BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	:	
Vectren Energy Delivery of Ohio, Inc.	:	Case No. 13-1571-GA-ALT
for Approval of an Alternative Form of	:	
Regulation.	:	

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

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

Ryan P. O'Rourke
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 6th Fl.
Columbus, OH 43215
614.466.4395 (telephone)
614.644.8764 (fax)
william.wright@puc.state.oh.us
ryan.orourke@puc.state.oh.us

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INTRODUCTION

On August 22, 2013, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") filed an application in the above captioned case ("Application") requesting authority to continue and modify the Distribution Replacement Rider program ("DRR" or "Program") that was authorized by the Public Utilities Commission of Ohio ("Commission") in Case No. 07-1080-GA-AIR.[1] The purpose of the DRR was to allow VEDO to recover a return of and on investments to replace by the end of 2028 all aging bare steel and cast iron ("BS/CI") natural gas pipelines in its system with lines made from newer materials, recover the costs of assuming ownership and repair of previously customer-owned service lines, and recover the cost of replacing prone-to-fail risers. The Commission authorized the DRR Program for an initial five-year period, which is scheduled to

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[1] *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*, Case No. 07-1080-GA-AIR (*2007 Rate Case*) (Opinion and Order) (Jan. 7, 2009).

end on February 22, 2014.[2] VEDO indicates that it filed its Application in this case pursuant to R.C. 4929.05, R.C. 4929.051(B), R.C. 4929.11, and R.C. 4909.18, which, among other things, provide for utility alternative rate plans, review of alternative rate plan applications, continuation of rate plans, and automatic rate adjustment mechanisms. In its Application, VEDO requests authority to continue the DRR through calendar year 2017 and proposes certain modifications to the Program, including: acceleration of pipeline replacement in order to replace all BS/CI lines by the end of 2023; no longer including the costs to replace prone-to-fail risers, as all such risers have been replaced; adding replacement and retirement of ineffectively coated steel infrastructure to the Program scope; adding replacement of obsolete pipe and related appurtenances and vintage plastic pipe when done in conjunction with a BS/CI replacement project to the scope of the Program; and recovery of the non-reimbursable portion of replacement or relocation project costs incurred as a result of a public works project where a majority of the infrastructure replaced is BS/CI.[3] These Comments summarize the Commission Staff's ("Staff") review and resulting findings and recommendations concerning VEDO's Application and recommendations to modify its DRR Program.

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2 The Opinion and Order in Case No. 07-1080-GA-AIR (issued January 7, 2009) authorized the DRR for a five year period from the effective date of rates filed in Case No. 07-1081-GA-ALT, which was February 22, 2009.

3 *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Form of Regulation*, Case No. 13-1571-GA-ALT (*In re VEDO*) (Application at 3-4) (Aug. 22, 2013).

BACKGROUND

VEDO is an Ohio Corporation engaged in the business of providing natural gas distribution service to approximately 314,000 customers in west central Ohio.[4] 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 a 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[5] 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 for replacing approximately 708 miles of BS/CI pipelines over a 20 year period; (2) deferred expenses associated with the Company's riser investigation pursuant to Case No. 05-463-GA-COI[6]; (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) actual annual Operations and Maintenance ("O&M") expense savings as an offset to costs otherwise eligible for recovery under the DRR.

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4 I*n 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.

5 The pre-tax rate of return is 11.67% as established in Case No. 07-1080-GA-AIR.

6 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.

The *2007 Rate Case* Stipulation also established an annual process for determining 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 bears 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; any 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.[7]

To date, VEDO has filed four DRR applications covering the period January 1, 2009 through December 31, 2012. The Company reports that during this time period it replaced approximately 112.5 miles of BS/CI pipelines and that it had approximately 590.5 miles left to replace.[8] In addition, the Company reports that all prone-to-fail risers in its system were replaced prior to the end of 2011.[9]

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7 *2007 Rate Case* (Stipulation and Recommendation at 8-14) (Aug. 17, 2010).

8 *In re VEDO* (Direct Testimony of James M. Francis at Ex. JMF-1) (Aug. 22, 2013).

