BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

REPLY BRIEF OF VECTREN ENERGY DELIVERY OF OHIO, INC.

Mark A. Whitt (Counsel of Record)
Andrew J. Campbell
Gregory L. Williams
WHITT STURTEVANT LLP
The KeyBank Building, Suite 1590
88 East Broad Street
Columbus, Ohio 43215
Telephone: (614) 224-3911
Facsimile: (614) 224-3960
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
williams@whitt-sturtevant.com

ATTORNEYS FOR VECTREN ENERGY DELIVERY OF OHIO, INC.

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I. INTRODUCTION

In its initial brief, Vectren Energy Delivery of Ohio, Inc. (VEDO) showed that the stipulation signed by VEDO and Staff recommending the extension and expansion of the Distribution Replacement Rider (DRR) should be approved. The proposed plan satisfies the standards set forth in R.C. 4929.05, and the stipulation satisfies the Commission's applicable three-part criteria. Staff supported the same conclusion in its initial brief.

The Office of the Ohio Consumers' Counsel (OCC) argues for a different outcome. It asserts that the Commission should terminate the DRR, based entirely on its incredible position that hundreds of miles of leak-prone natural gas distribution mains do not present a "valid safety concern." (OCC Br. at 4.) OCC also recommends rejecting the stipulation, and its arguments similarly lack merit. Its case boils down to long-debunked positions (*e.g.*, that OCC's signature is required on stipulations), insubstantial issues (*e.g.*, it asserts that the rate caps are a few pennies too high), or unrealistic requests (*e.g.*, it wants O&M saving credits set at more than two-and-a-half times actual savings).

The DRR remains a critical pillar of VEDO's strategy to continue providing safe and reliable service. OCC's arguments to the contrary should be rejected, and the Commission should approve the stipulation.

II. REPLY REGARDING STATUTORY COMPLIANCE

A. The DRR responds to real and serious safety concerns.

OCC first argues that the Commission should terminate the DRR because the application does not satisfy R.C. 4929.05. According to OCC, the DRR is "not just and reasonable" because it does not "actually address[] a valid safety concern." (OCC Br. at 4.) OCC goes so far as to claim that "there is no documentation to corroborate any allegation that the DRR Program improved safety at all." (*Id*. at 5 (internal quotations omitted).) And it asserts that "there must be imminent and verifiable harm before [VEDO] could take action" regarding its distribution system. (*Id*. at 6.) OCC is wrong on all fronts.

1. Substantial evidence shows that the DRR addresses safety concerns.

First, the DRR plainly *does* address a valid safety concern. Substantial evidence supports this conclusion. VEDO's distribution infrastructure carries natural gas, and as VEDO has already explained, natural gas presents intrinsic dangers. (*See* VEDO Br. at 7–8.) Natural gas is "dangerous unless it is handled properly," *Utility Service Partners v. Pub. Util. Comm.*, 124 Ohio St.3d 284, 2009-Ohio-6764, ¶ 14, so how it is distributed implicates serious safety concerns. And the fact that bare-steel and cast-iron lines present serious safety risks cannot be doubted at this point. Over 40 years ago, the U.S. Department of Transportation recognized these safety concerns when it announced its "original minimum safety standards" and "eliminated BS/CI mains and fittings from the approved materials list for construction of new distribution systems." (Francis Dir. at 4.)

VEDO's system once included over 700 miles of these mains, and well over 500 miles remained at the end of 2013. (*Compare* Ex. No. JMF-1 (through the end of 2012, there were 590.5 miles of BS/CI infrastructure remaining) *with* Francis Dir. at 5 (VEDO retiring approximately 42 miles in 2013).) This infrastructure has historically "required seven times more leaks to be repaired per mile than plastic mains" (Francis Dir. at 5), and the remaining assets "continue to manifest [similar] leakage and repair rates" that are "significantly greater than the rates associated with protected steel and plastic pipelines. " (*Id*.)

