

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval)
of an Increase in Gas Rates) Case No. 18-0298-GA-AIR

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc., for Approval)
of an Alternative Rate Plan) Case No. 18-0299-GA-ALT

APPLICATION TO INCREASE RATES AND CHARGES

Company Name and Address: Vectren Energy Delivery of Ohio, Inc.
One Vectren Square
Evansville, Indiana 47708

Company Contact for Rate Case Matters: Scott E. Albertson
Vice President, Regulatory Affairs and
Gas Supply
One Vectren Square
211 N.W. Riverside Drive
Evansville, Indiana 47708
Telephone: 812-491-4682
Scott.Albertson@Vectren.com

Attorneys for Applicant: Mark A. Whitt (0067996)
Andrew J. Campbell (0081485)
Shannon K. Rust (0090182)
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
rust@whitt-sturtevant.com

Frank P. Darr (Reg. No. 0025469)
Matthew R. Pritchard (Reg. No. 0088070)
McNees Wallace & Nurick LLC
21 East State Street, 17TH Floor
Columbus, OH 43215

Telephone: (614) 469-8000
Telecopier: (614) 469-4653
fdarr@mcneeslaw.com
mpritchard@mcneeslaw.com

P. Jason Stephenson (21839-49)
Vectren Corporation
One Vectren Square
211 N.W. Riverside Drive
Evansville, Indiana 47708
Telephone: (812) 491-4231
Facsimile: (812) 491-4238
jstephenson@vectren.com

(pro hac vice pending)

Test Year:

12 months ending September 30, 2018

Date Certain:

December 31, 2017

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval)
of an Increase in Gas Rates)

Case No. 18-0298-GA-AIR

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc., for Approval)
of an Alternative Rate Plan)

Case No. 18-0299-GA-ALT

APPLICATION OF VECTREN ENERGY DELIVERY OF OHIO, INC.

Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company), in accordance with R.C. 4909.18 and 4929.05, respectfully requests that the Commission grant VEDO authority to increase its rates for its gas distribution service, approve the requested tariff changes, approve changes in VEDO’s accounting methods, and any other necessary and proper relief as described below. In support of this Application, VEDO states as follows:

1. VEDO is an Ohio corporation engaged in the business of transporting and distributing natural gas to approximately 318,000 customers in Dayton and west central Ohio. VEDO is a “public utility” and “natural gas company” as defined in R.C. 4905.02(A) and 4905.03(E) and is subject to the Commission’s jurisdiction in accordance with R.C. 4905.04, 4905.05, and 4905.06.

2. In accordance with R.C. 4909.18 and other related sections of the Revised Code, VEDO is applying for authority to make changes and increases in gas rates applicable in incorporated communities and unincorporated territories within VEDO’s entire service area, which includes all or portions of Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Highland, Logan, Madison, Miami, Montgomery, Pickaway, Preble, Shelby, and Warren Counties in Ohio.

3. In this Application, VEDO proposes changes to various rates and charges as specified in the E Schedules, including the following: Rate 310, Residential Default Sales Service; Rate 311, Residential Standard Choice Offer Service; Rate 315, Residential Transportation Service; Rate 320, General Default Sales Service; Rate 321, General Standard Choice Offer Service; Rate 325, General Transportation Service; Rate 345, Large General Transportation Service; Rate 360, Large Volume Transportation Service; Rate 380, Pooling Service (Large Transportation Customers); Rate 385, Choice Supplier Pooling Service; Rate 396, SCO Supplier Service; and certain miscellaneous fees and charges. VEDO proposes eliminating Rate 341, Dual Fuel Standard Choice Offer Service, and a financial evaluation fee currently applicable to Pool Operators, Choice Suppliers, and SCO Suppliers.

4. In addition to the foregoing rates, VEDO also proposes adjustments to its Distribution Replacement Rider (DRR) and Energy Efficiency Funding Rider (EEFR).

5. VEDO also proposes to revise its depreciation accrual rates and is providing as part of its filing a copy of the depreciation study supporting the proposed revisions.

6. VEDO also proposes the following new tariff schedules and programs: Sheet No. 47, Energy Conversion Factor; and Sheet No. 70, Extension of Company Facilities to Multi-Family Housing Projects.