9 *In re VEDO* (Application at 4) (Aug. 22, 2013).

On September 26, 2013, the Attorney Examiner assigned to this case issued an Entry establishing the following procedural schedule:

- October 25, 2013 – deadline for filing motions to intervene in the case;
- October 30, 2013 – deadline for filing comments on VEDO's Application; and,
- November 13, 2013 – deadline for filing reply comments.

VEDO'S APPLICATION

As noted above, VEDO's Application requests authority to continue its DRR Program for a five year period in order to recover investments made under the Program through calendar year 2017. The Company is also proposing to accelerate the Program's pace in order to complete all BS/CI replacement within ten years rather than fifteen years if no acceleration is granted. In addition, VEDO is proposing several modifications to the scope of the DRR Program as well as a number of other Program changes. Specifically, VEDO proposes:

- **Further acceleration of the pace of BS/CI replacement in order to complete replacement of all BS/CI by the end of 2023 as opposed to the end of 2028 –** The Company states that the DRR Program has improved pipeline safety and reliability of its system, but has observed that its remaining BS/CI infrastructure continues to experience leakage and repair rates significantly greater than plastic pipelines. Therefore, the company believes that the increased replacement pace is warranted.[10]

[10] *In re VEDO* (Application Alternative Rate Plan Exhibits at 2) (Aug. 22, 2013).

- **Adding ineffectively coated steel pipelines to the Program scope –** The original DRR scope provided for replacement of only BS/CI pipelines and small segments of plastic pipe when done in conjunction with a BS/CI replacement project. VEDO maintains that coating methods for steel pipelines prior to 1971 failed to provide consistent protection against corrosion and that certain segments of coated steel pipelines in its system appear to be ineffectively coated and subject to corrosion. The Company proposes to add to the DRR the cost of replacing ineffectively coated pipe and the cost of testing the pipe to determine that the pipeline segments were indeed ineffectively coated.[11]
- **Adding obsolete pipe and appurtenances to the Program scope when done in conjunction with projects for replacing BS/CI or ineffectively coated steel lines –** VEDO defines obsolete pipe and appurtenances as pipelines and system components for which replacement parts and related materials are no longer available. The Company maintains that damage and leak repair of such pipelines and components is more costly and that repair times are longer than for normal repairs because repair and replacement materials must be custom fabricated.[12]
- **Adding replacement of vintage plastic pipe to the Program scope when encountered during DRR replacement projects –** The Company maintains that this type of older plastic pipe becomes hardened and brittle over time and

[11] *In re VEDO* (Application Alternative Rate Plan Exhibits at 2) (Aug. 22, 2013).

[12] *Id.* at 3

is susceptible to cracking and leakage when subjected to stress intensification, thus creating a potential safety hazard.

- **Adding non-reimbursable costs of public works projects to the Program scope –** VEDO defines public works projects as projects where the Company is required by a third-party government to relocate existing facilities within the public right-of-way and within the boundary of the project. The Company proposes to add the costs of a public works project to the DRR if some or all of the infrastructure being relocated is BS/CI and results in retirement and replacement of the BS/CI assets. In addition, the Company states that it will only include costs that are not reimbursed by the government entity that mandated the relocation.

- **Modifying the process for recovery of costs to replace service lines –** Under the current DRR Program, when VEDO must replace a service line that is not part of a mainline replacement program, it utilizes a formula that was agreed to in the *2007 Rate Case* to determine how much of the replacement costs can be included in the DRR. The formula recognizes that, prior to VEDO assuming ownership of customer service lines with implementation of the DRR Program, the Company always had the responsibility (and incurred the costs) to repair or replace the main-to-curb segment of the service line. Therefore, under the DRR, when the Company replaces a service line the only incremental costs that it incurs is for replacement of the curb-to-meter segment that, prior to the DRR Program, was owned by the customer, who was responsible for its maintenance. The formula was designed to approximate the incremental costs that VEDO would incur as a result of assuming responsibility to replace the formerly customer-owned segment of the service line by determining the difference between the average cost of replacement before the transfer of ownership and the costs incurred after the transfer. In the Application, however, VEDO maintains that the formula significantly understates its actual incremental costs for service line replacements that are not part of a DRR replacement project. As a result, the Company proposes to modify the service line replacement formula so that it would include in the DRR one hundred percent of the costs to replace steel service lines and customer meter set while using the current formula to allocate costs for replacing plastic service lines.