Assets newly included in the DRR present safety issues, too. Ineffectively coated steel lines are prone to corrosion. (*Id.* at 15.) Obsolete pipes and appurtenances require fabricated repair materials, which increases the "risk of reoccurrence of leaks or leakage migration due to the longer lead time of making the repair." (*Id*. at 17.) And vintage plastic pipe is "susceptible to premature brittle-like failures when subjected to stress intensification and thus represent[s] a potential safety hazard." (*Id*. at 18.) No less than bare-steel and cast-iron mains, these assets are part of VEDO's natural gas distribution system and present safety issues that must be addressed.

Finally, VEDO's federally required Distribution and Integrity Management Program (DIMP) analysis—which OCC did not question in its brief—shows that the DRR is the most appropriate risk-mitigation activity to address these issues. (*Id*. at 11.) The DRR "allows VEDO to continue to implement its systematic replacement strategy or targeting and replacing the riskiest BS/CI pipe" and "improve[] pipeline safety and reliability." (*Id*.)

VEDO's DIMP analysis only confirms the obvious: the DRR has a substantial and necessary tie to protecting public safety. OCC's assertion that the DRR does not address a valid safety concern is not credible.

2. VEDO has proven that the DRR has improved safety and reliability.

OCC also claims that VEDO has offered only its "expectation" that an improvement in safety "might" occur. (OCC Br. at 5.) This is demonstrably false. The evidence shows that the DRR has a proven track record of improving safety.

VEDO has replaced 154.5 miles of bare-steel and cast-iron mains through the end of 2013. (Francis Dir. at 5.) As already noted, these mains leak at exponentially higher rates than modern pipe materials. VEDO's investment eliminated 435 active leaks and an "estimated 105 new leaks annually that would have reasonably been expected to occur had the targeted mains and service lines not been retired." (*Id*. at 9.) This investment has also allowed VEDO to reduce "Outside Gas Leak," "Gas Emergency," "Water in Line," and "No Gas" work orders by approximately 500 per year. (*Id*.) And the DRR allowed VEDO to move 9,658 inside meters outside, which improved employee and customer safety. (*Id*.) These are not all of the benefits of the DRR—more are described in Mr. Francis's direct testimony—but they indisputably show that the DRR has improved safety and reliability.

OCC simply ignores this evidence in claiming that VEDO has not documented or corroborated the fact that the DRR program supports public safety.

3. OCC's suggestion to wait for "harm" to become "imminent" is not credible.

OCC also asserts that the DRR is not "really a safety-focused program" unless "an imminent and verifiable safety threat exists." (OCC Br. at 4.) OCC's argument has several serious flaws.

a. VEDO's safe operation of its system does not justify terminating the DRR.

First, OCC's reasoning does not add up. OCC assumes that a presently safe system necessarily precludes programs that proactively address large-scale threats to safety. But this makes no sense. The point of the DRR is to get ahead of the problem, particularly given the potentially catastrophic consequences of failing to do so.

VEDO has never asserted that the DRR is necessary to respond to a particular gas leak. That is obviously not its purpose. It goes without saying that VEDO will always deal with its system to the best of its abilities, and if an unsafe situation develops, VEDO will respond quickly to resolve it. But rather than wait for leaks to occur, VEDO's strategy is to eliminate them *before* they occur. It is the scope of that activity—replacing and retiring hundreds of miles of bare-steel and cast-iron mains—that necessitates the DRR.

The fact that VEDO has effectively managed leaks on its system, while at the same time proactively eliminating their source, is not a basis for denying the application.

b. Supreme Court case law confirms that infrastructure programs like the DRR support public safety.

OCC cites a recent Ohio Supreme Court case for the proposition that VEDO must provide evidence of an "imminent safety threat" before it may "take action." *See In re the Complaint of Cameron Creek*, 136 Ohio St. 3d 333, 2013-Ohio-3705. This badly mischaracterizes the Court's ruling, and the case is simply not on point.

Cameron Creek did not involve the question of whether an infrastructure program could be approved. It involved a Commission ruling that an LDC could not compel a customer to spend thousands of dollars to adhere to a certain safety code, when the customer's premises already complied with applicable building codes, and the utility had provided "no evidence of any imminent or verifiable safety threat." *Id.* ¶ 31. The Court affirmed this portion of the order, but it did not affirm the merits of the Commission's reasoning—it affirmed because the appellant had not demonstrated prejudice. *Id.* ¶ 33. The case had nothing to do with infrastructure riders, much less with the conditions necessary for their approval. So *Cameron Creek* is irrelevant to this case.