7. With respect to Sheet No. 54, VEDO proposes the adoption of a 45-day automatic-approval mechanism to permit the updating of the Unaccounted for Gas (UFG) Percentage. The Company would continue to update the UFG Percentage on a periodic basis by filing an Application with the Commission, with supporting exhibits demonstrating the calculation, and providing other appropriate support as requested by Staff. Under VEDO's proposal, 45 days would then be provided to approve, suspend, or deny the Application, with the

updated UFG Percentage deemed approved on the 46th day if no action has been taken. This approach will ensure proper review of updates to the UFG Percentage, while minimizing the administrative burden in uncontested cases and better aligning supplier deliveries with updated UFG levels.

8. VEDO is also proposing various revisions to non-rate rules, regulations, terms, and conditions contained in its Tariff for Gas Service, including modifications to the terms and conditions applicable to transportation service and its Choice program; such changes are detailed and explained in the Company's E Schedules.

9. VEDO also seeks to recover in base rates the regulatory assets approved for deferral in connection with its Capital Expenditure Program (CEP), *see* Case Nos. 12-530-GA-UNC and 13-1890-GA-UNC, and its Distribution Accelerated Risk Reduction (DARR) Program, *see* Case No. 15-1741-GA-AAM. In connection with the CEP, VEDO seeks recovery of the regulatory asset as part of rate base as of the date certain, and represents that it is not seeking to recover an amount greater than that which (if considered separately) would cause the rates charged to Residential (Rates 310, 311, and 315) and General Service, Group 1 (Rates 320, 321, and 325) customers to increase by more than \$1.50 per month.¹ In connection with the DARR, VEDO represents that it is not seeking to recover an amount (if considered separately) greater than \$0.50 per month from its customers served under its Residential Rate Schedules (Rates 310, 311, and 315).

¹ With respect to post-date-certain CEP investments, VEDO filed on January 3, 2018, a notice of its intent to request approval of the recovery of certain associated costs. *See* Case No. 18-0049-GA-ALT. VEDO expects to file this application in the near future and to request consolidation with these cases.

10. This Application is also being filed under R.C. 4929.05 and related sections of the Ohio Revised Code related to approval of VEDO's Alternative Rate Plan. The Alternative Rate Plan consists of the following proposals:

- (a) *Distribution Replacement Rider*. VEDO proposes continuing and expanding the accelerated replacement of bare steel, cast iron, and other targeted infrastructure at least until the end of 2023, along with annual recovery of associated costs.
- (b) *Multi-Family Housing Pilot Program*. To increase the opportunity for residents of multi-family housing units to enjoy the benefits of natural gas, VEDO proposes an incentive to qualifying developers and owners of multi-family buildings to cover certain costs related to natural gas piping and venting in those buildings.
- (c) *SFV Rate Design*. Under straight fixed variable (SFV) rates, a utility's costs of distributing natural gas are recovered through a fixed monthly charge, and are not based on the amount of gas consumed. VEDO proposes in the Alternative Rate Plan to expand SFV rates to General Service Group 1 customers.
- (d) *Energy Conversion Factor*. VEDO proposes to adjust customers' usage each month for billing purposes to reflect the variability in the energy content of the gas they consume.

Additional detail regarding these proposals is set forth in the Exhibits to VEDO's Alternative Rate Plan provided in accordance with Ohio Adm. Code 4901:1-19-06.

11. In accordance with R.C. 4929.05(A)(1) and (2), VEDO states that it is in compliance with R.C. 4905.35 and is in substantial compliance with the policy of the State specified in R.C. 4929.02; VEDO also submits that it will continue to be in substantial compliance with state policy after implementation of the Alternative Rate Plan as proposed.

12. A notice of intent to file an application for an increase in rates and for an alternative rate plan was served on the Commission and the mayor and legislative authority of each municipality affected by this Application on February 21, 2018, in accordance with R.C. 4909.43(B) and in compliance with the Commission's Standard Filing Requirements set forth in Ohio Adm. Code 4901-7-01 and Ohio Adm. Code 4901:1-19-06(A).

13. A letter notifying the Commission Staff of VEDO's intent to file an application for approval of an alternative rate plan was also served and docketed on February 21, 2018, in accordance with Ohio Adm. Code 4901:1-19-06(A).