- **Modifying the operation and maintenance ("O&M") savings formula –** VEDO proposes to continue to offset recoverable costs under the DRR with the O&M cost savings it realizes as older leaking BS/CI pipelines are replaced with new non-leaking materials. The Company's current base gas distribution rates were set based on test year expenses that included a certain amount for detecting and repairing pipeline leaks. However, as older BS/CI pipelines that experience a much higher incidence of leakage are replaced with newer non-leaking (mostly plastic) material, these costs are at least partially avoided, and the resulting cost savings are passed back to customers in the form of reduced DRR rates. VEDO's current formula for determining O&M savings was agreed to in the approved *2007 Rate Case* Stipulation. It is calculated by comparing each year's actual O&M costs for BS/CI mains and service lines against a baseline of O&M expenses established in the *2007 Rate Case*. The Company proposes to modify this formula such that it will carry forward as an ongoing credit the actual O&M savings that were included in its most recently approved annual DRR filing, which was $274,919 (Case No. 13-1121-GA-RDR). For retirements beginning in 2013, the Company will then add this amount to the product produced by multiplying $4,500 times the number of BS/CI miles retired each year, and the savings each year will be cumulative. In testimony supporting its Application, the Company illustrates its proposal with an example that assumes it retires 40 miles of BS/CI lines in 2013.[13] In this example, the O&M savings would be $454,919 ($4,500 x 40 miles = $180,000 + 274,919). Then, if another 40 miles of BS/CI lines is retired in 2014, the next year's O&M savings would be the 2013 total savings amount ($454,919) plus $180,000 ($4,500 x 40 miles = $180,000) to produce $634,919 in O&M savings. VEDO emphasizes in its Application, however, that its recommended O&M savings proposal applies only for investments through the end of 2017. The Company expressly states that it is not proposing or agreeing that any O&M savings generated through 2017 should be carried forward to filing or recovery pertaining to post-2017 investment.[14]

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13 *In re VEDO* (Direct Testimony of James M. Francis at Ex. JMF-1) (Aug. 22, 2013).

14 *In re VEDO* (Application Alternative Rate Plan Exhibits at 7) (Aug. 22, 2013).

- **Carryover of annual costs that exceed the approved cap for recovery in future DRR filings –** The Company proposes that if during any of the first four years of the extended DRR Program its actual costs would exceed the approved annual DRR cap, then it be permitted to defer on its books the amount that is over the cap plus carrying charges (at its approved long-term debt rate) and include the deferred costs in a future DRR filing so long as inclusion of the deferred costs does not cause the Company to exceed the annual cap in that subsequent year.[15]
- **Modifying the revenue retirement calculation to remove the variance calculation before the annual DRR cap is applied –** VEDO's current DRR Program provides for reconciliation of any over or under-collection of each year's approved revenue requirement in the subsequent year. The current total revenue requirement calculation each year includes either an additional amount for recovery of under-collections from the previous year or a credit (negative amount) for over-collections. This reconciliation of prior over or under-collections is included in the revenue requirement calculation, thus the reconciliation influences the annual cap. VEDO proposes to continue the reconciliation, but remove it from the revenue requirement calculation and consideration of the annual cap. VEDO recommends that the revenue requirement be calculated exclusive of the reconciliation to avoid it impacting application of the cap. The

[15] *In re VEDO* (Application Alternative Rate Plan Exhibits at 9) (Aug. 22, 2013).

Company further recommends that reconciliation of the prior year's over or under-collections then be included in the computation of the DRR rate that will be charged to customers.

