BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

REPLY COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

I. INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC") files these Reply Comments to recommend ways that Ohio consumers should be protected with regard to the proposal of Vectren Energy Delivery of Ohio, Inc. ("Vectren" or "Utility") for collecting hundreds of millions of dollars from Ohio customers to pay for the replacement of bare steel and cast iron ("BS/CI") distribution main pipelines. In its Application, Vectren is proposing a new methodology to reflect Operations and Maintenance ("O&M") Cost Savings as a partial offset to costs collected from customers through the Distribution Recovery Rider ("DRR").[1] This is important because O&M cost savings are a key component that provides a balance between shareholder benefits and customer benefits under the DRR program.

On September 26, 2013, the Attorney Examiner established a procedural schedule that provided for the filing of Comments on October 30, 2013, and Reply Comments on November 13, 2013.[2] On October 30, 2013, OCC and the Public Utilities Commission of Ohio ("Commission" or "PUCO") Staff filed their Comments ("Staff Comments") in

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[1] Application at 5 (August 22, 2013).

[2] Entry at 2 (September 26, 2013).

accordance with the Attorney Examiner's Entry. OCC hereby files its Reply Comments in response to the PUCO Staff's Comments in accordance with the Attorney Examiner's Entry.

II. REPLY COMMENTS

A. Vectren's Proposed Operation and Maintenance Cost Savings Calculation Should Be Modified So That Customers Receive The Full Benefit Of The Savings From The Distribution Recovery Rider Program.

1. The Commission should reject the PUCO Staff's recommendation to include service line replacements in the calculation of the Operation and Maintenance Cost Savings.

The PUCO Staff, in its Comments, uses a methodology that varies slightly from Vectren's proposal. The PUCO Staff recommends that the "average of the O&M savings reported in the 2010 through the 2013 filing years (covering investment years 2009 through 2012)"[3] of $294,116 be used instead of the O&M savings reported for the most recent year-2012 ($274,919).[4] Staff also recommends utilizing the $294,116 to compute an average savings-per-mile of $5,882 based upon a 50 miles-per-year replacement rate.[5] As explained further below, the Commission should adopt the use of a historical four-year average as the PUCO Staff proposes. But the Commission should reject the PUCO Staff's proposal to net the O&M cost savings related to mains against the costs for replacement of service lines.[6]

The PUCO Staff's inclusion of service line replacements in the O&M cost savings calculation is contrary to the original intent of the DRR program -- which is to accelerate

[3] Staff Comments at 18-19 (October 30, 2013).

[4] Id. at 19.

[5] Id. at 19.

[6] Id. at 18.

the replacement of bare steel and cast iron high pressure distribution lines because of the alleged safety threat.[7] The Utility never identified service lines as a safety concern.[8] The inclusion of service line replacements was done because the Utility argued that it was more cost efficient to replace the service lines as part of distribution line replacement rather than going back and replacing them afterwards.[9] Because the DRR program is a safety-focused program, the O&M cost savings should be based on the segment of the system that impacts O&M cost savings -- the distribution mains only.

Additionally, with the inclusion of service line replacements in the O&M cost savings calculation, the customer benefit is unreasonably reduced because Vectren did not have responsibility for service line maintenance prior to the DRR Program, and thus there is not a baseline amount for service line O&M costs built into the cost savings formula. Therefore, such a reduction is unreasonable because it results in an apples to oranges comparison. Mains compares a baseline maintenance expense to actual maintenance expenses, while service lines have no baseline for maintenance expense. Instead only actual maintenance expenses are included, that serve to fully reduce the O&M Cost Savings. Accordingly, the Commission should reject the PUCO Staff's recommendation to include service line replacements in the calculation of the O&M Cost Savings.

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[7] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. James Francis Direct Testimony at 7 (December 4, 2007).

[8] Id.

[9] Id.

2. The Operation and Maintenance Cost Savings calculation should be based upon four-years of available data (2009-2012) during the Distribution Recovery Rider program.

As stated above, the OCC agrees with PUCO Staff's use of a four-year historical average to determine an estimate of overall O&M savings going forward, but disagrees with Staff's proposed methodology as it relates to the determination of cost savings per year and savings-per-mile. OCC recommended in its Comments a more detailed average savings-per-mile calculation based on a four-year average of actual mains savings divided by a four-year (2009-2012) average of actual miles of main replaced.[10] The PUCO Staff proposes that the Commission adopt a methodology that nets the O&M cost savings related to mains against the costs for replacement of service lines for years 2009-2012.[11] Also, the PUCO Staff's methodology does not consider actual average miles of main replaced during the 2009-2012 timeframe in the calculation of its estimated savings-per-mile.

OCC's methodology excludes the negative impact on O&M Cost Savings from the replacement of service lines as advocated by the PUCO Staff.[12] Specifically, the PUCO Staff recommendation results in a $5,882 savings-per-mile; a cost savings per year of $294,116 and an overall savings of $1,764,616 for the period 2013-2017.[13] OCC's proposal results in $11,000 savings-per-mile and a total cost savings per year of $589,600 with a total cost savings for the upcoming five-years (2013-2017) of the DRR Program of

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[10] OCC Comments at OCC Exhibit No. 1 (October 30, 2013).

[11] Staff Comments at 18 (October 30, 2013).

[12] Id. at 18.

[13] Id. at 19.