14. As authorized by the Commission's March 14, 2018 Entry in this case, VEDO's Application is based on a test year beginning October 1, 2017, and ending September 30, 2018, and a date certain of December 31, 2017.

15. VEDO estimates that the rate changes proposed herein, if granted in full, would increase gross revenues by approximately \$34,021,227, or approximately 20 percent annually, over the test period gross revenues generated from providing service to customers.

16. VEDO files this Application to recognize in rate base its substantial investment in pipelines, meters, and other jurisdictional assets since its last rate case, and to generate sufficient revenues for VEDO to pay its operating expenses, service its debt, and provide an adequate rate of return on its property used and useful in the rendition of gas service to its customers. VEDO's current base rates, authorized by the Commission in Case No. 07-1080-GA-AIR, are based on a test year beginning June 1, 2007, and ending May 31, 2008, and a date certain of August 31, 2007. Since that test year, the property used and useful in the rendition of gas service to the customers affected by this Application has materially increased, as have many of the expenses associated with providing that service. As a result, the current rates are projected to provide a

3.90 percent rate of return for the proposed test period. This is substantially below the 8.89 percent rate of return found reasonable for VEDO by the Commission in VEDO's last base rate proceeding. VEDO submits that a return of 7.97 percent is fair and reasonable.

17. In accordance with R.C. 4909.18, Ohio Adm. Code 4901-7-1, Appendix A, VEDO has attached the following to this Application:

Section A Schedules A-1 through A-3 – provide certain financial data for the proposed test year and date certain and calculate a revenue conversion factor.

Section B Schedules B-1 through B-9 – report VEDO's property that is used and useful in rendering gas service to those customers affected by this Application.

Section C Schedules C-1 through C-12 – these schedules include:

- Detailed schedules of VEDO's revenues and incomes from all sources, its operating costs and other expenditures, and certain adjustments that VEDO deems applicable;
- Comparative balance sheets and statistical information; and
- A statement of income and expense indicated under this Application.

Section D Schedules D-1 through D-5 – these schedules contain a statement of VEDO's cost of capital and its financial condition summarizing assets, liabilities, and net worth.

Section E Schedules E-1 through E-5 – include VEDO's proposed tariff schedules, current tariff schedules, scored tariffs indicating provisions to be

changed, narrative rationale for tariff changes, customer charge rationale, cost-of-service study, class and schedule revenue summary, annualized test-year revenues at proposed rates versus most current rates, and typical bill comparison.

Section S

Schedules S-1, S-2.1, and S-2.2 – provide certain capital expenditures and five-year financial-forecast information;

Schedule S-3 – a proposed notice for newspaper publication that fully discloses the substance of the Application and the specific requirements of R.C. 4909.18; and

Schedules S-4.1 and S-4.2 – executive summaries of VEDO’s corporate policies and management practices, process, and organization, including a discussion of all pertinent elements of these processes as they relate to the functional areas identified by Staff: Management Reporting & Budgets and Plant Accounting.

18. Concurrently with this filing, VEDO is delivering four copies of the required Supplemental Information to the Utilities Department, Office of the Rate Case Manager in accordance with Ohio Adm. Code 4901-7-01, Appendix A, Chapter II, Paragraph (C).

19. In accordance with Ohio Adm. Code 4901-7-01, Appendix A, Chapter II, Paragraph (A)(6)(a), VEDO will file all prepared direct testimony in support of this Application within 14 days of this filing.

20. In compliance with Ohio Adm. Code 4901:1-19-06(C), VEDO has attached to the Application the following Alternative Rate Plan Exhibits:

- (a) Detailed Alternative Rate Plan, which states the facts and grounds upon which the proposed plan is based, and which sets forth the Plan's elements, transition plans, and other matters as required by the rules. The exhibit, in conjunction with Schedule E-3, also states and supports the rationale for the initial proposed tariff changes for all impacted natural gas services;
- (b) Listing of the services which have been exempted, the case number authorizing such exemption, a copy of the approved separation plan, and a copy of the approved code of conduct;
- (c) Detailed discussion of how potential issues concerning cross-subsidization of services have been addressed in the Plan;
- (d) Detailed discussion of how the Plan is in compliance with section 4905.35 of the Revised Code, in substantial compliance with the policies of the state of Ohio specified in section 4929.02 of the Revised Code, how VEDO expects to continue to be in substantial compliance with the policies of the state specified in section 4929.02 of the Revised Code, after implementation of the Alternative Rate Plan, and a demonstration that the Alternative Rate Plan is just and reasonable; and
- (e) List of witnesses sponsoring each of the exhibits in the Application.