With its proposed modifications and based on historical data, VEDO estimates that its total 2013 though 2017 investment will be $186,750,000, detailed as follows:

Component	**Capital Investment ($000's)**				
	2013	**2014**	**2015**	**2016**	**2017**
Bare Steel/Cast Iron	$27,000	$28,000	$28,000	$28,000	$28,000
Service Replacements	$6,000	$6,500	$6,500	$6,500	$6,500
Ineffectively-Coated Steel	$1,000	$3,500	$2,500	$2,500	$2,500
Obsolete Pipe and Appurtenances	$250	$250	$250	$250	$250
Vintage Plastic	$250	$250	$250	$250	$250
Public Improvements	$250	$250	$250	$250	$250
TOTAL	**$34,750**	**$38,750**	**$37,750**	**$37,750**	**$37,750**
TOTAL -5-YEARS					**$186,750**

In recognition of its proposals to further accelerate the pace and expand the scope of the DRR Program, VEDO also proposes to modify the $1.00 per-customer per-month cap on annual increases to the DRR rate that was established in the original Program. VEDO proposes replacing the annual $1.00 cap with specifically-identified caps in each year of the extended Program. The caps that VEDO recommends are:

Annual Rate Period	**Rate Cap** (per customer, per month)	**Annual Increase**
September 1, 2014-August 31, 2015	$4.05	-
September 1, 2015-August 31, 2016	$5.45	$1.40
September 1, 2016-August 31, 2017	$6.70	$1.25
September 1, 2017-August 31, 2018	$8.00	$1.30
September 1, 2018-August 31, 2019	$9.25	$1.25

Lastly, the Company proposes that, except for the changes that it recommends, all other DRR processes, filings, timelines, etc. would remain as approved in Case No. 07-1080-GA-AIR.[16]

In support of its Application, VEDO provided several exhibits and the testimony of Scott E. Albertson, Vice President, Regulatory Affairs and James M. Francis, Director of Engineering and Asset Management.

STAFF'S INVESTIGATION

The Staff reviewed VEDO's Application, supporting exhibits, and testimony; issued formal information requests; attended Company presentations; requested follow-up and additional detail when necessary; and researched past cases and relevant Commission precedent to reach the findings and recommendations presented in these Comments. The Staff's findings and recommendations, by topic area, are set forth below.

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16 *In re VEDO* (Application Alternative Rate Plan Exhibits at 2) (Aug. 22, 2013).

STAFF'S COMMENTS AND RECOMMENDATIONS BY TOPIC AREA

A. Modifications to the PIR Program Scope:

1. Ineffectively Coated Pipeline

VEDO states that its system includes approximately 1,900 miles of coated-steel distribution main that was installed prior to 1971. VEDO proposes to recover through the DRR the costs of verifying sections of ineffectively coated steel pipe and replacing those sections that have been ineffectively coated. Staff agrees that field-coated steel pipe installed prior to 1955 should be replaced and the associated cost should be included in the DRR. However, VEDO should not need to conduct testing to make such determinations because it should have documentation in its records that such pipe was field coated and installed prior to 1955. Staff believes that VEDO should be allowed to recover the cost of replacing coated pipe installed beginning in 1955 and prior to 1971, but only if the pipe fails a cathodic-protection test. The cost of such testing should be recoverable through the DRR, but only in those instances where test results indicate that the pipe fails the test and VEDO is able to document such results.

2. Obsolete Pipe and Appurtenances

VEDO proposes to recover through the DRR the costs of replacing obsolete pipe and appurtenances when these assets are encountered during the replacement of cast-iron, bare-steel, or ineffectively-coated steel pipe. Such obsolete items involve pipelines and system components for which replacement parts and related materials are no longer available. Examples include obsolete regulators, regulator-station components, non-standard sizes and grades of steel pipe, and pipe processed with non-standard manufacturing processes. Staff supports VEDO's proposal to recover through the DRR the cost of replacing obsolete pipe and appurtenances to the extent that such facilities are encountered within the context of a main replacement project where the primary focus is the replacement of cast-iron, bare-steel, or ineffectively-coated steel pipe.