In contrast, a Supreme Court decision that *is* on point is *Utility Service Partners v. Pub. Util. Comm.*, 124 Ohio St. 3d 284, 2009-Ohio-6764. That case confirms that infrastructure programs like VEDO's have a necessary and substantial tie to public safety. *Utility Service Partners* involved a review of a component of an infrastructure program, namely an LDC's assumption of responsibility for service lines. *See id.* ¶ 11. Noting the intrinsic risks posed by natural gas, the Court held that "the order [regulating service lines] was related to the protection of the public safety" and thus properly authorized under Ohio law. *Id.* ¶ 14. Notably, the Court in *Utility Service Partners* nowhere required evidence of an imminent safety threat—on the contrary, it noted that the Commission had "identified a *possible* safety gap . . . and acted to close that gap and *head off* any further incident." *Id*. ¶ 19 (emphases added).

Like the infrastructure program at issue in *Utility Service Partners*, VEDO's program is designed to proactively manage pipeline risks to public safety and to efficiently deploy capital to that end. The case law supports approval of the DRR despite OCC's glib argument to the contrary.

c. The existence of other ratemaking statutes is irrelevant.

OCC's final point in support of terminating the DRR is that traditional ratemaking under R.C. 4909.18 is an alternative cost-recovery mechanism. (OCC Br. at 7.) But OCC does not show how this justifies rejecting the DRR.

It is true that "traditional ratemaking is an alternative" in the sense that R.C. 4909.18 is a law on the books. But it is not the only alternative, and OCC does not address the substantial problems posed by traditional ratemaking in the context of an accelerated infrastructure replacement program, most especially the loss of gradualism, the substantial transactional costs of base-rate applications, and the imposition of regulatory lag. OCC merely asserts that traditional ratemaking "provides an adequate mechanism for cost recovery to address pipeline replacement expenditures" (*id.*), but neither explains why this is so nor cites any authority to that end.

Notably, OCC does not challenge the general applicability of the laws that VEDO *did* file under, which expressly permit alternative rate plans and automatic adjustment mechanisms. *See* R.C. 4929.05, 4929.051, and 4929.11. Nor does OCC argue that VEDO's application fails to comply with those laws, besides its implausible argument that the DRR lacks any connection to public safety. Whether VEDO could have filed a different application is irrelevant; Ohio law allows VEDO's request, and OCC has not shown otherwise.

In sum, none of OCC's arguments for terminating the DRR has merit. VEDO will now turn to OCC's arguments regarding the stipulation's compliance with the Commission's three-part criteria.

III. REPLY REGARDING COMPLIANCE OF STIPULATION

A. The stipulation is the result of serious bargaining, even though OCC did not sign it.

OCC's first criticism of the stipulation is that it "is not a product of serious bargaining among capable knowledgeable parties representing diverse interests." (OCC Br. at 8.) OCC's argument is essentially that "OCC did not sign the Stipulation." (*Id*. at 9.) But this is a non-issue. The Commission does not require unanimous stipulations; it "has noted many times" that "[n]o one possesses a veto over stipulations." *In re Application of Columbia Gas of Ohio, Inc.*, Case No. 07-478-GA-UNC, 2008 Ohio PUC LEXIS 208, Opin. & Order at *68 (Apr. 9, 2008). It has held that numerous stipulations satisfied the serious-bargaining criterion when signed only by Staff and the utility. *See, e.g.*, *In re Investigation of Dominion East Ohio*, Case No. 10-105-GA-GPS, 2010 Ohio PUC LEXIS 565, at *8 (May 26, 2010) (approving stipulation over OCC's objection that "there was not sufficient diversity of interests represented by staff and DEO"); *In re Application of Ohio Power Co.*, Case No. 09-1873-EL-ACP, 2011 Ohio PUC LEXIS 668 (June 1, 2011); *In re Application of Vectren Energy Delivery of Ohio, Inc.*, Case No. 12-1423-GA-RDR, 2012 Ohio PUC LEXIS 802 (Oct. 3, 2012).

