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FILE

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of the East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Adjust its Automated Meter Reading Cost Recovery Charge to Recover Costs Incurred in 2010. | ) ) ) ) ) ) | Case No. 10-2853-GA-RDR |

# STAFF COMMENTS
# AND RECOMMENDATIONS
# SUBMITTED ON BEHALF OF THE STAFF OF THE
# THE PUBLIC UTILITIES COMMISSION OF OHIO



March 30, 2011

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## INTRODUCTION

In accordance with the Public Utilities Commission of Ohio (Commission) Opinion and Order adopting the Stipulation and Recommendation filed in Case No. 07-829-GA-AIR et al., the Commission's Staff has conducted its investigation in the above-referenced matter and hereby submits its findings and recommendations in these comments to the Commission.

These comments were prepared by the Commission's Utilities Department in conjunction with the Service Monitoring and Enforcement Department. Included are findings and recommendations resulting from financial reviews of additions to plant-in-service and The East Ohio Gas Company d/b/a Dominion East Ohio's (DEO or Company) proposed revenue requirement and other matters related to its program to install automated meter reading (AMR) equipment on customer meters throughout its service area and associated AMR Cost Recovery Charge.

Pursuant to the Attorney Examiner's Entry dated March 3, 2011, copies of these comments have been filed with the Commission's Docketing Division.

These comments contain the results of the Staff's investigation, and do not purport to reflect the views of the Commission, nor is the Commission bound in any manner by the representations and/or recommendations set forth herein.

## BACKGROUND

DEO is an Ohio corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western and southeast Ohio communities.

In its October 15, 2008 Opinion and Order adopting the Stipulation and Recommendation (2007 Stipulation) filed by the parties, the Commission authorized DEO to establish an automated adjustment mechanism to recover the costs associated with an Automated Meter Reading (AMR) program.[1] The recovery mechanism in the form of an annual rider is designed to permit the Company to recover its annual costs to install AMR equipment on each of the nearly 1.3 million meters in its system over a five-year period. AMR equipment facilitates billing accuracy and customer convenience by enabling DEO to remotely read customers' meters which contributes to monthly meter reads. This program lessens the need for estimated meter reads and for scheduling

[1] *In re DEO*, Case No. 07-829-GA-AIR et al. (Opinion and Order) (October 15, 2008).

appointments to read inside meters. DEO plans to substantially complete the AMR installations by the end of 2011.

The 2007 Stipulation established a process that called for annual filings in support of increases to the AMR Cost Recovery Charge. The process involves a pre-filing notice being filed in November of each year. The filing must contain schedules with nine months of actual and three months of projected cost and related data in support of the rider increase. Also, a date certain for property valuation of December 31st of the applicable year must be included in the filing. By February 28th of the following year, the Company must then file an application updating the data provided to include a full year of actual data. The process then provides that unless the Staff finds DEO's filing to be unjust or unreasonable or if any other party files an objection that is not resolved by DEO, then the Staff will recommend Commission approval of the Company's Application. If approved by the Commission, the resulting increase to the AMR rider will take effect with the first billing cycle following the Commission order.

On March 3, 2011, the Attorney Examiner issued an Entry granting motions to intervene by the Office of the Ohio Consumers Counsel (OCC) and Ohio Partners for Affordable Energy (OPAE) and establishing a procedural schedule for this case as follows:

(a) March 30, 2011 – Deadline for filing of motions to intervene.

(b) March 30, 2011 – Deadline for Staff and interveners to file comments on the application.

(c) April 6, 2011 – Deadline for DEO to file a statement, informing the Commission whether the issues raised in the comments have been resolved.

(d) April 7, 2011 – Deadline for expert testimony by all parties and Staff.

(e) April 8, 2011 – Deadline for filing any stipulation resolving some or all of the issues raised.

(f) April 11, 2011 – Hearing date if some or all issues raised in the comments are not resolved.

## 2010 IMPLEMENTATION PROGRESS

The year 2010 was the fourth year of DEO's five-year AMR program. During 2010, DEO installed 257,020 AMR devices. Table 1 below lists the number of AMRs that DEO installed during each of the years 2006[2] through 2010. This table indicates that by the end of 2010 DEO had installed AMRs on 999,741 meters, which constitutes 78 percent of its 1,275,033 total customer-premise meter population.

**Table 1 - DEO AMR Installations**

| Year | Annual | Cumulative | % of Total Meters |
|---|---|---|---|
| 2006 | 524 | | |
| 2007 | 131,480 | 132,004 | 10% |
| 2008 | 278,582 | 410,586 | 32% |
| 2009 | 332,135 | 742,721 | 58% |
| 2010 | 257,020 | 999,741 | 78% |

[2] The AMRs that DEO installed during 2006 were not charged to the AMR Rider, which did not begin until 2007.

## COMPANY APPLICATION AND PROPOSED RECOVERY

In accordance with the application process outlined above, on November 30, 2010, DEO pre-filed notice in this case that included preliminary schedules containing nine months of actual and three months of projected cost and related data associated with installation of the AMRs in 2010. On February 28, 2011, DEO filed its Application that updated the schedules that were pre-filed to include a full year of actual data. The Application and supporting schedules propose an annualized revenue requirement of $9,248,582, which when allocated to customers results in a proposed rider rate of $0.64/month.

The Application also includes a calculation of restated 2009 call center costs compared to a 2007 baseline of call center costs in compliance with the Commission's Opinion and Order in Case No. 09-1875-GA-RDR. In its Opinion and Order in that case, the Commission directed DEO to remove six specific items that contributed to an increase in the 2009 call center costs and then compare the resultant amount against the 2007 baseline of call center costs. If there are any savings, the Commission directed DEO to include the savings plus 6.5% carrying costs in this year's Application. The Commission further directed that DEO should not include the six items or any other cost increases unrelated to installation of the AMRs in future calculations of call center savings.