3. Vintage Plastic Pipe

VEDO proposes to recover through the DRR the cost of replacing vintage plastic pipe when it is encountered in association with a DRR Replacement Project. Although Staff understands VEDO's concerns about vintage plastic, Staff emphasizes that the primary purpose of the Replacement Program is the replacement of bare steel and cast iron pipe. Staff supports VEDO's proposal, but only to the extent that the total footage of vintage plastic replacement does not exceed five percent of the total Replacement Program replacement footage in any given year and such facilities are encountered within the context of a main replacement project where the primary focus is the replacement of cast-iron, bare-steel, or ineffectively-coated steel pipe. The cost of replacing any excess above that five-percent limit should be excluded from Rider DRR.

4. Public Works Projects Involving Relocation of VEDO Facilities

VEDO proposes to recover through the DRR the (non-reimbursable) cost of relocating its facilities when "some or all" of the infrastructure being relocated is cast-iron or bare steel. Staff supports VEDO's proposal, but only if at least 75 percent of the pipe footage being retired on a given relocation project is comprised of cast-iron, bare steel, or ineffectively-coated steel pipe. If a relocation project does not meet that 75-percent threshold, Staff recommends that it be excluded from DRR cost recovery.

B. Further Acceleration of the DRR Program Pace

1. Increase the Program Pace for completion in 10 rather than 15 Years

In addition to expanding the Replacement Program scope, VEDO also proposes to accelerate its pace to complete the program in 15 years instead of 20 as originally planned. Staff supports this proposal, but since VEDO is currently behind schedule in meeting expectations for main replacement during the first five years of the program, Staff is concerned VEDO may not meet this goal. The table below summarizes the progress of VEDO's Replacement Program compared to Staff's expectations.

Replacement Program Retirements – Actual vs. Staff Expectation	
Total mileage to be retired over 20 years	703.0
Mileage expected to be retired during first five years (5/20 x 703)	175.8
Total mileage retired during first five years	112.5
Mileage shortfall (175.8 – 112.5)	63.3
Percent shortfall (63.3 / 175.8)	36 %

The above table indicates a 36-percent shortfall below the retirement mileage that Staff expected VEDO to achieve over the first five years of the Replacement Program. Although VEDO is adding resources to support the program acceleration, Staff believes that the Commission should provide an incentive to complete the program on time. Staff therefore recommends that the cost of replacing any cast-iron or bare steel pipe after the proposed December 31, 2023 program end date should not be recovered through the DRR Rider mechanism.

C. Other Proposals

1. Recovery of All Service Line Replacement Costs through the DRR

VEDO proposes to include for recovery in the DRR one hundred percent of the costs to replace customer service lines and customer meter sets for projects that are not part of a BS/CI replacement project. The Company maintains that the current formula approach of allowing only a portion of such costs to be included in the DRR significantly understates the actual incremental cost of replacing service lines. The Staff does not support this proposal. The formula approach included in the current DRR recognizes that only a portion of service line replacement costs is incremental to the Company. Prior to the DRR, VEDO was responsible for maintaining, repairing, and replacing the main-to-curb portion of the service line while customers were responsible for the curb-to-meter portion of the line. The Staff has always understood that VEDO's service order reporting and tracking system does not track whether a leak necessitating replacement occurred on the segment of service line owned by the Company or by the customer or apportion the replacement costs between the two. Staff believes that the formula approach VEDO initiated in the original DRR Program properly recognizes that only a portion of the total service line replacement costs is incremental to what the Company was responsible for prior to the DRR. If the Company can now identify and assign replacement costs to each service line segment and thus accurately identify the incremental service line replacement costs, then the Staff would support including the incremental cost in the DRR. However, the Staff does not support simply including all of these costs in the DRR.