21. In accordance with the Commission's March 14, 2018 Entry in this case granting the extension of the deadline set forth in Ohio Admin. Code 4901:1-19-06(B)(1), all testimony in support of VEDO's Alternative Rate Plan will be filed within 14 days of this Application.

22. VEDO represents that a copy of its proposed Alternative Rate Plan has been provided to the Office of the Ohio Consumers' Counsel and each party of record in its most recent alternative rate plan proceeding, as required by Ohio Admin. Code 4901:1-19-06(B)(2).

Additionally, copies of the Plan are being kept at VEDO's principal business office and on its web page, www.vectren.com, for public inspection.

23. At the time of the filing of this Application, no municipal corporation has in effect any ordinance or franchise that does or will regulate the rates or charges to any customer affected by this Application.

WHEREFORE, because the rates, charges, and other provisions in the current rate schedules do not yield just and reasonable compensation to VEDO for providing gas service to the customers to which they are applicable and do not yield a just and reasonable return on the value of the property used for furnishing that service, and because continuation of the rates currently in effect would be unconstitutionally confiscatory, VEDO respectfully requests that the Commission:

- (a) Accept this Application for filing;
- (b) Find that this Application and the attached Schedules are in accordance with R.C. 4909.18 and 4929.05, and the rules of the Commission;
- (c) Approve the Form of Notice in the attached Schedule S-3;
- (d) Find that the current rates, prices, and charges for gas service are unjust, unreasonable, and insufficient to yield reasonable compensation to VEDO for the service rendered;
- (e) Find that the rates, charges, and other provisions of the proposed Rate Schedules included in Schedule E-1 are just and reasonable and approve the same;
- (f) Find that VEDO is in compliance with R.C. 4905.35, that VEDO is in substantial compliance with the state policies as specified in R.C. 4929.02, and that VEDO is

expected to continue to be in substantial compliance with the state policies specified in R.C. 4929.02 after the Alternative Rate Plan is implemented;

- (g) Approve VEDO's requested automatic rate adjustments in accordance with R.C. 4929.11 to the extent applicable;
- (h) Approve VEDO's Alternative Rate Plan and authorize VEDO to implement its Alternative Rate Plan;
- (i) Approve any changes in VEDO's accounting methods that may be necessary to implement the Commission's approval of this Application;
- (j) Fix the date on or after which the rates, charges, and other provisions of this Application apply to service provided by VEDO; and
- (k) Grant any other necessary and proper approval in order to implement the relief requested in this Application.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Dated: March 30, 2018

Respectfully submitted,

Vectren Energy Delivery of Ohio, Inc.



Colleen M. Ryan,
President



Ronald E. Christian
Executive Vice President, Chief Legal
and External Affairs Officer, and
Secretary

VERIFICATION PAGE

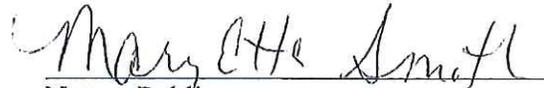
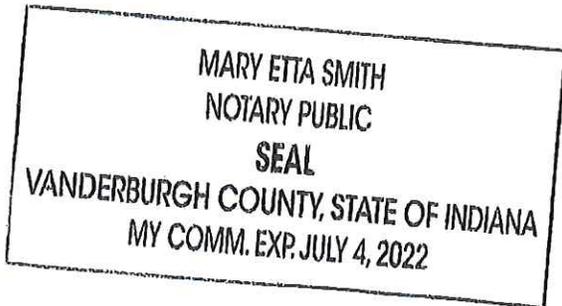
STATE OF INDIANA)
VANDERBURGH COUNTY) SS:

Ronald E. Christian personally appeared before me, a Notary Public, in and for said State, and being first duly sworn said that he is a Secretary of Vectren Energy Delivery of Ohio, Inc., and that the statements in the foregoing Application are true and accurate to the best of his knowledge.