Lastly, pursuant to the Commission's Opinion and Order in Case No. 09-1875-GA-RDR, DEO's Application also includes an AMR Plan detailing the steps and measures that the Company will take to install AMR devices on the remaining meters for active accounts by the end of 2011. In its Opinion and Order, the Commission directed that in its filing this year DEO should "demonstrate how it will achieve the installation of AMR devices on the remainder of its meters by the end of 2011, while deploying the devices in a manner that will maximize savings by allowing rerouting at the earliest possible time."

## SUMMARY OF STAFF'S *INVESTIGATION*

The overall purpose of the Staff's investigation was to determine if the Company's filed exhibits justify the reasonableness of the revenue requirement used as a basis for the proposed increase to the AMR Cost Recovery Charge. The Staff reviewed the Company's Application, schedules, and related documentation and traced it to supporting work papers and to source data. As part of its review, the Staff issued data requests, conducted investigative interviews, and performed independent analyses when necessary. When investigating the Company's operating expenses, the Staff reviewed expenses associated with depreciation, amortization of post in-service carrying charges, property taxes, and reduction in operation and maintenance expenses. For rate base, the Staff verified the existence and the used and useful nature of plant additions through physical inspections and tested the Company's plant accounting system to determine if the information on AMR assets contained in the Company's plant ledgers and supporting continuing property records represented a reliable source of original cost data.

## STAFF'S COMMENTS AND RECOMMENDED ADJUSTMENTS

Based upon its investigation, the Staff makes the following comments and recommended adjustments by topic:

**AMR Installations –**

Table 2 below summarizes the AMR installation status of DEO's meters as of December 31, 2010, and indicates that 243,783 of DEO's active meters still need to have an AMR installed. Since this remainder is well below the number of AMRs that DEO installed during any of the last three years, it would appear that DEO should be able to install AMRs on all of these remaining meters during 2011, the final year of DEO's AMR program.

| **Table 2 - AMR Status as of December 31, 2010** | |
|---|---|
| Total DEO meter population | 1,275,033 |
| AMRs installed to date | 999,741 |
| Meter remaining that do not have an AMR | 275,292 |
| Inactive meters to be removed (No AMR needed) | 31,509 |
| Meters that still need to have an AMR installed | 243,783 |
| - Meters accessible without an appointment | 141,272 |
| - Meters requiring an appointment for access | 102,511 |

The Staff believes the critical path to achieving this goal is gaining access to the 102,511 inside and other hard-to-access meters that require an appointment to be arranged with the customer. This process is time consuming because it involves a series of attempted contacts and notices that may span a ninety-day period. If the customer does not respond to any of the notices, DEO can disconnect gas service until the customer arranges access for DEO to install the AMR. DEO is prepared to disconnect service in such situations, and estimates that about 5,000 customers may need to be disconnected to gain such access. DEO has a policy, however, not to implement such disconnections during cold weather. Although Staff supports this policy, not making such cold-weather disconnections has the effect of shortening the time period available for installing AMRs on inside meters. Given this situation, if inside meters are not addressed until cold weather arrives and customers do not allow access, then DEO may not have AMRs installed on all inside and other hard-to-access meters by the end of 2011. To minimize such an occurrence, Staff recommends that DEO begin implementing its current meter-access procedures to install AMRs on its inside (and other hard-to-access meters) well before the onset of cold weather.

**Plant Additions (Schedule 2) –**

- The amount of AMR plant additions charged to the "ERT Purchases"[3] account should be reduced by $8,326,833 to exclude AMR inventory in excess of 100,000 units, the quantity of inventory DEO agreed was reasonable per the stipulation approved in Case No. 09-38-GA-UNC. Although DEO voluntarily excluded its 2009 excess inventory from the AMR Rider in Case No. 09-1875-GA-UNC, it made no such exclusion in its Rider Application for 2010. DEO's rationale for including the excess inventory was that the Company had contracted with its AMR supplier to receive a price discount on condition that DEO purchased, before December 31, 2010, all the AMRs needed to complete its five-year program.

[3] "ERT" stands for "encoder-receive transmitter" and is another term DEO uses for an AMR device. The "ERT Purchases" account is an internal account that DEO uses to record the costs associated with purchasing AMR/ERT devices.

DEO estimates that this arrangement has resulted in savings of $793,890, which is already reflected in the costs as adjusted for excess inventory.

- AMR plant additions charged to the "ERT Purchases" account should be increased by $81,527.52 to correct a duplicate credit (for AMRs installed to replace other AMRs) that DEO recorded in error.
- AMR plant additions charged to the "In House Labor – CCS IT"[4] account should be reduced by $952.19 to correct a duplicate charge for Service Company Information Technology labor (relating to meter-reading route restructuring) that DEO recorded in error.

## CONCLUSIONS AND RECOMMENDATIONS

The net effect of the Staff recommended adjustments is a reduction of the Company's proposed revenue requirement from $9,248,582 to 8,252,691. When allocated to DEO's customers, this results in a reduction of the AMR Cost Recovery Charge from a proposed monthly charge of $0.64 to $0.57.

Subject to the Staff's adjustments and recommendations, the Staff supports a Commission finding that the DEO's proposed revenue requirement and customer allocations are just and reasonable and support the proposed increase to the AMR Cost

[4] The "CCS IT" account is an account that DEO uses to record its internal information/technology labor costs associated with its CCS customer billing system.

Recovery Charge. And, with adoption of the Staff's recommended adjustments, the Staff recommends that the Commission approve DEO's Application in this case.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Staff Comments and Recommendations** was served via electronic mail to the following parties of record on March 30, 2011.

John H. Jones

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Assistant Section Chief

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