2. Changes to the O&M Savings Calculation

The Company proposes to modify its O&M savings calculation to include on a cumulative basis the $274,919 in O&M savings from its most recent DRR filing plus annual savings derived by multiplying $4,500 times the miles of BS/CI pipelines retired each year. VEDO indicates that the $4,500 per mile savings estimate is based on the total annual average O&M savings that it actually achieved in 2011 and 2012 in several O&M savings categories scaled up to reflect its proposed increase in BS/CI mileage replaced each year.[17] The Company arrived at the $4,500 per mile estimate by dividing the scaled-up future savings estimate of $225,000 by the approximately 50 miles per year that it plans to replace each year under the extended Program. The Staff conceptually agrees with VEDO's proposed O&M savings methodology. It logically follows that, as the DRR Program progresses and more BS/CI is replaced each year, then more O&M costs incorporated in the Company's base rates are avoided and therefore can be passed back to customers through a reduction of the DRR rate. VEDO's proposed methodology follows this logic by recognizing O&M savings achieved during the Program's first five years (i.e., the $274,919 from the most recent DRR filing) and then adding each subsequent

[17] *In re VEDO* (Direct Testimony of James M. Francis at 23 and Ex. JMF-10) (Aug. 22, 2013).

year's annual savings derived from multiplying a projected savings amount per mile (i.e., the $4,500) times the mileage of BS/CI pipe retired each year on a cumulative basis. The Staff believes that this is an acceptable methodology, but recommends a number of modifications to the Company's proposed calculation inputs. The Staff first recommends replacing the $274,919 O&M savings amount from the most recent DRR filing with an average of the O&M savings reported in the Program's first four years. Such an average is more reflective of the actual O&M costs avoided each year due to Program implementation. VEDO explains that although the O&M savings reported in its DRR filings has varied from year to year, it always reflects the difference between O&M expenses incurred in a given year compared to the *2007 Rate Case* baseline. VEDO further explained that actual savings versus the baseline in any year is primarily driven by the amount of repair service orders involving digging into and subsequently repairing hard surfaces (e.g., pavement) versus soft surfaces. In years where the Company experienced relatively more hard-surface repairs, its actual O&M costs were higher and, therefore, its savings were lower than years with relatively fewer hard-surface repairs. The $274,919 O&M savings reported for 2012 (the investment year covered in the most recent DRR filing) was less than reported in some prior year's DRR filings and more than others, again primarily driven by the amount of hard versus soft-surface repairs. Therefore, the Staff believes that an average of VEDO's O&M savings is a more accurate representation of the savings achieved in the first four years of the Program and should be used rather than the O&M savings reported for only the most recent year. The average of the O&M savings reported in the 2010 through the 2013 filing years (covering investment years 2009 through 2012) is $294,116. The Staff also recommends utilizing this number to compute the average savings per mile that will be multiplied by the miles of BS/CI lines replaced each year. The Company computed its recommended $4,500 per mile projection based on an average of actual results achieved in 2011 and 2012. The Staff believes that it is more appropriate to use an average of actual O&M savings reported by the Company in years 2010 – 2013. This approach normalizes the year to year variance across all four years of the current Program and is tied to a baseline that was established in the *2007 Rate Case*, where the Company's base rates and the source of O&M savings were established. Therefore, the Staff proposes to divide the $294,116 average O&M savings by the same 50 miles-per-year BS/CI replacement rate that the Company proposed in its formula to arrive at a per mile savings estimate of $5,882. The table below shows the effect of the Staff-recommended changes to VEDO's proposed O&M savings calculation in each of the five years of the extended Program.

Staff Vs. VEDO Estimated O&M Savings thru 2017

		2013	2014	2015	2016	2017
Vectren	$	499,919	724,919	949,919	1,174,919	1,399,919
Staff	$	588,216	882,316	1,176,416	1,470,516	1,764,616

3. Carry-Over of DRR Costs Above Annual Cap for Recovery in Future Years

VEDO proposes to carryover, with carrying costs, DRR Program costs incurred in a given year that would cause it to exceed the authorized rate cap for recovery in future years, provided that that the carryover does not cause it to exceed the authorized cap in any of the succeeding years. The Staff supports this proposal provided that the carryover is limited only to recovery in the year immediately following the year in which the above cap costs were incurred. This limitation is consistent with the Commission's treatment of a similar request by Dominion East Ohio Gas Company ("Dominion") in Case No. 11-2401-GA-ALT. In addition, it is possible that there could be partial carryovers from multiple previous years in a future recovery filing which would significantly add to the complexity of the filing and could include a sizable amount of carrying costs. The Staff believes that the one-year carryover that the Commission authorized for Dominion is appropriate. If VEDO cannot recover all of a carryover amount in the subsequent year's DRR filing, it can seek to defer the PISCC and depreciation and property tax expenses on the unrecovered amount via its Capital Expenditure Program currently pending before the Commission in Case No. 13-1890-GA-UNC or recovery in a future base rate proceeding.

