 7 - 11 of Exhibit No. JMB-S5.

A. VEDO is requesting a decrease in the service lines revenue requirement of $58,752 as reflected on Line 11. This decrease is comprised of four items.

(1) VEDO has adjusted the incremental capital investment related to service line responsibility to reflect 2009 activity and corrected the accumulated depreciation for risers on Line 10, Exhibit No. JMB-S3. These adjustments increased accumulated depreciation for risers by $583 and reduced the service line rate base by $352,555, which provided for a reduction in the return on the DRR service line investment (Exhibit No. JMB-S5, Line 7) and a reduction in annualized depreciation expense (Exhibit No. JMB-S5, Line 8) of $18,544.

(2) Retirements were estimated in the original DRR filing. All retirements have been posted in the continuing property records and are $8,650 less than the original filing. This adjustment increased annualized depreciation expense by $455 and has been reflected on Line 8 of Exhibit No. JMB-S5.

(3) Line 9 includes a reduction in annualized property tax expense due to net decrease in rate base, related to rate base adjustments described in items (1) and (2) above, and a reduction in the average property tax rate from 8.76 percent, an estimate in the original filing, to 8.72 percent. 8.72 percent is VEDO's actual average property tax rate for 2009 taxes paid in 2010 or its most recent average property tax rate.

(4) Line 10 of Exhibit No. JMB-S5 reflects the annual amortization of post

in service carrying costs for the Program capital investment. The amortization period is consistent with the average service life approved in Case No. 04-0571-GA-AIR. This amortization was not reflected in the original filing.

Q. Please explain Exhibit No. JMF-S6.

A. In preparation for my supplemental direct testimony, VEDO witness Francis prepared corrected average service line replacement costs to be reflective of 2009 activity. This exhibit has been provided as support for the reduction in the service line rate base reflected on Exhibit No. JMB-S5, Line 7.

Q. Does this conclude your supplemental direct testimony?

A. Yes.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
SUMMARY OF DRR REVENUE REQUIREMENT

Line	Description	Amount	Reference
1	Mains Revenue Requirement	$ 651,463	Exhibit No. JMB-S2, Line 24
2	Service Lines Revenue Requirement	2,167,095	Exhibit No. JMB-S3, Line 28
3	**Annual DRR Revenue Requirement**	**$ 2,818,558**	**Line 1 + Line 2**

Exhibit No. JMB-S2
Page 1 of 1

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - MAINS

Line	Description		Amount	Reference
1	Return on Investment:			
2	Plant In-Service at December 31, 2009			
3	Additions - Main Replacements	$	7,062,973	
4	Original Cost - Retired Mains		(155,580)	
5	Total Plant In-Service	$	6,907,393	Line 3 + Line 4
6	Less: Accumulated Depreciation at December 31, 2009			
7	Depreciation Expense - Mains	$	(33,881)	
8	Cost of Removal - Mains		407,719	
9	Original Cost - Retired Mains		155,580	Line 4
10	Total Accumulated Depreciation	$	529,418	Sum of Lines 7 - 9
11	Post In-Service Carrying Costs (PISCC)	$	98,323	(3)
12	Net Deferred Tax Balance - PISCC	$	(34,413)	Line 11 x 35%
13	Deferred Taxes on Depreciation	$	(1,285,263)	Exhibit No. JMB-S2b, Line 14
14	Net Rate Base	$	6,215,458	Sum of Lines 5 and 10-13
15	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
16	**Annualized Return on Rate Base - Mains**	$	725,344	Line 14 * Line 15
17	Operations and Maintenance Expenses			
18	Annualized Property Tax Expense	$	150,110	Exhibit No. JMB-S2a, Line 15
19	Annualized Depreciation Expense	$	122,261	Line 5 x 1.77% [1]
20	Annualized PISCC Amortization Expense	$	1,513	Line 11 / 65 years [5]
21	Annualized Maintenance Adjustment	$	(347,765)	(2)
22	**Total Incremental Operating Expenses - Mains**	$	(73,881)	Sum of Lines 18-21
23	Variance	$	-	(4)
24	**Total Annual Revenue Requirement - Mains**	$	651,463	Line 16 + Line 22 + Line 23

(To Exhibit No. JMB-S1 and Exhibit No. SEA-S1, page 1 of 5)