The question is whether serious bargaining occurred, *see, e.g.*, *Office of Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 126 (1992), and it did. As VEDO explained in its post-hearing brief, all three parties extensively bargained over the stipulation, which was the product of "numerous discussions and circulations of both term sheets and draft documents." (Albertson Supp. Dir. at 3.) Proving the point, all three parties signed a joint motion representing that "[n]egotiations are underway to reach a settlement among all parties in the case" and that all three parties "would like additional time to work toward such a settlement." (Memo. in Supp. of Jt. Mot. for Extension of Time at 1–2 (Dec. 31, 2013).)

Indeed, even though OCC did not sign the stipulation, several provisions reflect consideration and response to OCC's positions, including the guarantee of a minimum O&M savings credit, the adoption of a plastic-pipe replacement metric, and a requirement of a rate-case filing as a condition of future DRR extension. (*Compare* Albertson Supp. Dir. at 2 *with* OCC Comments at 11 (guaranteed O&M savings); *id*. at 12–14 (plastic-pipe metric); *id*. at 19 (rate-case filing requirement).)

Serious bargaining occurred in this case. OCC does not and cannot argue "that it was kept away from the negotiating table." *In re Complaint of Dominion Retail, Inc. v. DP&L Co.*, Case No. 03-2405-EL-CSS, 2005 Ohio PUC LEXIS 43, Opin. & Order at *42 (Feb. 2, 2005) (approving stipulation over opposition of OCC). There is no basis for rejecting the stipulation on this ground.

B. OCC's criticisms of the proposed rate caps are insubstantial and misguided.

Moving to the substance of the stipulation, OCC begins by criticizing the proposed rate caps. It argues that the rate caps are several pennies too high and that they are not "hard" caps. OCC is wrong on both counts.

1. The rate caps are supported by the evidence and by careful analysis.

First, OCC asserts that "the Rate Caps included in the Stipulation are too high for protecting customers from the significant rate increases in the settlement." (OCC Br. at 10.) By "too high," OCC refers solely to the small margin (ranging from two to ten cents) that VEDO included in the caps to account for inflation over the next five years. (*See id*.)

OCC's position lacks merit, and the Commission should not lose sight of how little OCC is even challenging. OCC presents *no* challenge to the calculations supporting the amount of the proposed caps. It does not contest VEDO's testimony that the proposed rate caps are derived from detailed projections of future revenue requirements. In fact, it concedes that the proposed rate caps are based on a "complex calculation of the revenue requirement for each program year" (*id*. at 11), and it questions neither the accuracy of VEDO's calculations nor its methodology. All this shows that the proposed caps are proper and supported by careful analysis.

OCC is only challenging the pennies-per-month margin that VEDO included to account for inflationary pressures. (*See* Francis Reb. at 5–6.) This margin is so small that it is doubtful (at best) it would have any recognizable impact on any customer. If OCC's proposal were adopted, the *maximum* bill impact in any month would be a dime. OCC also points out that the amount of the margin does not uniformly escalate throughout the program (OCC Br. at 12), which is irrelevant. VEDO never asserted that the margins would or should uniformly increase. It has asserted all along that its proposal of these rate caps was a matter of "reasonable business judgment," and that the small margins were designed to account for inflationary pressure over the life of this extension. (Francis Reb. at 6; *see* VEDO Reply Comments at 18 (Nov. 13, 2013).) Finally, OCC derides the caps as "arbitrary" (OCC Br. at 12), but this is just window-dressing; OCC does not explain why it is arbitrary to account for inflation.

Trimming a few pennies from the proposed rate caps will not benefit any customer. But OCC's position would have a substantial cumulative impact on VEDO's ability to timely recover the costs of program investment. The proposed rate caps are supported by the evidence and by sound judgment, and they should be approved.

2. The proposed rate caps *are* hard caps.

OCC also asserts that the "proposed cap suffers from its lack of efficacy" and "are not firm or hard caps." (OCC Br. at 12.) This is simply incorrect.