Ronald E. Christian
Executive Vice President, Chief Legal
and External Affairs Officer, and
Secretary

Sworn to before me and subscribed in my presence by Ronald E. Christian this 27th day of March, 2018.

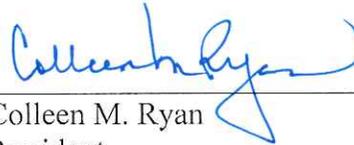


Mary Etta Smith
Notary Public

VERIFICATION PAGE

STATE OF OHIO)
MONTGOMERY COUNTY) SS:

Colleen M. Ryan personally appeared before me, a Notary Public, in and for said State, and being first duly sworn said that she is President of Vectren Energy Delivery of Ohio, Inc., and that the statements in the foregoing Application are true and accurate to the best of her knowledge.



Colleen M. Ryan
President

Sworn to before me and subscribed in my presence by Colleen M. Ryan this 27th day of March, 2018.




Notary Public

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail upon the following parties to this case, and in addition upon the following parties to VEDO's last rate-case proceeding, this 30th day of March, 2018:

william.wright@ohioattorneygeneral.gov
William.michael@occ.ohio.gov
Bryce.mckenney@occ.ohio.gov
Zachary.woltz@occ.ohio.gov
amy.botschner.obrien@occ.ohio.gov

joliker@igsenergy.com
JDosker@stand-energy.com
cmooney@ohiopartners.org
tdougherty@theOEC.org
tony_long@hna.honda.com

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

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval) Case No. 18-0298-GA-AIR
of an Increase in Gas Rates)

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc., for Approval) Case No. 18-0299-GA-ALT
of an Alternative Rate Plan)

ALTERNATIVE RATE PLAN EXHIBITS

I. Ohio Adm. Code 4901:1-19-06(C)(2) Detailed alternative rate plan and related information.

The following elements of the Application of Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company) are being requested under the authority of R.C. 4929.05.

A. Continuation of the Replacement Program and Distribution Replacement Rider (DRR) Approved in Case Nos. 07-1081-GA-ALT and 13-1571-GA-ALT.

VEDO's proposed Alternative Rate Plan proposes a continuation of the Alternative Rate Plan first approved by the Commission in Case No. 07-1081-GA-ALT, and then modified and expanded in Case No. 13-1571-GA-ALT (the Replacement Program or the Program). Details regarding the current scope and treatment under the Program are included in the filings in those cases. The purpose of the Program continues to be to improve the safety and reliability of service due to the propensity of increased instances of leakage on bare steel and cast iron (BSCI) assets when compared to assets composed of other materials such as plastic and coated, and cathodically protected steel, as well as to address safety risks posed by other covered assets, and to support compliance with applicable pipeline safety regulations.

Unless otherwise modified or expanded below, VEDO proposes continuing the Replacement Program on the same terms, conditions, and annual procedures as approved by the Commission in Case Nos. 07-1081-GA-ALT and 13-1571-GA-ALT.

1. Program Term.

VEDO originally proposed in Case No. 07-1081-GA-ALT to complete the accelerated replacement of all remaining BSCI infrastructure over a 20-year period, with an intended completion date of 2028. In Case No. 13-1571-GA-ALT, the Commission approved the following provision of the stipulation:

VEDO shall not be permitted to seek further extension of the DRR unless such permission is sought as part of an application for an increase in distribution rates under R.C. 4909.18 and 4909.19. For purposes of this requirement, VEDO's application shall be considered filed as of the date VEDO files a notice of its intent to file an application for an increase in rates. If VEDO requests further extension of the DRR in accordance with this paragraph, the parties recommend that it shall be appropriate to consider at that time whether and to what extent VEDO should be subject to a requirement to complete the Replacement Program by December 31, 2023.

(13-1571 Stip. at 5.) VEDO has complied with this paragraph of the 13-1571 Stipulation.

First, VEDO has proposed this extension of the DRR as part of an application for an increase in distribution rates.

