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BEFORE

FILE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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 : Case No. 11-5843-GA-RDR  
Automated Meter Reading Cost Recovery :  
Charge and Related Matters. :

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

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## **BEFORE**

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## **COMMENTS**

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

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#### **I. 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 The East Ohio Gas Company d/b/a Dominion East Ohio's (DEO or Company) proposed plant-in-service additions, revenue requirement, and other matters related to its program to install automated meter reading (AMR) equipment on customer meters throughout its service area and the associated AMR Cost Recovery Charge.

Pursuant to the Attorney Examiner's Entry dated March 5, 2012, 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.

## **II. 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 in Case No. 07-829-GA-RDR (2008 Rate Case 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.<sup>1</sup> 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 appointments to read inside meters. DEO's original AMR plan called for it to complete the AMR installations by the end of 2011.

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

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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 another 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.

In accordance with the application process, on November 30, 2011, DEO pre-filed a 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 AMRs in 2011. On February 28, 2012, DEO filed its Application that updated the schedules that were pre-filed to include a full year of actual data.

On March 5, 2012, 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. On March 30, 2011, the Attorney Examiner granted a motion for a one-week extension of the original procedural schedule and set a new procedural schedule as follows:

- (a) April 6, 2012 – Deadline for filing of motions to intervene.
- (b) April 6, 2012 – Deadline for Staff and interveners to file comments on the application.
- (c) April 13, 2012 – Deadline for DEO to file a statement, informing the Commission whether the issues raised in the comments have been resolved.
- (d) April 17, 2012 – Deadline for expert testimony by all parties and Staff.
- (e) April 18, 2012 – Deadline for filing any stipulation resolving some or all of the issues raised by the parties.
- (f) April 18, 2012 – Hearing date if some or all issues raised in the comments are not resolved.

### **III. DEO'S APPLICATION AND IMPLEMENTATION PROGRESS**

The fifth year of DEO's five-year AMR installation program ended on December 31, 2011, and the Company has completed installation of AMR devices on nearly all of the active meters in its service area. During 2011, the Company reports that it installed 243,617 AMR devices, thus bringing its total AMR installations to 1,243,358 meters, which constitutes 98 percent of its 1,267,960 total customer-premise meter population and 99 percent of its active meters. Table 1 below shows the Company's historical AMR installation progress.

<b>Table 1 - DEO AMR Installations</b>			
<b>Year</b>	<b>Annual</b>	<b>Cumulative</b>	<b>% of Total Meters</b>
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%
2011	243,617	1,243,358	98%

For recovery of costs for 2011 AMR installations, the Company's Application and supporting schedules propose an annualized revenue requirement of \$7,733,716, which when allocated to customers results in a proposed rider rate of \$0.54/month. The Company's proposed rate represents a \$0.03/month reduction from the current rate of \$0.57/month. The rate reduction is largely a result of a reduction of meter reading costs that have already been built into the Company's current base rates.

#### **IV. 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 AMR Cost Recovery Charge. The Staff reviewed the Company's Application, schedules, and related documentation and traced the data contained therein to supporting work papers and to source data. As part of its review, the Staff issued data requests, con-

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- ducted 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.

## **V. STAFF'S COMMENTS AND RECOMMENDED ADJUSTMENTS**

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

- a. The Commission should require DEO to file testimony to support future applications to modify the AMR Cost Recovery Charge.**

DEO bears the burden of proof in this case to show that the rates that will be charged under the AMR Cost Recovery Charge are just and reasonable.<sup>2</sup> However, like last year, the Company did not file testimony to support its Application in this case. The Staff believes that the natural gas companies should file detailed testimony in their infrastructure replacement and AMR installation rider applications that, at a minimum, fully describes their application and accompanying schedules, their implementation pro-

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<sup>2</sup> Ohio Rev. Code Ann. § 4909.18 (West 2012).



gress, and addresses any policy questions and issues. Generally, the gas companies (including DEO) have filed testimony along with their infrastructure rider applications. For some reason, however, DEO did not file testimony in this case. The Staff recommends that the Commission direct DEO to file testimony to support its application in future AMR Cost Recovery Charge filings.

