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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. To File Revised Tariffs Extending its Low Income Pilot Program.	))))	Case No. 10-1395-GA-ATA

REPLY COMMENTS OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

Gretchen J. Hummel (Trial Attorney)
McNEES WALLACE & NURICK LLC
21 East State Street, 17th Floor
Columbus, Ohio 43215
(614) 469-8000 (T)
(614) 469-4653 (F)
ghummel@mwncmh.com

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Attorney for Vectren Energy Delivery of Ohio, Inc.

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Pursuant to the Attorney Examiner's Entry dated November 8, 2010 ("November 8 Entry"), Vectren Energy Delivery of Ohio, Inc. ("VEDO") hereby submits its Reply Comments to the Comments filed by the Office of the Ohio Consumers' Counsel and the Edgemont Neighborhood Coalition (collectively, "OCC/ENC") regarding the October 29, 2010 Staff Report ("Staff Report") of VEDO's Low Income Pilot Program ("Pilot Program"). The participation of the Ohio Association of Community Action Agencies ("OACAA") in this case must be ignored; it failed to seek intervention by December 1, 2010, as required by the November 8 Entry, and therefore VEDO's Reply Comments herein do not address OACAA's comments.

VEDO's Pilot Program, initiated in the Commission's January 7, 2009 Opinion and Order in Case No. 07-1080-GA-AIR ("Rate Case Order"), was originally intended to expire on September 30, 2010. Having approved a straight fixed variable ("SFV") rate design in that case, the Commission established "...a pilot program available to a specified number of eligible customers, in order to provide incentives for low-income customers to conserve and to avoid penalizing low-income customers who wish to stay off of programs such as PIPP." Rate Case Order at 14. The Pilot Program, to be available for one year, would provide a $4.00 discount to the first 5,000 non-PIPP, low-usage customers determined to be at or below 175 percent of poverty level.[1] The Commission also provided that "[f]ollowing the end of the pilot program, the Commission will evaluate the program for its effectiveness in addressing our concerns relative to the impact on low-usage, low-income customers." *Id.* at 14. In order to achieve the goal established by the Commission to populate the Pilot Program with 5,000 low-income customers, VEDO automatically enrolled all active non-PIPP customers with income at or below 200% of poverty level who used less than 816 Ccf per year.[2]

This case to extend the Pilot Program until March 31, 2011 was filed by VEDO as a voluntary courtesy to the Commission and Staff in order to give the Staff additional time to review the Pilot Program without interruption of the discount to customers. The Commission approved VEDO's application for extension by Finding and Order dated September 29, 2010, in which it also ordered the Staff review contained in the Staff Report filed on October 29, 2010. In the Staff Report, the Staff concluded "...that the number of customers, including low-income customers that have experienced a bill increase as a result of the rate case has been greatly reduced," but made no recommendation with respect to any continued need for the Pilot Program. Staff Report at 2.

On December 1, 2010, OCC/ENC jointly filed comments in which they critiqued the Staff review and recommended that the Pilot Program be converted to a fuel fund.

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[1] The criteria were subsequently revised to apply to customers at 200 percent of poverty level with the acquiescence of OCC and the Ohio Partners for Affordable Energy and the approval of the Commission.

[2] The average annual usage of residential customers at the time of the rate case was 815 Ccf per year. "Low-usage" is defined as annual usage less than 816 Ccf per year.

VEDO's Reply Comments will be responsive to those filed by OCC/ENC on December 1, 2010. VEDO's failure to address any specific provision in the comments of OCC/ENC does not signify VEDO's agreement with that item or provision.

I. The Staff Report findings support the elimination of the Pilot Program.

OCC/ENC complain that the Staff Report is insufficient because it focused on commodity prices and failed to consider the level of Pilot Program enrollment; the impact of the SFV on VEDO's uncollectible account balances; and the Pilot Program participant disconnections. OCC/ENC Comments at 5. They offer no suggestions as to how any impact of the SFV rate design on uncollectible account balances could be measured or evaluated. They also criticize the Staff's review because it did not consider the number of disconnections and reconnections between June 2009 and May 2010. *Id.* at 5-6. Again, they offer no suggestions as to how any impact of the SFV rate design on disconnections/reconnections could be measured or evaluated.

The Staff Report compared pre-rate case bills at various consumption levels with current bills, and found that, largely due to the reduction in gas prices, the breakeven point for pre- and post-rate case bills has declined from approximately 80 Mcf to 30.35 Mcf per year. What this means, according to the Staff, is that the bills of all customers whose usage is at or above 30.35 Mcf per year are equal to or less than they were prior to the rate increase. The question, then, is how many customer bills are higher than before the rate increase, by how much, and what impact does the Pilot Program have on their bills? What the Staff Report actually demonstrates is the following:

1. The total annual bills for customers whose annual usage is more than 30.35 Mcf per year are less than pre-rate increase bills. That means that

the Pilot Program discount results in annual bills for non-PIPP, low-usage customers at this usage level, at current gas prices, that are from $48 (for those customers at the "breakeven" point) to $251 (for those customers using 70 Mcf per year) less than they were before the rate increase.

2. The total annual bills for customers who use 30 Mcf per year are only $1.80 higher than they were prior to the rate increase. That means that non-PIPP, low-usage customers at this usage level receiving the Pilot Program discount at current gas prices will pay about $46 less per year than they did before the rate increase.