Second, VEDO is also addressing whether and to what extent VEDO should be subject to a requirement to complete the Replacement Program, at least with respect to the retirement of bare steel and cast iron assets, by December 31, 2023. Assuming the Program scope approved in Case No. 13-1571-GA-ALT, VEDO's plan is to complete the Replacement Program by the end of 2023, and it is administering the Program to reach that goal. VEDO recommends, however, that no party should be prohibited from either requesting or opposing continuation of the Program beyond 2023. The Replacement Program is a comprehensive, highly complex undertaking, and future events affecting scope, cost, and timing (such as governmental

regulations, prevailing economic conditions, and weather) are unpredictable, and it may (as discussed below) be appropriate to consider future Program scope changes. In the event a request to extend and/or expand the Replacement Program beyond 2023 were submitted, any issues concerning program administration could be considered at that time. But given the size of the Program, VEDO does not believe that it would be appropriate to prejudge such an issue.

2. Modification and Potential Expansion of Replacement Program.

VEDO also proposes that the authorization to extend the Replacement Program recognize that the Company may also request to modify and/or expand the Program's scope before the end of 2023.

As part of its Distribution Accelerated Risk Reduction (DARR) Program approved in Case No. 15-1741-GA-AAM, VEDO has implemented an "Enhanced Risk Modeling and Threat Analysis" initiative. The pipeline risk model has been substantially completed, and the process of utilizing the model and refining its output continues. Preliminary review of the model, in conjunction with other improvements to records and data collection, has confirmed the Replacement Program's focus on BSCI assets. The model, however, has also identified other categories of pipeline assets that may pose similar risks. VEDO believes that feedback gained from the risk model should be considered in the context of designing and carrying out the Replacement Program. Moreover, significant new pipeline safety regulations have been issued in draft form and are anticipated to be finalized within the next one to two years. These regulations would impose new safety requirements that are likely to drive additional emphasis on infrastructure, including a focus on replacement programs. For these reasons, if modification or expansion of the scope of the Program appears necessary and appropriate before the end of 2023, VEDO proposes that such a request should be permitted.

VEDO would discuss any proposed modification or expansion of the Program with Staff before submission, and any such request would require additional Commission approval. In essence, VEDO merely seeks to clarify that the extension of the Program through the end of 2023 does not foreclose an application before that time to modify and/or expand the program, if deemed necessary.

3. Description of Recovery Mechanism and Procedures.

The DRR filed pursuant to the Program will recover (1) a return on and of incremental annual costs incurred under the Program; (2) the incremental costs attributable to assuming ownership of service lines installed or replaced by VEDO as well as assuming maintenance responsibility for all service lines.

VEDO will continue making annual DRR filings by May 1 each year that will reflect activity for the most recent calendar year. VEDO will report to the Commission the following information for the previous calendar year:

- (1) investment in infrastructure replacement under the Program;
- (2) pipe mileage replaced/retired (by type);
- (3) revenue requirement (including reconciliation of revenue requirement recovery for a prior period); and
- (4) derivation of rates for the prospective recovery period (September 1 through August 31).

VEDO proposes that the DRR shall become effective on September 1 of each year.

The base rates proposed in VEDO's rate case application assume the inclusion of DRR investments as of the date certain. VEDO will transition from recovery of investments in the existing DRR to their inclusion in base rates as follows. VEDO intends to make its annual filing for the recovery of program costs through 2017 in May 2018. Assuming Commission approval, VEDO will implement new DRR rates in September 2018. New base rates are expected to be

approved sometime thereafter. At that time, the new base rates are expected to include DRR investments through the date certain and previously approved for recovery in the DRR. Upon implementation of new base rates, the DRR will include only a variance component, which cannot be estimated at this time, but will be reflected in the compliance tariff filed following Commission approval of new base rates in this case. DRR rates and charges would then be reestablished in the next annual recovery proceeding. In other words, if base rates are approved in the first quarter of 2019, DRR investments through 2017 would thereafter be included in base rates, and DRR investments through 2018 would then be recovered through the DRR approved in mid-2019.

The annual DRR revenue requirement will be allocated to the rate schedules based on the distribution mains/service lines allocation (as applicable) determined in the Company's cost of service study in the present base rate proceeding and recovered through either a fixed charge per month (for Residential and Group 1 General Service customers; collectively Small Customers) or a volumetric charge (for all other customers).