**b. The cost of AMR devices that were not installed prior to December 31, 2011 should be removed from the revenue requirement calculation.**

As noted above, the 2008 Rate Case Order authorized DEO to implement its AMR Program over a five-year period and to seek recovery of each year's costs via an application to modify the AMR Cost Recovery Charge by February 28<sup>th</sup> of the subsequent year. DEO's AMR Installation Program commenced on January 1, 2007, therefore the final date for AMR device installations under the Program was December 31, 2011. DEO's Application in this case, however, includes the cost for 9,530 AMR devices that it did not install in 2011.

In response to Staff Data Request (DR) No. 11, the Company indicated that it removed approximately 82,000 AMR devices that it had been maintaining in its inventory. However, it retained 9,530 AMR devices in inventory so that it could install them on the remaining active meters in its system that do not yet have an AMR device once it can access the customers' premises.<sup>3</sup> The Staff believes that the costs for these AMR devices are improperly included in DEO's revenue requirement calculation in this case

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<sup>3</sup> DEO Response to Staff Data Request No. 11, Question 2, at 1 (March 7, 2001).

and should be removed. DEO has not requested authority and the Commission has not granted DEO the authority to include the cost of AMR devices to be held in inventory for installation at a date beyond the original five-year AMR installation program authorization or to include the future installation costs (e.g., capitalized labor costs). The Staff would not necessarily object to DEO requesting or the Commission granting such authority, but DEO has not made such a request nor has the Commission granted a request. Therefore, the cost of AMR devices that are being held for future installation should be removed from the revenue requirement in this case.

The Staff recommends subtracting \$375,200 from the cumulative plant in-service amount shown on Line 5 of the Company's revenue requirement calculation on Schedule 1 of its Application. The Staff derived the \$375,200 adjustment by increasing the number of AMR devices being removed from inventory on a Company supplied spreadsheet by the 9,530 devices that the Company proposed to retain in inventory. This adjustment was then allowed to flow through the Company's revenue requirement model which resulted in the Staff recommended \$375,200 reduction. When allocated to customers, the Staff's adjustment results in a \$0.01 reduction to DEO's proposed AMR Cost Recovery Charge from \$0.54/customer/month to \$0.53/customer/month. The Staff's adjustments are shown as modifications to Company-supplied schedules and are attached as Staff Exhibit 1.

**c. The Commission should direct DEO to modify its O&M savings calculation in order to comply with the Commission's Opinion & Order in Case No. 09-1875-GA-RDR.**

A finding in the Commission's Order in Case No. 09-1875-GA-RDR directed that DEO "... should be installing the AMR devices such that savings will be maximized and rerouting<sup>4</sup> will be made possible in all of the communities at the earliest possible time."<sup>5</sup>

The Commission went on to state that:

"The Commission anticipates that, by the end of 2011, it will be possible to reroute nearly all of DEO's communities. To that end, the Commission finds that, in its 2011 filing, DEO should demonstrate how it will achieve the installation of the 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."<sup>6</sup>

In response to Staff Data Request No. 7, DEO reports that it has completed installation of AMR devices on more than 99% of the all active meters in its system. It notes that each of its 11 Local Offices have reached 95 to 100% completion of AMR installations.<sup>7</sup> And, it states that "[w]hen all re-routing is complete, DEO will have reduced the number of meter reading routes since 2007 from 2,850 to 254. At the conclusion of 2011, there were 36 employees in the meter reading cost center, down from 116 at

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<sup>4</sup> "Rerouting" is a process where a vehicle drives consolidated meter reading routes to collect monthly meter readings as opposed to numerous meter readers walking much smaller routes on monthly or bi-monthly basis.

<sup>5</sup> *In the Matter of the Application of The Dominion East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Automated Meter Reading Cost-Recovery Charge and Related Matters*, Case No. 09-1875-GA-RDR (Opinion and Order at 7) (May 5, 2010).

<sup>6</sup> *Id.*

<sup>7</sup> Response to Staff Data Request No. 7 at 2, Ex. B.

the start of the AMR installation program.”<sup>8</sup> Lastly, the Company reports that the O&M savings generated by its progress is \$3,511,695 which is shown as a “Reduction in Meter Reading Expense” in the revenue requirement calculation on Schedule 1 of the Company’s Application.

