

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of :  
**Vectren Energy Delivery of Ohio, Inc.** : Case No. **12-1423-GA-RDR**  
for Authority to Adjust its Distribution :  
Replacement Rider Charges. :

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

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**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief

**Thomas G. Lindgren**  
**Devin D. Parram**  
Assistant Attorneys General  
Public Utilities Section  
180 East Broad Street, 6<sup>th</sup> Floor  
Columbus, OH 43215-3793  
614.466.4397 (telephone)  
614.644.8764 (fax)  
[thomas.lindgren@puc.state.oh.us](mailto:thomas.lindgren@puc.state.oh.us)  
[devinparram@puc.state.oh.us](mailto:devinparram@puc.state.oh.us)

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**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 (2007 Rate Case), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned case 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 2011 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 313,000 customers in west central Ohio.<sup>1</sup> It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code, and subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (2007 Rate Case Stipulation) and 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<sup>2</sup> 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<sup>3</sup>; (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)

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<sup>1</sup> *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges* (2012 DRR Case), Case No. 12-1423-GA-RDR (Application at 1).

<sup>2</sup> The pre-tax rate of return is 11.67% as established in the 2007 Rate Case.

<sup>3</sup> 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.

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

The 2007 Rate Case Stipulation provided a process for establishing the annual DRR rate. By May 1 of each year, 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. The initial monthly DRR was capped at \$1.00 for Residential and Group 1 General Service customers and the cap will increase in \$1.00 increments in each of the succeeding years.<sup>4</sup>

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<sup>4</sup>

*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 Services and Related Matters* (2007 Rate Case), Case No. 07-1080-GA-AIR, (2007 Rate Case Stipulation at 8-14).

## **VEDO'S APPLICATION**

VEDO filed its Application on April 30, 2012. The Application is 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, and Scott E. Albertson, Director of Regulatory Affairs. Mr. Francis' testimony and exhibits present the progress made in 2011 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's 2012 BS/CI replacement plans, the 2011 Riser Replacement Program progress and costs, maintenance costs associated with the 2011 BS/CI Replacement Program, the 2011 incremental costs for maintenance and repair of service lines previously owned by customers, and 2011 capital costs for replacement of previously customer-owned service lines.

Ms. Barrett's 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 2011 Mains and Service Line and Riser Replacement Programs; 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<sup>5</sup>, and AFUDC; and a schedule showing the true-up for riser investigation and replacement costs in

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<sup>5</sup> The PISCC rate of 7.02% represents the Company's long-term cost of debt as established in the 2007 Rate Case.

accordance with the 2007 Rate Case Stipulation and under recovery of the revenue requirement adopted in last year's DRR application, Case No. 11-2776-GA-RDR .

Mr. Albertson's testimony principally provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

In its Application, the Company indicates that in 2011 it replaced 29.4 miles of bare steel and 5.3 miles of cast iron mains, replaced 3,318 BS/CI service lines (with an additional 315 service lines retired), and moved 2,552 inside meters outside as part of its Replacement Program. In addition, VEDO reports that it completed its Riser Replacement Program with replacement of the final 14,709 previously identified prone-to-fail risers in 2011. The Company proposes a Mains Replacement Program revenue requirement of \$2,170,992 and \$6,453,000 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of \$8,623,992 that the Company proposes to be allocated to customers as follows:

<b><u>Rate Schedule</u></b>	<b><u>Proposed \$ Per Month</u></b>	<b><u>\$ Per Ccf</u></b>	<b><u>Annual Increase</u></b>
310, 311, and 315	\$1.99		\$0.72
320, 321, and 325 (Group 1)	\$1.99		\$0.72
320, 321, and 325 (Group 2 and 3)		\$0.01509	\$0.00523
341	\$10.19		\$3.50
345		\$0.00340	\$0.00071
360		\$0.00223	\$0.00056

## 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 Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the rider increases sought in the Application are just and reasonable. Based on this investigation, the Staff makes the following comments.

**A. VEDO's BS/CI mainline replacement program is proceeding slower than VEDO projected it would in the 2007 Rate Case Stipulation.**

VEDO proposed in the alternative regulation application associated with its 2007 Rate Case Application to accelerate replacement of the BS/CI mains in its system over a 20 year period (versus 70 years at its historical replacement rate), or approximately 35 miles per year, at an estimated annual capital investment of \$16,875,000/year.<sup>6</sup> Through 2011, however, the Company has replaced only 76.7 miles of BS/CI mains as opposed to the 105 miles estimated for the Program's first three years. This is 28.3 miles less than