The stipulation does not contemplate any circumstance in which VEDO may exceed the proposed rate caps. In fact, the stipulation is to the opposite effect. As VEDO explained in its initial brief, it had first proposed that the rate caps would *not* apply to reconciliation adjustments—meaning that the monthly DRR charge could have exceeded the cap in certain circumstances—but the stipulation changed this treatment. (*See* VEDO Br. at 10.) The very language cited by OCC says so: "VEDO may include [certain] deferral[s] in any subsequent DRR application, *so long as the inclusion of such deferral does not cause VEDO to exceed the applicable cap* . . . ." (OCC Br. at 12–13 (quoting Stipulation ¶ 9).)

The proposed rate caps are hard caps. OCC's position to the contrary is incorrect.

C. OCC simply misstates how the O&M Savings Credits will be calculated.

OCC offers several criticisms of the O&M Savings Credit provided by the stipulation. But tellingly, these criticisms depend *entirely* on erroneous descriptions of how the credits would be calculated.

1. OCC understates the amount of the O&M savings credit.

First, OCC blatantly understates the amount of the savings credit provided by the stipulation. It says that "[t]he stipulated O&M cost savings credit of $5,882/mile times the projected 50 miles per year will only yield $294,100 as a credit to customers." (OCC Br. at 13.) This is simply not true.

The O&M Savings Credit *combines* two credits, but for some reason, OCC only mentions one of them. Under the stipulation, VEDO will pass back two credits:

> (*1*) an annual credit of $294,116 *plus*
>
> (2) a per-mile credit of $5,882 for bare-steel and cast-iron mains replaced over the life of the program.

(*See* Stip. ¶ 8.) OCC says with 50 miles replaced, the first year's credit would be $294,100. That is incorrect. In the first year, the credit would be nearly twice that: $588,216.[1]

Why OCC only states one of the two credits is unclear, but because OCC incorrectly describes how the stipulation would operate, its criticisms ring hollow.

2. OCC incorrectly asserts that savings will not increase under the stipulation.

OCC also asserts that "as the DRR program matures," O&M Savings Credits will not "increase." (OCC Br. at 14–15.) Once again, this is not true.

In fact, the opposite is true: savings are guaranteed to increase under the stipulation. "Savings credits would be cumulative." (Francis Dir. at 23; *see also, e.g.*, Ex. SEA-2 at 3 (proposed tariff stating that savings will be "based on cumulative mileage").) This means that each year, VEDO will multiply the per-mile credit by the *total mileage* replaced over the life of the five-year extension. For example, in the first year, if VEDO replaced 50 miles of bare-steel and cast-iron main, the credit will be $588,216.[2] If VEDO replaced another 50 miles in the second year, the per-mile credit would be multiplied by 100 miles, and the total credit would rise to $882,316.[3] And so on: after five years, assuming 50 miles per year, the per-mile credit would be multiplied by 250 miles, and the total credit would rise to $1,764,616.[4]

In other words, there will be a mile-for-mile increase in the credit throughout the life of the five-year program extension. This refutes OCC's assertion that increases in mileage will not lead to "comparable increase[s] in O&M cost savings." (OCC Br. at 14.) Again, it is instructive that OCC can only criticize the stipulation by misstating it.

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[1] $5,882 times 50 miles, plus $294,116 = $588,216.
[2] Year 1: $5,882 times 50 miles, plus $294,116 = $588,216.
[3] Year 2: $5,882 times 100 miles, plus $294,116 = $882,316.
[4] Year 5: $5,882 times 250 miles, plus $294,116 = $1,764,616.

3. OCC is wrong that savings will be *less* under the stipulation than they have been in past cases.

OCC's misstatements continue: it also asserts that "actual" savings from past cases would be "greater than what is proposed in the Stipulation." (OCC Br. at 14.) Again, this is demonstrably false.

The following table shows what O&M Savings Credits would have been in past years by plugging past years' mileage totals into the formula established by the Stipulation. Contrary to OCC, this table shows that O&M Savings Credits under the stipulation would have *exceeded* actual O&M savings *every year*, and by more than triple in the last year:

Year	Actual Savings	Hypothetical O&M Savings Credit	Cumulative Increase
2009	$347,765	$438,048.54	$90,283.54
2010	$286,033	$537,513.16	$251,480.16
2011	$350,190	$741,618.56	$391,429.56
2012	$257,022	$955,782.18	$698,760.18

So this is another diametric error by OCC: savings would have been greater, not less, had the stipulation been in effect in past cases.