(1) FERC Account 876 depreciation rate approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Main Leaks Maintenance Expense 2009 expense less Baseline expense attributable to Bare Steel/Cast Iron.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate.
(4) Not applicable as this represents Vectren Energy Delivery Ohio, Inc.'s first annual DRR filing.
(5) FERC Account 876 Average Service Life approved in Case No. 04-0571-GA-AIR.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUALIZED PROPERTY TAX EXPENSE - MAIN REPLACEMENTS

Line	Description	Amount	Reference
1	Mains Replacements - Book Value	$ 7,062,973	Exhibit No. JMB-S2, Line 3
2	% Good	98.3%	
3	Tax Value	$ 6,942,902	Line 1 x Line 2
4	x 25%	25.0%	
5	Taxable Value/Assessment	$ 1,735,726	Line 3 x Line 4
6	VEDO's Average 2010 Property Tax Rate	8.72%	
7	**Annual Property Tax Expense - Main Replacements**	**$ 151,356**	Line 5 x Line 6
8	Mains Retired - Book Value	$ (155,580)	Exhibit No. JMB-S2, Line 4
9	% Good	36.7%	
10	Tax Value	$ (57,098)	Line 8 x Line 9
11	x 25%	25.0%	
12	Taxable Value/Assessment	$ (14,275)	Line 10 x Line 11
13	VEDO's Average 2010 Property Tax Rate	8.72%	
14	**Annual Property Tax Reduction - Main Retirements**	**$ (1,246)**	Line 12 x Line 13
15	**Annualized Property Tax Expense - Mains**	**$ 150,110**	Line 7 + Line 14

(To Exhibit No. JMB-S2, Line 18)

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DEFERRED TAXES ON LIBERALIZED DEPRECIATION - MAINS

Line	Description		Amount	Reference
1	Plant in Service at December 31, 2009:			
2	Mains - Bare Steel/Cast Iron Replacements	$	7,062,973	Exhibit No. JMB-S2, Line 3
3	Book to Tax Basis Adjustment - Capitalized Interest	$	(3,810)	
4	Book to Tax Basis Adjustment - Bonus Depreciation		(3,529,582)	(Line 2+Line 3) * 50%
5	Total Income Tax MACRS Depreciation Base	$	3,529,581	Sum of Lines 2-4
6	Tax Depreciation:			
7	MACRS - 15 Year	$	176,479	Line 5 * 5%
8	Bonus Depreciation		3,529,582	Line 4
9	Total Tax Depreciation	$	3,706,061	Line 7 + Line 8
10	Book Depreciation:			
11	Mains	$	33,881	Exhibit No. JMB-S2, Line 7
12	Tax Depreciation in Excess of Book Depreciation	$	(3,672,180)	Line 11 - Line 9
13	Federal Deferred Taxes at 35%		35%	
14	**Deferred Tax Balance at December 31, 2009 - Mains**	**$**	**(1,285,263)**	Line 12 * Line 13

(To Exhibit No. JMB-S2, Line 13)

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - SERVICE LINES

Line	Description		Amount	Reference
1	**Return on Investment:**			
2	Plant In-Service at December 31, 2009			
3	Additions - Services Replacements (Bare Steel/Cast Iron)	$	4,187,450	
4	Additions - Services Replacements (Service Line Responsibility)		1,041,750	(6)
5	Additions - Risers		5,451,132	
6	Original Cost - Retired Services		(21,562)	
7	Total Plant In-Service	$	10,658,780	Sum of Lines 3 - 6
8	*Less: Accumulated Depreciation at December 31, 2009*			
9	Depreciation Expense - Services	$	(86,417)	
10	Depreciation Expense - Risers		(89,975)	
11	Cost of Removal - Services		318,526	
12	Original Cost - Retired		21,562	Line 6
13	Total Accumulated Depreciation	$	164,688	Sum of Lines 9 - 12
14	Post In-Service Carrying Costs (PISCC)	$	57,709	(3)
15	Net Deferred Tax Balance - PISCC	$	(20,198)	Line 14 x 35%
16	Deferred Taxes on Depreciation	$	(1,900,354)	Exhibit No. JMB-S3b, Line 19
17	Net Rate Base	$	8,960,623	Sum of Lines 7 and 13-16
18	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
19	**Annualized Return on Rate Base -Service Lines**	$	1,046,705	Line 17 * Line 18
20	**Operations and Maintenance Expenses**			
21	Annualized Property Tax Expense	$	226,702	Exhibit No. JMB-S3a, Line 32
22	Annualized Depreciation Expense	$	560,652	Line 7 x 5.26% (1)
23	Annualized PISCC Amortization Expense	$	1,012	Line 14 / 57 years (7)
24	Incremental O&M - Service Line Responsibility	$	71,725	(2)
25	Annualized Maintenance Adjustment	$	26,581	(5)
26	**Total Incremental Operating Expenses - Service Lines**	$	886,672	Sum of Lines 21-24
27	**Variance (4)**	$	232,718	Exhibit No. JMB-S4, Line 5
28	**Total Revenue Requirement - Service Lines**	$	2,167,095	Line 19 + Line 26 + Line 27