$3,222,919.[14] This compares to Vectren's proposed $4,500 savings-per-mile; $225,000 cost savings per year; and overall savings of $1,399,919.[15] And OCC's recommendation of $11,000 savings-per-mile reflects the Utility's actual savings-per-mile method except that it employs two more years (2009-2010) of actual mains maintenance savings and four years (2009-2012) of actual miles of main replaced to arrive at a more accurate savings-per-mile figure.[16]

OCC's method of determining savings-per-mile, cost savings per year and overall mains replacement savings is reasonable and should be adopted by the Commission. OCC's methodology incorporates more comprehensive information (based on the Utility's actual experience during the first four-years of the DRR Program) than the method proposed by the Utility that relies only on a smaller subset of data from selected years.

3. Vectren should be required to determine the guaranteed minimum level of Operation and Maintenance savings to be passed back to customers each year.

The PUCO Staff did not include in its Comments a recommendation for a guaranteed minimum level of savings.[17] In its initial Comments, OCC recommended that a guaranteed minimum level of O&M Savings be recognized for each Program Year[18] as

[14] OCC Comments at OCC Exhibit No. 2 (October 30, 2013).

[15] Direct Testimony of James M. Francis, at 23 (August 22, 2013).

[16] OCC Comments at OCC Exhibit No. 1, Columns (A) and (B). Through discovery, Vectren responded that the $4,500 credit per mile of BS/CI main replaced is based on a two-year average of historical mains maintenance savings (2011-2012). See Vectren response to OCC Interrogatory No. 74, attached hereto as Attachment No. 1.

[17] Staff Comments at 17-19 (October 30, 2013).

[18] OCC Comments at 11 (October 30, 2013).

had been approved in previous infrastructure replacement rider cases.[19] OCC recommended that if the actual O&M Savings was greater, for example, than $864,519 in 2013,[20] then the greater amount should be used as the O&M cost savings that should be deducted from the revenue requirement calculation for that year.[21] If the Commission grants an extension of the DRR Program, then any extension should include a guaranteed minimum level of savings requirement consistent with OCC's Comments.

B. The PUCO Staff's Recommended Cap On Vintage Plastic Pipe Is Excessive.

Vectren proposes to recover through the DRR the cost of replacing vintage plastic pipe when it is encountered in association with a DRR replacement project. The PUCO Staff's recommendation is as follows:

> 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.[22]

The Commission should reject the PUCO Staff's proposed 5% cap. The inclusion of vintage plastic pipe in Vectren's DRR Program should be limited to no more than 1% of

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[19] *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Modify and Further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs.* Case No. 11-2401-GA-ALT. Opinion and Order at 6-7. (August 3, 2011). *In the Matter of the Application of Duke Energy Ohio, Inc. for an Adjustment to Rider AMRP Rates.* Case No. 09-1849-GA-RDR. Opinion and Order at 5. (April 28, 2010). *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of an Alternative Form of Regulation.* Case No. 11-5515-GA-ALT. Opinion and Order at 7-8. (November 28, 2012).

[20] OCC Comments at Exhibit No. 2 (October 30, 2013).

[21] Id. at 11.

[22] Staff Comments at 14 (October 30, 2013). (Emphasis added).

the total feet of pipe replaced through the DRR program in any one year. Support for this position can be found in the Testimony of James Francis.[23]

Vectren's anticipated annual expenditures for the replacement of vintage plastic pipe are less than 1 percent per year.[24] Therefore, there is no reason to provide a limitation that significantly exceeds Vectren's own estimate for its anticipated expenditures on this issue.

III. CONCLUSION

For the reasons stated in OCC's Comments filed on October 30, 2013, the Commission should deny Vectren's request to extend the DRR program for an additional five years and to expand its scope. However, in the event that the Commission determines that an extension of the DRR is warranted, then any such extension should be consistent with OCC's recommendations in its Comments and these Reply Comments.

Respectfully submitted,

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[23] Testimony of James Francis at Exhibit No. JMF-9 (August 22, 2013). (The annual estimate for replacement of vintage plastic pipe is $250,000 per year which is approximately 0.007% of the total annual replacement cost estimates).

[24] Id.

CERTIFICATE OF SERVICE

I hereby certify that a copy of these *Reply Comments* have been served on the persons stated below via electronic transmission to the persons listed below, this 13th day of November 2013.

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Attachment No. 1

<u>Inter. No. 74:</u> Referring to Page 23, Line 8 of the Direct Testimony of James M. Francis, if the response to OCC Interrogatory No. 71 is affirmative, what portion of the $225,000 in annual incremental savings is used as a basis to calculate the $4,500 of annual cost savings per mile of BS/CI main retired?

<u>RESPONSE:</u> VEDO objects that the meaning of this interrogatory is not reasonably understandable in that Inter. No. 71 is not susceptible to either an affirmative or negative response. VEDO further objects that “portion,” “basis,” and “calculate” are vague and undefined. VEDO further objects that this interrogatory assumes without foundation that any particular portion of the $225,000 in estimated, annual savings is used to “calculate” the amount of annual cost savings per mile of BS/CI main retired. Subject to and without waiving these objections, VEDO responds as follows: The $4,500-per-mile figure was derived using the historical average savings from 2011 and 2012, as identified in Exhibit No. JMF-10, and included all categories of savings as reflected in the exhibit. The actual average, based on the miles retired in those years, is less than $4,500, but was rounded up for simplicity and to reflect the fact that there may be additional savings associated with the retirement of other assets (*e.g.*, obsolete equipment and vintage plastic).