To be clear, this does not show that past savings were understated. VEDO's actual, measureable O&M cost savings were accurately presented and were scrutinized by the Commission, Staff, and OCC. What this shows is that the stipulation's proposed treatment of O&M cost savings is not a lopsided benefit to VEDO, as OCC suggests, but is actually expected to pass back greater cost savings to customers than will actually be achieved.

4. OCC's comparison of total program investment with annual cost-savings is misleading.

OCC's final criticism of the O&M Savings Credits is that they do not provide a "reasonably sufficient benefit for customers to warrant the additional cost of the DRR Program expansion." (OCC Br. at 15.) It notes that even its own inflated proposal for O&M savings is substantially lower than "the $100-plus million that Vectren will charge customers under the Stipulation." (*Id*.)

The unstated assumption behind this argument is that O&M savings are the *only* benefit to be achieved by the DRR. This assumption is laughable. The fundamental purpose of the DRR is to replace risk-prone infrastructure and to help ensure the continued safe and reliable provision of distribution service. To be sure, the reduction of O&M expense is a significant ancillary benefit of the program, but it is not the reason for the DRR's existence.

In sum, none of OCC's arguments against the stipulation's savings provisions has merit.

D. OCC's recommended per-mile credit vastly exceeds actual cost savings.

In addition to criticizing the stipulation's O&M Savings Credit, OCC also proposes its own credit. It asserts that the Commission "should establish the minimum level benefit to customers as the O&M cost savings credit calculated by OCC witness Hines—$11,032/mile." (OCC Br. at 15.) This proposal must be rejected: OCC's proposed credit is almost two-and-a-half times greater than VEDO's actual per-mile savings and is based on slipshod methodology.

1. OCC's proposed credit is more than double VEDO's actual per-mile savings.

First, the record shows that OCC's proposed $11,032-per-mile credit "drastically overstates the savings actually associated with main replacement in the first five years of the program." (Francis Reb. at 2.)

VEDO's actual mains-related savings were $4,471.62 per mile replaced. (*Id*. at 5.) As Mr. Francis explained, this number was the result of a detailed review of VEDO's actual historical costs:

> VEDO reviewed all of the potential categories of work related to the assets being retired and identified the work that would be eliminated as a result of replacing these assets. These categories include items such as regulator inspections, corrosion test station readings, leak repairs, leak surveys, and others as listed in Exhibit JMF-10 included in my direct testimony. VEDO was able to quantify the

> amount of each of these as a result of the retirements associated with all of the projects completed in a given year, which then allowed VEDO to calculate the associated savings for that year of $503,057.

(*Id*. at 4.) Although VEDO's savings analysis was shared with OCC in discovery and discussed in testimony (*id*.), OCC offered no criticism of this analysis in its initial brief.

VEDO's detailed savings review is the *only* evidence in this case regarding actual savings. And it shows that OCC's proposed credit of $11,032 per mile vastly exceeds—by nearly two-and-a-half times—the actual savings of $4,471 per mile tied to mains replacement.

2. OCC's proposed credit is based on incorrect assumptions and unsound methodology.

The inflation of OCC's savings credit reflects the faulty analysis behind it. OCC's $11,000 credit does not reflect review of actual cost data, but simplistic assumptions and an incorrect methodology.

First, OCC "incorrectly assumes that O&M savings from past cases provide an accurate basis for estimating future per-mile savings." (Francis Reb. at 3.) But as Mr. Francis explained, past O&M savings "reflected costs and savings not related solely to leak repair and meter-order work on bare-steel and cast-iron assets." (*Id*.) And the balance of work in the early years of the program also affected the amount of savings: VEDO "had to spend more time replacing service lines (a capital investment) than on repairing leaks on mains (an operational expense)." (*Id*. at 4.) So the mere fact that VEDO spent less time on expense-oriented projects effectively "drove down O&M leak-repair costs and generated greater overall savings." (*Id*. at 4.) For these reasons, dividing past O&M savings by miles replaced will not accurately project future per-mile savings.