(To Exhibit No. JMB-S1 and Exhibit No. SEA-S1, page 1 of 8)

(1) FERC Account 680 depreciation rate approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-5.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate.
(4) Variance represents the initial DRR charge associated with deferred natural gas riser investigation and replacement expenses.
(5) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Service Leaks and Meter Maintenance Expense. 2009 expense less Baseline expense attributable to Bare Steel/Cast Iron.
(6) Support provided by VEDO Witness James Francis, Exhibit No. JMF-S6.
(7) FERC Account 680 Average Service Life approved in Case No. 04-0571-GA-AIR.

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUALIZED PROPERTY TAX EXPENSE - SERVICE LINES

Line	Description	Amount	Reference
1	Service Replacements - Book Value	$ 5,229,200	Exhibit No. JMB-S3, Line 3 & Line 4
2	% Good	98.3%	
3	Tax Value	$ 5,140,304	Line 1 x Line 2
4	x 25%	25.0%	
5	Taxable Value / Assessment	$ 1,285,076	Line 3 x Line 4
6	VEDO Average 2010 Property Tax Rate	8.72%	
7	Annual Property Tax Expense - Service Line Replacements	$ 112,059	Line 5 x Line 6
8	Services Retired - Book Value	$ (21,552)	Exhibit No. JMB-S3, Line 6
9	% Good	36.7%	
10	Tax Value	$ (7,910)	Line 8 x Line 9
11	x 25%	25.0%	
12	Taxable Value / Assessment	$ (1,978)	Line 10 x Line 11
13	VEDO Average 2010 Property Tax Rate	8.72%	
14	Annual Property Tax Reduction - Service Line Retirements	$ (172)	Line 12 x Line 13
15	Risers Replacements - Book Value	$ 5,451,132	Exhibit No. JMB-S3, Line 5
16	% Good	98.3%	
17	Tax Value	$ 5,358,463	Line 15 x Line 16
18	x 25%	25.0%	
19	Taxable Value / Assessment	$ 1,339,616	Line 17 x Line 18
20	VEDO Average 2010 Property Tax Rate	8.72%	
21	Annual Property Tax Expense - Natural Gas Risers	$ 116,816	Line 19 x Line 20
22	Annualized Property Tax Expense - Service Lines	$ 228,702	Line 7 + Line 14 + Line 21
		(To Exhibit No. JMB-S3, Line 21)	

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
DEFERRED TAXES ON LIBERALIZED DEPRECIATION - SERVICE LINES

Line	Description	Amount	Reference
1	Plant in Service at December 31, 2009:		
2	Service Additions - Bare Steel/Cast Iron Replacements	$ 4,187,450	Exhibit No. JMB-S3, Line 3
3	Service Additions - Service Line Ownership	1,041,750	Exhibit No. JMB-S3, Line 4
4	Additions of Natural Gas Risers	5,451,132	Exhibit No. JMB-S3, Line 5
5	Total Plant in Service	$ 10,680,332	
6	Book to Tax Basis Adjustment - Capitalized Interest	$ (2,287)	
7	Book to Tax Basis Adjustment - Bonus Depreciation	(5,339,023)	(Line 2+Line 3+Line 4+Line 6) * 50%
8	Total Income Tax MACRS Depreciation Base	$ 5,339,022	Sum Lines 5-8
9	Tax Depreciation:		
10	MACRS - 15 Year	$ 266,951	Line 8 * 5%
11	Bonus Depreciation	5,339,023	Line 8
12	Total Tax Depreciation	$ 5,605,974	Line 10 + Line 11
13	Book Depreciation:		
14	Services	$ 86,417	Exhibit No. JMB-S3, Line 9
15	Natural Gas Risers	89,975	Exhibit No. JMB-S3, Line 10
16	Total Book Depreciation	$ 176,392	Line 14 + Line 15
17	Tax Depreciation in Excess of Book Depreciation	$ (5,429,582)	Line 16 - Line 12
18	Federal Deferred Taxes at 35%	35%	
19	Deferred Tax Balance at December 31, 2009 - Service Lines	$ (1,900,354)	Line 17 * Line 18

