**BEFORE**
**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges. | : : : : | Case No. 17-1155-GA-RDR |

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


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**On behalf of the Staff of**
**The Public Utilities Commission of Ohio**


**July 21, 2017**

## TABLE OF CONTENTS

**Page**

**BEFORE**
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| | | |
|---|---|---|
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## INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (Commission) Opinions and Orders adopting the Stipulations and Recommendations filed in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT (*"2007 Rate Case"* and *"2013 DRR Extension Case,"* respectively), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned case seeking authority to increase its Distribution Replacement Rider (DRR). The purpose of the DRR increase is to allow VEDO to: (1) recover a return of and on certain investments made in 2016 to replace aging natural gas pipeline infrastructure and (2) recover the costs of assuming ownership and repair of previously customer-owned service lines. These comments present a summary of the Commission Staff's (Staff) investigation of VEDO's Application and the Staff's findings and recommendations.

## BACKGROUND

VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 316,000 customers in west central Ohio.[1] It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code and subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (2007 Rate Case Stipulation) and authorized VEDO to establish the DRR for a period of five years or until new rates are approved pursuant to a base or alternative rate case. The Commission's Opinion and Order in Case No. 13-1571-GA-ALT approved a Stipulation and Recommendation (Case No. 13-1571-GA-ALT Stipulation) that authorized VEDO to continue the DRR Program for an additional five-year period (for recovery of investments made in years 2013 through 2017) and to expand the Program's scope. The purpose of the DRR is to permit VEDO to seek recovery of: (1) the return of and return on[2] plant investment, including post-in-service carrying costs (PISCC), and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the Company's riser

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[1] *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges,* Case No. 17-1155-GA-RDR (Application at 1) (May 1, 2017).

[2] The pre-tax rate of return is 11.67% as established in the *2007 Rate Case*.

investigation pursuant to Case No. 05-463-GA-COI;[3] (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.

The *2007 Rate Case* Stipulation provided a process for establishing the annual DRR rate and the Case No. 13-1571-GA-ALT Stipulation continued that process. By May 1 of each year, the Company must file an application detailing the investments and costs that were incurred during the previous calendar year and a summary of its construction plans for the next year. VEDO bears the burden of proof regarding the justness and reasonableness of the DRR rates proposed each year. Further, Staff will perform an investigation of the annual applications and make recommendations on the justness and reasonableness of the applications. Other parties may file comments on the applications and unresolved issues will be set for hearing by the Commission. 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. Pursuant to the approved Case No. 13-1571-GA-ALT Stipulation, the DRR is capped annually for the Residential and Group 1 General Service customers, as follows:[4]

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[3] The initial DRR rate for recovery of 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.

[4] *2013 DRR Extension Case* (Stipulation and Recommendation at 4-5) (Jan. 17, 2014).

| DRR Investment Year | Recovery Period | Applicable Cap |
|---|---|---|
| 2013 | 9/1/14 – 8/31/15 | $4.05 |
| 2014 | 9/1/15 – 8/31/16 | $5.45 |
| 2015 | 9/1/16 – 8/31/17 | $6.70 |
| 2016 | 9/1/17 – 8/31/18 | $8.00 |
| 2017 | 9/1/18 – 8/31/19 | $9.25 |

## VEDO'S APPLICATION

VEDO filed its Application on May 2, 2017. The Application is supported by the testimony and exhibits of Steven A. Hoover, Director of Engineering, and J. Cas Swiz, Director of Rates and Regulatory Analysis. Mr. Hoover's testimony and exhibits present the progress made in 2016 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's 2017 BS/CI replacement plans, maintenance costs associated with the 2016 BS/CI Replacement Program, the 2016 incremental costs for maintenance and repair of service lines previously owned by customers, 2016 capital costs for replacement of previously customer-owned service lines, and the operation and maintenance cost savings realized in 2016.

