

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Suburban Natural Gas Company for an) Case No. 12-1698-GA-RDR
Adjustment to its Infrastructure)
Replacement Program Rider.)

FINDING AND ORDER

The Commission finds:

- (1) Suburban Natural Gas Company (Suburban) is a natural gas company as defined by Section 4905.03, Revised Code, and a public utility as defined by Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of the Commission, pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code. Suburban provides natural gas to nearly 15,000 residential, commercial, and industrial customers in Wood, Henry, Lucas, Delaware, and Marion counties, Ohio.
- (2) By opinion and order issued on March 19, 2008, in *In the Matter of the Application of the Suburban Natural Gas Company for Authority to Increase its Rates and Charges in Certain Areas of its Service Territory*, Case No. 07-689-GA-AIR (2007 Rate Case), the Commission authorized Suburban, *inter alia*, to establish an infrastructure replacement program (IRP) rider at a zero-dollar level.
- (3) By finding and order issued on September 15, 2009, in *In the Matter of the Application of Suburban Natural Gas Company for Approval of an Infrastructure Replacement Plan*, Case No. 09-573-GA-UNC (2009 IRP Case), the Commission approved Suburban's IRP. Suburban's IRP provides for the accelerated replacement of aging pipelines and timely replacement of prone-to-fail risers, as well as Suburban's assumption of responsibilities associated with the installation, repair, and maintenance of customer service lines. The Commission directed that Suburban complete replacement of all prone-to-fail risers within four years of the date of the finding and order. Under the terms of the IRP, Suburban will recover 50 percent of the program's cost, with a return based on Suburban's cost of debt, on an accelerated basis, over a four-year period. The amounts subject to accelerated recovery will be accounted for

as a deduction from rate base, as adjustments to the appropriate plant-in-service accounts. The remaining 50 percent of the cost will be accounted for in the appropriate plant-in-service and expense accounts, while associated revenue, including a return based on the return on equity determined in the *2007 Rate Case*, will be recovered through the IRP rider. Pursuant to the approved IRP, Suburban must submit an application to recover the costs associated with the IRP by August 31 of each year. In addition, Suburban must file a prefiling notice by May 31 of each year.

- (4) Suburban's current IRP rider rate, which is \$0.25 per customer per month, was approved by finding and order issued on October 26, 2011, in *In the Matter of the Application of Suburban Natural Gas Company for Approval of an Adjustment to its Infrastructure Replacement Program Rider*, Case No. 11-3234-GA-RDR.
- (5) In accordance with the procedure approved by the Commission in the *2009 IRP Case*, Suburban filed its prefiling notice in the current proceeding on May 30, 2012.
- (6) On August 30, 2012, Suburban filed its application to adjust its infrastructure replacement rider. In its application, Suburban proposes to increase its IRP rider rate from \$0.25 per month per customer to \$0.52 per month per customer. In support of its application, Suburban filed three schedules, tariff sheets, and the testimony of its outside consultant, Nichole Clement. The three schedules detail the costs associated with the IRP for the period July 2011 to June 2012. Schedule A-1 provides the combined effect of the replacement of service lines and risers. Schedule A-2 details the cost of debt calculation, and Schedule A-3 details the rate of return.
- (7) Ms. Clement describes Suburban's infrastructure replacement efforts and how Suburban calculated the costs of the IRP. Ms. Clement explains that Suburban began replacing aging service lines and prone-to-fail customer risers in October 2009. She notes that the costs of implementing the IRP are not in line with Suburban's original estimates. According to Ms. Clement, the costs are higher for year three because more replacements were completed, which is the result of years one and two having fewer replacements than estimated. Ms. Clement states that,

for the 12-month period beginning July 1, 2011, and ending June 30, 2012, the cost of the IRP is \$274,435. Suburban's proposal to increase the rider rate is based on the increase in costs Suburban expects to incur as a result of implementing the IRP in year four beginning July 1, 2012, and ending June 30, 2013. Ms. Clement recalls that Suburban estimated that the IRP charge to customers would be \$0.29, \$0.58, \$0.84, \$1.10, and \$0.92 per month per customer for the first five years of the IRP, respectively. In comparison, \$0.52 is less than the initial estimate for year four of the IRP. Ms. Clement explains that the \$0.52 monthly customer charge for the fourth year of the IRP was calculated from the actual data for July 1, 2011, through June 30, 2012, and estimated data for July 1, 2012, through June 30, 2013. Based on Schedules A-1, A-2, and A-3 of the application, Ms. Clement concludes that \$0.52 is a reasonable charge for year four of the IRP and that it should be approved.