Even if OCC's simplistic assumption were proper, its methodology remains unsound. A correct methodology would have divided only *the final year's* savings credit by the total miles replaced. That is because "[e]ach year's credit provides a snapshot of the actual savings achieved in that year based on *cumulative* miles replaced." (*Id*. at 3 (emphasis sic).) But OCC's witness did not do this. He "incorrectly added up all of the past years' savings credits, which overstates the actual O&M savings as of the end of 2012." (*Id*. at 2.) By adding each cumulative year-end snapshot together, instead of using cumulative, end-of-2012 savings, OCC "suggest[ed] that VEDO had achieved more than four times the annual O&M savings it had actually achieved by the end of 2012." (*Id*.)

3. OCC's proposed credit is not justified by the inclusion of obsolete pipe and appurtenances.

OCC also asserts that its inflated savings credit should be accepted because the program will "include the replacement of obsolete pipe and appurtenances." (OCC Br. at 15–16.) According to OCC, "there should be a benefit for consumers in the form of applicable O&M cost savings credit associated with the inclusion of obsolete pipe and appurtenances in the DRR program." (*Id*. at 16.)

OCC's argument lacks merit. No evidence suggests that the stipulation's O&M Savings Credit would fail to capture any savings associated with the replacement of obsolete pipe and appurtenances. Far from it: the stipulation's proposed per-mile savings credit is already *substantially greater* than expected per-mile savings. Although VEDO's actual savings per-mile are expected to be $4,471.62 (Francis Reb. at 5), the stipulation provides for a per-mile credit of $5,882—over $1,400 more per mile than VEDO expects to actually save.

This is a major benefit to customers, and it means the O&M Savings Credit is already set to pass back approximately 130-percent of expected actual savings. In contrast, obsolete pipes and appurtenances constitute a very small part of the Replacement Program—less than one percent of program investment. (*See* VEDO Alt. Rate Exhibits at 8.) The O&M Savings

Credit's 30-percent overage will surely capture any additional savings tied to this less-than-1-percent addition to the program. OCC gives no reason to think otherwise, and it certainly cites no evidence to that end.

In short, OCC's proposed credit must be rejected. It is not based on a review of actual cost data; it depends on overly simplistic assumptions; and it relies on an unsound methodology.

E. The stipulation *guarantees* O&M savings to customers.

Ultimately, all of OCC's arguments regarding the crediting of O&M cost savings are much ado about nothing. OCC has provided no reason to think that actual savings per mile are anywhere close to the $11,032 figure it proffers. Indeed, OCC has provided no reason to think that actual savings are greater than the $5,882 credit established by the stipulation. But if OCC were correct, and actual savings *did* exceed the O&M Savings Credit, customers are guaranteed the greater amount. (Stip. at 4.) Given the generosity of the stipulated O&M Savings Credit, it strikes VEDO as extremely unlikely that actual savings will ever exceed the amount of the credit—but if they do, customers are fully protected.

Thus, at bottom, OCC is not asking that customers receive the fair benefit of actual savings. Customers are guaranteed *at least* that. OCC's only basis for inflating the O&M savings credit is that it desires that result, and while that results-oriented approach might suit OCC's interests, it has nothing else to recommend it. VEDO and Staff have already guaranteed that customers will receive likely greater-than-actual savings. The stipulation will benefit customers, and the Commission should approve it.

F. Economic conditions do not support rejecting the DRR.

OCC also asserts that "many customers in Vectren's service area . . . are suffering financial challenges . . . . reflected in poverty levels, unemployment and utility disconnections."

(OCC Br. at 17.) This, says OCC, "should persuade the PUCO to be circumspect" in ruling on this case. (*Id*. at 18.)

VEDO has no doubt that the Commission will carefully consider the evidence in this case. And VEDO shares OCC's concern for the financial well-being of its customers. But these concerns are directly addressed through numerous programs and policies already in place. The Percentage of Income Payment Plan program, moratoria on cold-weather disconnection, the millions of dollars annually funding VEDO's low-income conservation and demand-side-management programs—all of these programs provide direct financial assistance to customers in need. And the stipulation itself includes numerous elements to mitigate financial impacts: the imposition of defined rate caps; the application of those caps to all adjustments; guaranteed O&M savings; and the provision of an O&M Savings Credit expected to provide greater-than-actual savings. These programs and provisions directly provide financial benefits to customers in need.