Mr. Swiz's testimony and exhibits provide explanations of the various components of the Company's proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the 2016 Mains and Service Line and Riser Replacement Programs; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with the Mains and Service Line and Riser Replacement Programs; a discussion of the Company's rationale and policies for recording retirements, PISCC,[5] and AFUDC; and a schedule showing the true-up for and the over- or under-recovery of the revenue requirement adopted in last year's DRR application, Case No. 16-904-GA-RDR. In addition, Mr. Swiz's testimony also provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

In its Application, VEDO indicates that in 2016 it replaced 41.28 miles of bare steel and 7.30 miles of cast iron mains, replaced 4,240 BS/CI service lines (with an additional 424 service lines retired), and moved 3,303 inside meters outside as part of its Replacement Program. The Company proposes a Mains Replacement Program revenue requirement of $11,088,842 and $24,692,646 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of $35,781,488. The Company proposes that the DRR revenue requirement of $35,781,488 be allocated to customers as follows:

| **Rate Schedule** | **Proposed $ Per Month** | **$ Per Ccf** | **Increase Over Current Rate** |
|---|---|---|---|
| 310, 311, and 315 | $7.92 | | $1.32 |
| 320, 321, and 325 (Group 1) | $7.92 | | $1.32 |
| 320, 321, and 325 (Group 2 and 3) | | $0.06015 | $0.01123 |
| 341 | $88.51 | | $45.87 |
| 345 | | $0.01546 | $0.0028 |
| 360 | | $0.00992 | $0.00154 |

[5] The PISCC rate of 7.02% represents the Company's long-term cost of debt as established in the *2007 Rate Case*.

## STAFF'S INVESTIGATION SUMMARY AND COMMENTS

The Staff reviewed the Company's Application and testimony, issued several information requests seeking additional supporting data, interviewed Company personnel, reviewed the Company's competitive bidding process, and traced representative sample expenses back to their source data. The Staff's investigation was designed to ensure that the Company's policies and practices comport with sound ratemaking principles and Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the rider increases sought in the Application are just and reasonable.

### A. VEDO's Competitive Bidding Process

VEDO employs a competitive bidding process for the majority of the capital work associated with DRR projects. The Company issues for bid individual bid packages (which are multiple projects grouped together) to contractors that VEDO has determined are qualified and capable of performing the scope of work detailed in the bid packages. The contractors, in turn, submit unitized bid prices based on the expected number of units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) per project as well as identifying any capacity limitations and preferred bid packages. In comments filed in last year's DRR case (Case No. 16-904-GA-RDR), Staff stated that it believed that this process has served to effectively control DRR project labor costs. Staff also reported that the number of contractors submitting bids increased from four to five, but noted that more than fifty percent of available contract packages had been awarded to Miller Pipeline

Company, which is affiliated with VEDO. Staff stated that it would continue to annually monitor VEDO's contractor bidding and selection process to ensure that the Company does not provide any preferential treatment to Miller, establish unreasonable qualification standards, or impose any other unreasonable barriers that would prevent contractors from participating in the DRR bidding process.

For 2016, Staff found that the number of contractors that submitted and won bids remained at five and that Miller was awarded approximately thirty-two percent of available bid packages, which represented approximately forty-seven percent of the total contracted dollars. The next two contractors with the largest percentage shares of the available bid packages had twenty-seven percent and eighteen percent, respectively. Combined, the bid packages awarded to these contractors totaled approximately forty-two percent of the total contacted dollars. In Staff's opinion, the number of contractors submitting and winning bids along with the facts that awarded bid packages contract dollars were spread out over the eligible contractors and that no contractor was awarded a disproportionate share suggests that VEDO's contractor bidding and selection process in 2016 was fair and effective in controlling DRR costs. As noted in the 2015 comments, however, Staff will continue to annually review VEDO's contractor bidding and selection process.

## STAFF'S CONCLUSIONS AND RECOMMENDATIONS

Based on its investigation and findings, Staff concludes that VEDO's Application complies with the Commission's Opinions and Orders in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT and will result in just and reasonable DRR rates. Therefore, Staff recommends that the Company's Application be approved by the Commission.

Respectfully submitted,

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**On behalf of the Staff of**
**The Public Utilities Commission of Ohio**

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following parties of record, this 20th day of July, 2017.

*/s/Thomas G. Lindgren*
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