- (8) On September 4, 2012, the attorney examiner issued an entry establishing a procedural schedule, which included deadlines for the filing of motions to intervene and for the filing of comments on Suburban's application. The entry scheduled the hearing for October 11, 2012, in the event that all of the issues raised in the comments were not resolved. The entry also directed Suburban to file a statement by September 28, 2012, informing the Commission whether the issues raised in any comments have been resolved.
- (9) On September 25, 2012, Staff filed comments. In its comments, Staff reports its review of Suburban's application and supporting documents. Staff concludes that Suburban included appropriate costs and cost estimates for recovery through its IRP rider and that it provided reliable data to support the proposal. Staff believes that the numbers of risers that need to be replaced in the fourth and final year of the program is realistic and attainable.

To investigate the calculation of costs and associated recovery, Staff reviewed the documentation supporting the costs included in Suburban's application. Staff states that it is satisfied that the costs are substantiated and that there are no inappropriate costs.

Staff also reviewed Suburban's 50-50 split of costs, including the cost of debt and overall rate of return used and any tax inclusions. Staff believes that Suburban properly excluded gross receipts tax and applied the correct cost of debt and rate of return to the costs of replacing prone-to-fail risers and the repair and replacement of customer service lines. Staff also verifies that no expenses were included for testing service lines, as these expenses are recovered through base rates. Staff confirms that Suburban used the 45-year depreciation life that the Commission approved for the IRP program.

Staff notes that the costs associated with the first three years of IRP expenditures will continue to be recovered in the fourth year, stating that this is an approved cost-recovery mechanism. Suburban estimates that fourth-year expenditures for the IRP will be nearly the same as the third-year expenditures. Staff points out that, in the third year, Suburban replaced nearly double the number of risers compared to the number of risers replaced in the second year. Ultimately, Staff calculates that the IRP rider rate for year four will be nearly twice that for year three.

- (10) Staff also investigated the level of prone-to-fail riser replacement. Staff points out that the Commission ordered Suburban to replace all prone-to-fail risers within a four-year period. Suburban replaced 283 risers in the first year, 373 risers in the second year, and 617 risers in the third year. Approximately 327 risers remain to be replaced in the fourth year. Taking into account these historical replacement rates and the number of replacements in the third year, Staff is optimistic that Suburban will complete the replacement of prone-to-fail risers within the four-year period.
- (11) After reviewing Suburban's application, Staff concludes that Suburban's proposed IRP rider rate is just and reasonable and, accordingly, Staff recommends approval of the application.
- (12) On September 26, 2012, Suburban filed a statement in which it stated that it had no objection to Staff's comments and that there are no issues that need to be resolved.
- (13) On October 2, 2012, Suburban moved to continue the hearing because there are no issues remaining for adjudication. By

entry issued on October 4, 2012, the attorney examiner granted Suburban's motion to continue the hearing.

- (14) The Commission finds that Suburban's application to adjust its IRP rider rate to \$0.52 per customer per month is reasonable and should be granted.

It is, therefore,

ORDERED, That Suburban's application to adjust its IRP rider rate to \$0.52 per customer per month be granted. It is, further,

ORDERED, That Suburban be authorized to file in final form four complete copies of the tariff page consistent with this finding and order and to cancel and withdraw its superseded tariff page. Suburban shall file one copy in its TRF docket (or may make such filing electronically as directed in Case No. 06-900-AU-WVR) and one copy in this case docket. The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

ORDERED, That the effective date of the new rates for the IRP rider shall be a date not earlier than the date upon which four complete, printed copies of the final tariff page are filed with the Commission. It is, further,

ORDERED, That the company shall notify its customers of the changes to the tariffs via bill message or bill insert within 30 days of the effective date of the revised tariffs. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability, and Service Analysis Division at least 10 days prior to its distribution to customers. It is further,

ORDERED, That nothing in this finding and order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties of record.

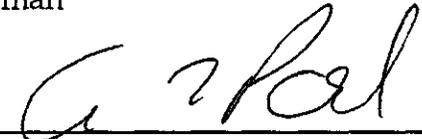
THE PUBLIC UTILITIES COMMISSION OF OHIO



Todd A. Snitchler, Chairman



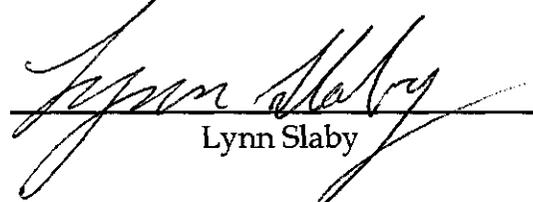
Steven D. Lesser



Andre T. Porter



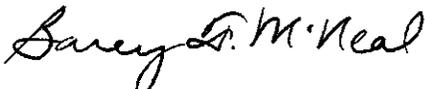
Cheryl L. Roberto



Lynn Slaby

LDJ/vrm

Entered in the Journal
NOV 28 2012



Barcy F. McNeal
Secretary