3. The total annual bills for customers who use 20 Mcf per year are only $53 higher than they were prior to the rate increase. This means that non-PIPP, low-usage customers at this usage level receiving the Pilot Program discount at current gas prices will pay $5 more per year than they did before the rate increase.

4. The total annual bills for customers who use 10 Mcf per year are only $104 higher than they were prior to the rate increase. This means that non-PIPP, low-usage customers at this usage level receiving the Pilot Program discount at current gas prices will pay $56 more per year than they did before the rate increase.

Of the VEDO customers eligible for the Pilot Program discount, only 439 (approximately 9%) have an annual usage level of 30 Mcf or less. These are the customers whose total annual bill has increased since new rates were implemented (not counting the discount some of these customers are receiving). Staff Report at 1-2. This

Pilot Program should not operate to reduce the annual bills of thousands of customers to below pre-rate increase amounts at the expense of shareholders.

Having complained about the Staff's recognition of current gas prices in its evaluation, OCC/ENC then acknowledge that the gas prices are a major factor in the level of customer bills and assert that the potential for gas price increases establishes the need for the Pilot Program. OCC/ENC Comments at 5. OCC/ENC erroneously (and perhaps disingenuously) claim that the Staff's recognition of current gas prices disguises the effect of the SFV rate design on low-income/low-usage customers. To the contrary, from the empirical data contained in the Staff analysis, it seems obvious that gas prices have a significantly greater effect on customer bills than the design of distribution rates.

In sum, only 5.7% of all of VEDO's non-PIPP, HEAP customers have annual bills higher than those before the rate increase, even with the approval of the SFV rate design. The magnitude of the increase to the annual bills of customers who have seen such an increase ranges from negligible to very modest and clearly does not support continuation of the Pilot Program. Therefore, VEDO requests that the Pilot Program be eliminated at its current expiration date of March 31, 2011.

II. In the unlikely event that the PUCO seeks to continue the Pilot Program or, alternatively, establish a fuel fund, it must also authorize a corresponding cost recovery mechanism.

OCC/ENC ask that, if the Staff results are correct that the number of low-income customers experiencing a rate increase has been reduced, the Commission should order that VEDO's shareholders should be required to provide $240,000 to establish a fuel fund for low-income bill assistance payment. OCC/ENC Comments at 6.

First, it should be noted that the Commission has no statutory authority to require that shareholders contribute any funds for the Pilot Program, a fuel fund, or any cost of providing utility service. VEDO and its shareholders are entitled to compensation for prudently incurred operating costs and a fair rate of return on the value of the utility's used and useful property. See *Bluefield Water & Improvement Co. v. Public Serv. Comm'n.*, (1923) 262 U.S. 679, 690; *Ohio Edison Co. v. Public Utilities Comm'n.*, (1992) 63 Ohio St. 3d. 555, 564 ("investors are assured a fair and reasonable return on property that is determined to be used and useful, R.C. 4909.15(A)(2), plus the return of costs incurred in rendering the public service, R.C. 4909.15(A)(4)"). It is long-established that the Commission "exceed[s] its authority" when it engages in the "appropriation of [a utility's] property for public purposes" without permitting the utility to not only recover the costs of such property, but earn a reasonable and just return. See *Hocking Valley Rv. co. v. Public Utilities Comm'n.*, (1915) 92 Ohio St. 121, 126. Parenthetically, it should be noted that VEDO shareholders have voluntarily made significant contributions over the past few years for the benefits of customers. In addition to the approximately $350,000 shareholders will contribute to the Pilot Program through March 2011, they have already contributed nearly $2.4 million to a low-income weatherization program that benefited customers with income levels between 201% and 300% of poverty level as a result of stipulations approved in Case Nos. 05-1444-GA-UNC and 07-1080-GA-AIR.

OCC/ENC have offered no legal basis in support of their request that the Commission require the establishment of a fuel fund at shareholder expense. If the Commission seeks to either continue the Pilot Program beyond its current expiration

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date, or to establish a fuel fund to provide customer bill payment assistance, it must provide a corresponding cost recovery mechanism that recovers all costs, including administrative, of providing the program or establishing and administering the fund.

WHEREFORE, for the reasons discussed in these Reply Comments, VEDO requests that the Commission seek neither continuation of the Pilot Program beyond its current expiration date nor the establishment of a fuel fund absent the provision for recovery of all associated costs.

Respectfully submitted,

Gretchen J. Hummel (Trial Attorney)
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, Ohio 43215
(614) 469-8000 (T)
(614) 469-4653 (F)
ghummel@mwncmh.com

Attorney for Vectren Energy Delivery of Ohio, Inc.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Reply Comments of Vectren Energy Delivery of Ohio, Inc.* was served upon the following parties of record, by electronic service, hand-delivery or via regular mail, postage prepaid, this 15th day of December 2010.

Gretchen J. Hummel

Larry Sauer
Office of the Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215

Ellis Jacobs
Attorney at Law
Legal Aid Society of Dayton
333 West First Street, suite 500
Dayton, OH 45402

Phil Cole
Ohio Association of Community Action Agencies
50 West Broad Street, Suite 1616
Columbus, OH 43215

William Wright
Attorney General's Section
Public Utilities Commission of Ohio
180 East Broad Street, 6th Floor
Columbus, OH 43215

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