(To Exhibit No. JMB-S3, Line 14)

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
SUMMARY OF SUPPLEMENTAL FILING REVENUE REQUIREMENT ADJUSTMENTS

Original Filed Revenue Requirement	$	2,876,011
Supplemental Revenue Requirement	$	2,818,558
Decrease in Revenue Requirement	$	(57,453)

Summary of Supplemental Filing Adjustments

Item Number				Δ Original Filing	Original Filing Reference	Supplemental Filing Reference	Reason
1	Mains Replacement Revenue Requirement						Retirements adjusted to actual per fixed asset records vs. estimate in original DRR filing. Retirements decreased by $18,472. Also, this change was offset by reduction in property tax rate to 8.72% from 8.76%.
2	Increase - Annualized Property Tax		$	(541)	Exhibit No. JMB-2, Line 18	Exhibit No. JMB-S2, Line 18	
3	Increase - Annualized Depreciation		$	327	Exhibit No. JMB-2, Line 19	Exhibit No. JMB-S2, Line 19	See reason for property tax expense adjustment (above).
4	Increase - Capture PISCC Amortization		$	1,513	Not Applicable	Exhibit No. JMB-S2, Line 20	Amortization was not included in VEDO's original DRR filing.
5	Total Increase in Mains RR	Sum Lines 2-4	$	1,299			
6	Service Line Replacement Revenue Requirement						
7	Decrease - Return		$	(33,108)	Exhibit No. JMB-3, Line 19	Exhibit No. JMB-S3, Line 19	Decreased service line responsibility rate base by $352,555 (Exhibit No. JMB-S3, Line 4), which also changed accumulated depreciation (Exhibit No. JMB-S3, Line) and deferred taxes (Exhibit No. JMB-S3, Line 16). Riser depreciation increased by $563. Rate base reduction is further supported by Exhibit No. JMF-S6.
8	Decrease - Annualized Depreciation		$	(16,089)	Exhibit No. JMB-3, Line 22	Exhibit No. JMB-S3, Line 22	Two reasons for the adjustment: (1) Decrease in service line responsibility incremental investment discussed above; (2) Decrease in retirements, $8,650 (i.e. change from estimate to actual retirements).
9	Decrease - Annualized Property Tax		$	(6,567)	Exhibit No. JMB-3, Line 21	Exhibit No. JMB-S3, Line 21	See reason for depreciation expense adjustment (above) and reduction in property tax rate to 8.72% from 8.76%
10	Increase - Capture PISCC Amortization		$	1,012	Not Applicable	Exhibit No. JMB-S3, Line 23	Amortization was not included in VEDO's original DRR filing.
11	Total Decrease in Service Line RR	Sum Lines 7-10	$	(58,752)			
12	Overall Decrease in DRR Rev. Requirement	Line 5 + Line 11	$	(57,453)			

Note: Supporting calculation schedules for property taxes (JMB-S3a) and deferred taxes (JMB-S3b) were also adjusted due to the changes noted above for Service Lines.

VEDO Incremental Service Line Responsibility Capital Costs

Service Line Replacements Costs	$ 3,313,867	$ 5,202,304	
Count of Service Lines Replaced	896	1,125	
Average Cost per Service Line Replaced	$ 3,699	$ 4,624	$ 926

Total Incremental Capital Investment for Service Line Replacement	$ 926	1,125	$ 1,041,750

(Exhibit No. JMB-S3)

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Supplemental Direct Testimony of Janice M. Barrett* has been served by first class mail, postage prepaid, or hand-delivered, this 23rd day of July, 2010, to the following parties of record.