Despite its progress, however, DEO also reports that “[e]ight of 11 local shops have been through the initial re-route process, with the remaining three shops scheduled for the 1<sup>st</sup> and 2<sup>nd</sup> quarters 2012.”<sup>9</sup> The Staff believes that by failing to reroute all of its local shops by the end of 2011, the Company failed to comply with the Commission’s Order in the 09-1875-GA-RDR case and is delaying O&M savings that would otherwise further reduce the AMR Cost Recovery Charge that customers will pay. Since inception of the AMR Program and in litigated cases on this topic, the Company has maintained that it must obtain a “critical mass” of AMR installations in an area in order to reroute the area for drive-by collection of meter readings.<sup>10</sup> Recently, the Company defined this

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<sup>8</sup> Response to Staff Data Request No. 7 at 4, Ex. B.

<sup>9</sup> *Id.*

<sup>10</sup> See e.g., *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading and for Certain Accounting Treatment*, Case No. 06-1453-GA-UNC (DEO’s Response to Comments of Office of the Ohio Consumers’ Counsel at 7) (April 9, 2007); and *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Automated Meter Reading Cost-Recovery Charge and Related Matters*, Case No. 09-1875-GA-RDR (Direct Testimony of Vicki H. Friscie at 9) (April 5, 2010); and *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Automated Meter Reading Cost-Recovery Charge and Related Matters*, Case No. 09-1875-GA-RDR (Cross Examination of Testimony of Vicki H. Friscie) (April 9, 2010 Hearing, Tr. 10, 19).

“critical mass” as 95% installations in an area.<sup>11</sup> The OCC argued in previous AMR cases that meter reading savings were insufficient given the level of installations that the Company had achieved. The Company has always countered OCC’s argument by claiming that full savings would not be realized until the latter stages of the implementation process and “critical mass” was reached. The Staff largely sat on the sidelines during these arguments, primarily because it accepted the Company’s assertion that full savings would be realized at a later time. Based upon the current status of the Company’s AMR program, and especially considering the Commission’s Order in the 09-1875 case, the Staff believes that time has come.

AMR devices are installed on more than 99% of all active meters and all 11 Local Shops are achieving 95% or more installation percentage. Based upon the Company’s definition of “critical mass”, the Staff believes that “critical mass” was reached in 2011 and, thus, full O&M savings should be passed on to customers now. Absent some reasonable explanation from the Company regarding why it was unable to maximize O&M savings for customers, Staff sees no reason why these savings should be delayed for another year. In Staff’s opinion, any further delay of the O&M savings would be inconsistent with the intent of the Commission’s Order in the Case No. 09-1875 Order and unfair to ratepayers who have been funding the AMR Program.

It is important to remember that when DEO was seeking authority to implement the AMR Program during the 2007 Rate Case, it projected that the program would lead to

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<sup>11</sup> *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 2009*, Case No. 10-2853-GA-RDR (Application Exhibit B at 4) (February 28, 2011).

\$6 million in O&M savings for ratepayers by the final year of installations.<sup>12</sup> Staff agreed to the implementation of the AMR Program and agreed that it was fair to ask ratepayers to pay for the cost of the program because, at the end of the day, ratepayers would eventually benefit from the projected savings. However, now in 2012 at the end of the five-year AMR device deployment, these projected savings never fully materialized. It is now only fair to give ratepayers the full benefit of the program that they have been funding for the past four years. The Staff believes that DEO has not “deployed the AMR devices in a manner that will maximize savings by allowing rerouting at the earliest possible time” as directed by the Commission and that, as a result, its proposed O&M savings in this case are inadequate.

To address this inadequacy, the Staff recommends that the Commission direct DEO to recalculate its O&M savings as if it had fully complied with the Commission’s 09-1875 Order, had fully rerouted all of its Local Shops, and was remotely reading all active meters via drive-by collection the end of 2011. The Staff would further recommend that the Staff and the intervening parties in this case have an opportunity to review, issue data requests/discovery (if necessary), and comment on DEO’s recalculation prior to it being adopted. Lastly, the Staff recommends that the Commission direct DEO to move expeditiously towards performing its recalculation, responding to data requests/discovery, etc. in order to allow time for a hearing in this case (should one be

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<sup>12</sup>

*In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading Deployment Through an Automatic Adjustment Clause, and for Certain Accounting Treatment, Case No. 07-0829-GA-AIR (Response to Staff Data Request No. 2, Question 12) (November 1, 2007).*

necessary) while still allowing for the new AMR Recovery Charge to be implemented by the first billing cycle in May of 2012. The process for reviewing and approving DEO's recalculation of the O&M savings should move quickly because, as proposed, DEO's Application will result in a reduction to the AMR Cost Recovery Charge and the Staff's recommendations will only add to the reduction. Customers should benefit from any reductions as soon as practicable.