Here and throughout, OCC seems to have lost sight of the fact that there are other benefits besides reduced rates. Safe and reliable service provides direct and indirect benefits to customers from all walks of life; if OCC is concerned about local economic impacts, it should consider the consequences of failing to invest in a community's infrastructure. In the short run, the *cheapest* approach would be to stop responding to leaks, stop answering the phone, and stop investing in the system. But VEDO fails to see how that approach lines up with either its duty to serve or the definite risks posed by bare-steel and cast-iron infrastructure.

Rate issues are important, and they are fully accounted for in the stipulation. But by singularly focusing on rates, OCC ignores the underlying need for utilities to invest in the distribution system.

G. Every element of the program will be subject to review and approval before a single dollar is recovered.

OCC's concludes by criticizing a provision of the stipulation that (allegedly) "allows charges" for public-works projects but (allegedly) does not "preserve parties' rights to challenge any utility proposals to charge utility customers for such projects in the future." (OCC Br. at 19.) OCC's arguments lack merit.[5]

The stipulation does not "allow charges" or provide a single dollar of cost recovery to VEDO. The Commission is not being asked to approve a single dollar of cost recovery in this case. The stipulation sets the ground rules for future recovery proceedings, but not one dollar will be collected from customers without the Commission's review and approval.

Moreover, contrary to OCC's assertion, the stipulation fully preserves opportunities for review. The stipulation recommends approving the application (Stip. ¶ 2), and thus approves continuation of the annual review of VEDO's investment and replacement activity under the program. (*See, e.g.*, Alt Rate Exhibits at 6.) As Staff explained, "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." (Staff Comments at 21 (Oct. 30, 2013).)

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[5] VEDO will briefly address OCC's assertion that VEDO "inappropriately" cited the Commission's approval of a stipulation addressing Columbia Gas of Ohio's infrastructure program. (*See id*. at 19–20.) There is nothing improper in describing the Commission's treatment of similar issues in other cases; in fact, it serves a good purpose by showing that such treatment accords with prevailing regulatory standards. If any parties to the Columbia stipulation agreed not to cite it, that is irrelevant here—VEDO is not a signatory party and is not prohibited from discussing or relying on this public document. Ironically, OCC, who *is* bound by the stipulation, *does* cite it for precedential reasons, asserting that its provisions must be carried forward.

In short, all of VEDO's costs and investments will be subject to review, including public-works projects. Any additional reservation of rights, as OCC suggests, would simply be superfluous.

IV. CONCLUSION

None of OCC's arguments challenging the application or stipulation has merit. For the foregoing reasons, VEDO respectfully requests that the Commission approve the application and stipulation.

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Respectfully submitted,

/s/ Andrew J. Campbell

Mark A. Whitt (Counsel of Record)
Andrew J. Campbell
Gregory L. Williams
WHITT STURTEVANT LLP
The KeyBank Building, Suite 1590
88 East Broad Street
Columbus, Ohio 43215
Telephone: (614) 224-3911
Facsimile: (614) 224-3960
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
williams@whitt-sturtevant.com

ATTORNEYS FOR VECTREN ENERGY DELIVERY OF OHIO, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of VEDO's Reply Brief was served by electronic mail this 7th day of February, 2014 to the following:

Joseph P. Serio
Larry S. Sauer
Office of the Ohio Consumers' Counsel
10 West Broad Street,
18th Floor Columbus, OH 43215-3485
serio@occ.state.oh.us
sauer@occ.state.oh.us

William L. Wright
Ryan P. O'Rourke
Assistant Attorney General
Public Utilities Section
180 E. Broad St. 6th Floor
Columbus, OH 43215-3793
william.wright@puc.state.oh.us
ryan.orourke@puc.state.oh.us

/s/ Andrew J. Campbell
One of the Attorneys for Vectren Energy Delivery of Ohio, Inc.