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

SUPPLEMENTAL TESTIMONY OF
JAMES M. FRANCIS
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

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August 13, 2010

Attorney for Vectren Energy Delivery of Ohio, Inc.

SUPPLEMENTAL TESTIMONY OF JAMES M. FRANCIS

Q. **Please state your name, business address and occupation.**

A. My name is James M. Francis. My address is One Vectren Square, Evansville, Indiana, and I am Director of Engineering & Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), the parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company").

Q. **Are you the same James M. Francis that previously filed testimony in this case?**

A. Yes.

Q. **What is the purpose of your supplemental testimony in this proceeding?**

A. The purpose of my supplemental testimony is to discuss VEDO's commitment to, and to explain VEDO's current and planned investment in, the Accelerated Bare Steel and Cast Iron replacement program ("Program") approved in Case No. 07-1080-GA-AIR.

Q. **In Case No. 07-1080-GA-AIR, VEDO's estimate of the expected annual level of investment related to the Program was $16,875,000, over an expected 20-year period. Why was the actual 2009 and planned 2010 level of investment less than this amount?**

A. As described in my direct testimony, which was included as Attachment A of the DRR Application filed on April 30, 2010, VEDO, like many companies including other Vectren utilities, constrained its capital expenditures in response to credit market uncertainties during this period of time. As a result, the investment in the Program in 2009 and 2010 is less than the level originally estimated.

Q. How does VEDO now view the expected completion of the Program?

A. Presented in Case No. 07-1080-GA-AIR as a 20-year program, changes in individual year expenditures can be accommodated to allow VEDO to retire all bare steel and cast iron pipelines over the same 20-year period. Moreover, Program progress over time will impact the necessary level of investment in later years. VEDO remains committed to the Program, is making very good progress as evidenced by the 24.5 miles of pipe retired in 2009, and plans to continue to replace this older infrastructure on an accelerated basis as compared to historical replacement rates.

Q. Does VEDO intend to invest more in 2011 in the Program than was invested in each of 2009 and 2010?

A. Yes. Currently, VEDO has budgeted to spend roughly $17.0 million on the Program in 2011. VEDO estimates that this will allow it to retire approximately 34.5 miles of main in 2011.

Q. Does VEDO plan to "catch-up" the miles of main replaced that fell short of the original plan?

A. Yes. In any given year the miles of main replaced will vary due to a number of factors. The Company's experience thus far has been that more main can be retired than needs to be installed to complete projects within the Program and continue to provide reliable service to customers. Over the next 18 years, VEDO will either achieve this "catch-up" through the natural replacement progress and the specific project designs or through the investment of additional capital in the Program as necessary.

Q. Does this conclude your testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Supplemental Testimony of James M. Francis* has been served by electronic transmission, first class mail, postage prepaid, or hand-delivery, this 13th day of August 2010, to the following parties of record.

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Co. Ex. 5

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	)	Case No. 10-595-GA-RDR

SECOND SUPPLEMENTAL DIRECT TESTIMONY OF SCOTT E. ALBERTSON ON BEHALF OF VECTREN ENERGY DELIVERY OF OHIO, INC.

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August 18, 2010

Attorneys for Vectren Energy Delivery of Ohio, Inc.

{C31744: }

SECOND SUPPLEMENTAL DIRECT TESTIMONY OF SCOTT E. ALBERTSON

Q. Please state your name and business address.

A. Scott E. Albertson, One Vectren Square, Evansville, Indiana 47708.

Q. Are you the same Scott E. Albertson who previously filed direct and supplemental direct testimony and exhibits in these cases?

A. Yes. I provided testimony and exhibits to support the derivation of the Distribution Replacement Rider ("DRR") charges, bill impacts and the DRR tariff sheet.

Q. What is the purpose of your supplemental direct testimony in these proceedings?

A. The purpose of my second supplemental testimony is to support the Stipulation and Recommendation filed in these proceedings on August 18, 2010.

Q. Do you believe the Stipulation filed in these cases is the product of serious bargaining among knowledgeable parties?

A. Yes. This agreement is the product of an open process in which all parties were represented by able counsel and technical experts. Several negotiation discussions occurred. The Stipulation represents a comprehensive compromise of all recommendations raised by parties with diverse interests. All parties have either signed the Stipulation or opted to not oppose it. I believe that the Stipulation recommended for Commission adoption presents a fair and reasonable result.