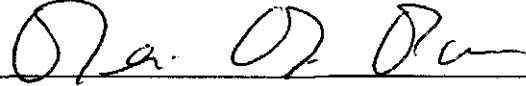
## **VI. CONCLUSIONS AND RECOMMENDATIONS**

The Staff believes that the Staff recommended adjustments to DEO's Application, proposed revenue requirement, and customer allocations are necessary and proper. The Staff respectfully recommends that the Commission adopt all of the Staff's recommended adjustments and recommendations prior to finding that DEO's proposed AMR Cost Recovery Charge is just and reasonable.

Respectfully submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief, Public Utilities Section

A handwritten signature in black ink, appearing to read "Devin D. Parram", written over a horizontal line.

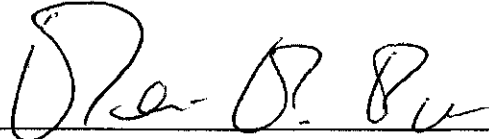
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**Counsel for the Staff of**  
**The Public Utilities Commission of Ohio**



**VII. CERTIFICATE OF SERVICE**

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served via electronic mail upon the following parties of record this April 6, 2012.



**Devin D. Parram**  
Assistant Attorney General

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**STAFF EXHIBIT 1**  
**THE EAST OHIO GAS COMPANY d/b/a DOMINION EAST OHIO**  
**AUTOMATED METER READING ESTIMATED COST RECOVERY CHARGE**

CASE NO. 11-5843-GA-RDR  
Revenue Requirement (Staff Adjusted)

Reference(s):  
Case No. 11-5843-GA-RDR Company Application Schedules

Prepared by: R Fadley  
Staff Exhibit 1  
Page 1 of 3

Line No.	As Approved 12/31/10	2011 Activity	Staff Adjusted Totals through 12/31/11
1 Return on Investment			
2 Plant in Service			
3 Additions	\$73,802,421.11	\$16,154,199.71	\$89,956,620.82 <sup>1</sup>
4 Retirements	0.00	0.00	0.00
5 Total Plant in Service	73,802,421.11	16,154,199.71	89,956,620.82
6 Less: Accumulated Provision for Depreciation			
7 Depreciation Expense	4,275,538.96	2,710,304.01	6,985,842.97
8 Cost of Removal	0.00	0.00	0.00
9 Original Cost Retired	0.00	0.00	0.00
10 Total Accumulated Provision for Depreciation	4,275,538.96	2,710,304.01	6,985,842.97
11 Net Regulatory Asset - Post-In-Service Carrying Cost	4,206,291.86	1,134,837.24	5,341,129.10
12 Net Deferred Tax Balance - PISCC	(1,472,202.15)	(397,193.04)	(1,869,395.19)
13 Deferred Taxes on Liberalized Depreciation	(7,817,219.85)	(11,935,108.15)	(19,752,328.00)
14 Net Rate Base	\$64,443,752.01	\$2,246,431.75	\$66,690,183.76
15 Approved Pre -Tax Rate of Return (ROR)			11.36%
16 Annualized Return on Rate Base			\$7,576,004.88
17 Operating Expense			
18 Incremental Annual Depreciation Expense			2,710,304.01
19 Annualized Amortization of PISCC			173,181.29
20 Incremental Annual Property Tax Expense			757,434.25
21 Reduction in Meter Reading Expense			(3,511,695.32)
22 Reduction in Call Center Expense			0.00
23 Annualized Revenue Requirement			<u>\$7,705,229.11</u>
24 Number of Bills			14,416,940
25 AMR Cost Recovery Charge			<u>\$0.53</u>

**Notes:**

<sup>1</sup> Staff adjusted plant additions totals to reflect removal of 9,530 ERTs in inventory. Flows from Line 24 of Staff Exhibit 1, Page 2.