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<sup>6</sup>

*In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of An Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Difference Between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain Reliability Programs, Case No. 07-1081-GA-ALT (Application Alt. Reg. Exhibit A; Alternative Rate Plan Description at 7).*



estimated VEDO initially estimated.<sup>7</sup> In testimony filed in its 2010 DRR Application case, the Company explained that the initial 2009 investment level and planned 2010 investment for replacements were below the level specified in the 2007 Rate Case Application due to the economic climate that it was facing and that it (along with its affiliate companies under the Vectren Utility Holdings, Inc.'s umbrella) curbed capital expenditures in an effort to avoid potential exposure to higher capital costs.<sup>8</sup>

The Staff is concerned that VEDO does not appear to be attempting to make up for the reduced BS/CI mileage replaced in 2009 and 2010. As reported above, the Company did replace approximately 35 miles of BS/CI mains in 2011, which is consistent with the 2007 Rate Case estimate for annual mileage to be replaced. However, there were no extra miles replaced in 2011 to make up for the reduced mileage replaced in 2009 and 2010. In addition, the Company's replacement plan for 2012 calls for replacing only 32.8 miles of BS/CI mains,<sup>9</sup> which is less than the 35 miles per year estimates provided in the Company's Rate Case Application and, again, includes no catch up for the lower than expected replacement levels in the Program's first two years. The primary purpose behind the development of VEDO's Replacement Program was to enhance public safety

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<sup>7</sup> 24.5 miles BS/CI mains replaced in 2009 (as reported in the Staff Comments filed in Case No. 10-595-GA-RDR) plus 17.5 miles BS/CI mains replaced in 2010 (from Staff Comments filed in Case No. 11-2776-GA-RDR) plus 37.4 miles BS/CI mains replaced in 2011 (as reported above) equals 76.7 total miles replaced.

<sup>8</sup> *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 (Direct testimony of James M. Francis at 11).

<sup>9</sup> 2012 DRR Application (Amended Direct testimony of James M. Francis at 5).

through the accelerated replacement (20 versus 70 years) of corroded and leaky BS/CI mains and services with new non-leaking plastic pipe.<sup>10</sup> However, VEDO is replacing BS/CI mains at a rate slower than it originally projected. This means the associated benefits of enhanced public safety may be delayed.

Staff believes it is important to express its concerns regarding VEDO's BS/CI mains replacement pace. Staff does not, however, have a specific recommendation regarding this particular issue at this time. The Staff will continue to monitor VEDO's BS/CI mains replacement rate to determine what, if any, impact the Company's completion of the Riser Replacement Program will have on the mains replacement rate. As reported above, VEDO completed replacement of all prone-to-fail risers in its system in 2011. The completion of the Riser Replacement Program should make additional capital available and allow the Company to catch up on the lagging mains replacement in 2013 and beyond. The Staff will continue to track and monitor VEDO's progress in future DRR application cases.

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<sup>10</sup>

In the Staff Report filed in the 2007 Rate Case, the Staff noted that Vectren had reported that BS/CI mains constituted only 12.8% of VEDO's distribution system but accounted for 48% of all repaired leaks between 2000 and 2006. Similarly, the Staff reported that there were 6 times as many leaks on BS/CI mains as compared to plastic and coated steel lines in the 2000 to 2006 time period.

## **STAFF CONCLUSIONS AND RECOMMENDATIONS**

The Staff performed a comprehensive investigation of VEDO's DRR Application. Based on that investigation, the Staff concludes that the Company's Application will result in a just and reasonable DRR rate and recommends approval by the Commission.

Respectfully submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief

*/s/ Devin D. Parram*\_\_\_\_\_

**Thomas G. Lindgren**  
**Devin D. Parram**  
Assistant Attorney General  
Public Utilities Section  
180 East Broad Street, 6<sup>th</sup> Floor  
Columbus, OH 43215-3793  
614.466.4397 (telephone)  
614.644.8764 (fax)  
[thomas.lindgren@puc.state.oh.us](mailto:thomas.lindgren@puc.state.oh.us)  
[devinparram@puc.state.oh.us](mailto:devinparram@puc.state.oh.us)

## **PROOF OF SERVICE**

I hereby certify that a true copy of the foregoing **Comments and Recommendations**, 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 27<sup>th</sup> day of July, 2012.

/s/ Devin D. Parram

**Devin D. Parram**  
Assistant Attorney General

### **Parties of Record:**

**Gretchen J. Hummel**  
McNees Wallace & Nurick  
21 East State Street  
Columbus, OH 43215-4228  
[ghummel@mwncmh.com](mailto:ghummel@mwncmh.com)

**Joseph P. Serio**  
Assistant Consumers' Counsel  
Office of the Ohio Consumers' Counsel  
10 West Broad Street, 18<sup>th</sup> Floor  
Columbus, OH 43215-3485  
[serio@occ.stat.eoh.us](mailto:serio@occ.stat.eoh.us)

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