Q. Does the Stipulation benefit ratepayers and promote the public interest?

A. Yes. The DRR was one provision in the Stipulation ("Rate Case Stipulation") approved by the Commission in its January 7, 2009, Opinion and Order in Case No. 07-1080-GA-AIR. In support of the Rate Case Stipulation, Staff witness Puican cited several factors to demonstrate that the terms and conditions of the Rate Case Stipulation benefit ratepayers and promote the public interest, among which are the following:

- The Stipulation establishes a distribution system replacement program to accelerate the replacement of aging distribution system and provides for reasonable oversight of the program.
- The Stipulation establishes a program to address the safety concerns of prone-to-fail risers and a schedule to replace these risers within a reasonable period of time.
- The Stipulation adopts a proposal for Vectren to assume ownership and repair responsibility of customer service lines.

These factors carry over to the Stipulation in these cases, as well. The DRR supports the programs and activities previously found by the Commission to be in the public interest and benefit ratepayers.

Q. Does the Stipulation violate any important regulatory principle?

A. No.

Q. Do you recommend that the Commission adopt the Stipulation?

A. Yes. I believe the Stipulation represents a fair and reasonable compromise of diverse interests and provides a fair result for customers.

Q. Does this conclude your second supplemental direct testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Second Supplemental Direct Testimony of Scott E. Albertson* has been served by electronic transmission, first class mail, postage prepaid, or hand-delivery, this 18th day of August 2010, to the following parties of record.

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Co Ex. 6

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

STATEMENT OF
STATUS OF ISSUE RESOLUTION

Gretchen J. Hummel (Trial Attorney)
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AUGUST 4, 2010

Attorney for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	)	Case No. 10-595-GA-RDR

STATEMENT OF
STATUS OF ISSUE RESOLUTION

On June 16, 2010, the Attorney Examiner issued an Entry in Case No. 10-595-GA-RDR in which he established, *inter alia*, a deadline of August 4, 2010, by which Vectren Energy Delivery of Ohio, Inc. ("VEDO"), is to file a statement informing the Commission whether the issues raised in the comments filed by the Staff and OCC on July 30, 2010 have been resolved.

VEDO, the Staff, and OCC have reviewed and discussed the issues raised in the comments. At this time, VEDO is in agreement in principle with the two recommendations made by the Staff on page 12 of its comments seeking consultation with Staff prior to filing VEDO's next DRR application and a reclassification of certain costs associated with meter move outs. Discussions about the issues raised by OCC suggest that some, and perhaps all, of OCC's issues may be able to be resolved.

VEDO intends to continue discussion with the Staff and OCC of the issues not yet resolved in the next few business days with the hope and intent of resolving all issues raised in these proceedings.

Respectfully submitted,

Gretchen J. Hummel (Trial Attorney)
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Attorney for Vectren Energy Delivery of Ohio, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Statement of Status of Issue Resolution* has been sent electronically, this 4th day of August, 2010 to the following parties of record.

Gretchen J. Hummel

Joseph Serio
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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

SECOND STATEMENT OF STATUS OF ISSUE RESOLUTION

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August 12, 2010

Attorney for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 10-595-GA-RDR

SECOND STATEMENT OF STATUS OF ISSUE RESOLUTION

On August 5, 2010, the Legal Director issued an Entry in Case No. 10-595-GA-RDR in response to a Motion for Extension in which he established, *inter alia*, a deadline of August 12, 2010, by which Vectren Energy Delivery of Ohio, Inc. ("VEDO") is to file a statement declaring that the issues in the case have been resolved and a stipulation will be filed or that the parties have failed to reach agreement on all issues.

As of the filing of this statement, VEDO is of the belief that the issues in this case have been resolved, and a stipulation will be filed. Counsel for the Office of the Ohio Consumers' Counsel ("OCC") has authorized VEDO to represent that OCC most likely will not sign the stipulation, but will not oppose it.

Respectfully submitted,

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Attorney for Vectren Energy Delivery of Ohio, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Second Statement of Status of Issue Resolution* has been sent electronically, this 12th day of August, 2010 to the following parties of record.

Gretchen J. Hummel

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