4. Eliminating the Variance Calculation from the Revenue Requirement Calculation

VEDO proposes to retain the variance calculation that was approved with adoption of the original DRR in the *2007 Rate Case*, but also proposes to remove it from the revenue requirement calculation. The Company indicates that it will provide a new schedule in its annual DRR filings that will detail calculation of the variance and that the variance amount will be added to or subtracted from the revenue requirement prior to the determination of rates. The Staff does not support VEDO's proposal. Adding a charge to make up for the previous year's under collection in a year when the rate cap has been met by Program investments would result in the rate cap being exceeded. This tends to defeat the purpose of the rate caps which were put in place as a reasonable balance between DRR Program cost recovery and protecting customers from inordinately high annual increases to their gas distribution bills. The Staff recommends that the Commission reject VEDO's proposal.

5. Annual Increases to the DRR Rate Cap

VEDO's current DRR Program places a $1.00 cap on annual increases to the DRR rate for smaller customers. The Company proposes to increase the cap each year by varying amounts (ranging from $1.25 to $1.40) in order to recognize its proposals to expand the scope of the Program and to further accelerate the pace of BS/CI pipeline replacements. As described above, the Staff supports both expanding the scope of the DRR and accelerating its implementation pace. Correspondingly, Staff also supports the Company's proposed DRR rate caps. The annual increases that VEDO is proposing are in-line with annual cap increases that the Commission approved in the infrastructure replacement cases for the other major gas utilities in Ohio.

6. Retaining Existing DRR Processes Except as Altered

VEDO proposes to retain all application, filing, review, and rate implementation timelines and processes that are currently in place for the DRR Program for the extended Program except as noted in its Application. The Staff agrees. The application and review timelines and processes that are currently in place for the DRR have worked well.

As a result, the Staff would recommend that the Commission keep all such processes in place except as modified in these Comments.

RECOMMENDATIONS TO THE COMMISSION

The Staff recommends that the Commission adopt all of the Staff recommendations contained herein and approve VEDO's Application as modified.

Respectfully submitted,

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

/s/ Ryan P. O'Rourke

Ryan P. O'Rourke
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 6th Fl.
Columbus, OH 43215
614.466.4395 (telephone)
614.644.8764 (fax)
william.wright@puc.state.oh.us
ryan.orourke@puc.state.oh.us

CERTIFICATE OF SERVICE

I certify a true copy of the foregoing was served upon the following parties of record via electronic mail on October 30, 2013.

/s/ Ryan P. O'Rourke

Ryan P. O'Rourke
Assistant Attorney General

PARTIES OF RECORD:

Mark A. Whitt
Joel E. Sechler
Melissa L. Thompson
Carpenter, Lipps & Leland LLP
280 Plaza, Suite 1300
280 North High Street
Columbus, Ohio 43215
whitt@carpenterlipps.com
sechler@carpenterlipps.com
thompson@carpenterlipps.com

Colleen L. Mooney
David C. Rinebolt
Ohio Partners for Affordable Energy
231 West Lima Street
P.O. Box 1793
Findlay, Ohio 45839-1793
cmooney@ohiopartners.org
drinebolt@aol.com

Joseph P. Serio
Larry S. Sauer
Kyle L. Verrett
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
serio@occ.state.oh.us
sauer@occ.state.oh.us
verrett@occ.state.oh.us

Todd M. Smith
Schwarzwald McNair & Fuso LLP
616 Penton Media Building
300 East Ninth Street
Cleveland, Ohio 44114
tsmith@smcnlaw.com