The revenue requirement will compute the effect of both the return on, and return of, the net change in plant investment attributable to the Program. The return on will be calculated using the total net change in plant investment (gross investment inclusive of cost of removal, less retirements and accumulated depreciation) multiplied by the pre-tax rate of return approved in the present base rate proceeding. Next, the net change in property taxes (incremental property taxes associated with new plant, less property taxes avoided due to the retirement of plant) will be added to the revenue requirement. Current depreciation expense and incremental Operations and Maintenance (O&M) expenses resulting from the assumption of service line responsibility (ownership and maintenance) will also be added to the revenue requirement.

VEDO proposes that costs recoverable in the DRR continue to be offset by O&M savings. Savings actually realized as a result of targeted retirements completed through 2017 are reflected in VEDO's proposed base rate case test year, and VEDO proposes to continue to apply a credit of \$5,882 for each mile of BSCI main retired beginning January 1, 2018, and including those savings as an offset to costs recoverable in the DRR in its annual filings. Savings credits would be cumulative, starting with miles retired in 2018—for example, if VEDO retires 50 miles of BSCI main in 2018, and an additional 55 miles in 2019, the savings credit would reflect 105 cumulative miles retired multiplied by the \$5,882 credit per mile.

Finally, VEDO will continue to include a reconciliation of actual DRR recoveries and the associated applicable revenue requirement and will adjust the prospective annual DRR revenue requirement for the variance. In each annual DRR filing, the revenue requirement will be updated to reflect the cumulative work completed and costs incurred, including the cumulative maintenance savings realized under the Program.

As set forth in the following table, the expected Program cost is approximately \$414,000,000 through the end of 2023. Program costs are estimated based on historical costs per mile of main replaced/retired and per service line replacement during the last five years on projects throughout VEDO's service territories. The costs may vary from year to year depending on the size and location of individual projects undertaken in each year and changes in the availability and cost of labor, equipment and materials.

Since the Program was first implemented, VEDO has submitted its annual construction plans under the Program by February 1 of each calendar year, and again as part of its annual May 1 cost recovery proceeding. It is not clear to VEDO that the February submission of these plans has substantially aided the review of VEDO's implementation of the Program or the recovery of

associated costs. Accordingly, VEDO proposes eliminating the February 1 submission going forward, but continuing to submit construction plans as part of the annual cost recovery proceeding throughout the Program period. If Staff recommends continuing the February 1 submission, however, VEDO would be willing to continue providing it.

VEDO’s current infrastructure investment plan under the Program is set forth below, although the actual investment timeframe, and dollars invested, will be dictated by specific regulations, operational constraints, and other factors. Approximate expected investments break down as follows (in thousands):

Capital Investment (\$000’s)	2018	2019	2020	2021	2022	2023
Bare Steel/Cast Iron	\$56,500	\$58,000	\$60,000	\$60,000	\$50,000	\$45,000
Service Replacements	\$9,000	\$9,000	\$9,000	\$9,000	\$8,500	\$8,500
Ineffectively-Coated Steel	\$4,500	\$4,500	\$7,500	\$5,000	\$5,000	\$5,000
TOTAL	\$70,000	\$71,500	\$76,500	\$74,000	\$63,500	\$58,500
TOTAL – 5-YEARS						\$414,000

Since the approval of the Stipulation in Case No. 07-1081-GA-ALT, and again in Case No. 13-1571-GA-ALT, the monthly DRR charge has been subject to various rate caps. The inclusion of DRR investments in base rates will require a resetting of the DRR caps applicable to costs incurred under the Program through December 31, 2023. VEDO proposes continuing to use a rate-cap mechanism, with the following caps applicable to Residential customers:

<u>Annual Period</u>	<u>Residential Rate Cap</u> (per customer, per month)
September 1, 2019–August 31, 2020	\$2.50
September 1, 2020–August 31, 2021	\$5.00

September 1, 2021–August 31, 2022	\$7.50
September 1, 2022–August 31, 2023	\$10.00
September 1, 2023–August 31, 2024	\$12.00
September 1, 2024–August 31, 2025	\$13.75

As approved in Case No. 13-1571-GA-ALT, VEDO proposes that if during any of the six years of the DRR as proposed herein its actual costs would result in a DRR monthly charge to its Residential customers that exceeds the caps described above, VEDO may defer on its books any costs that it is unable to include in the DRR because the applicable Residential customer cap would otherwise be exceeded. Such costs shall be deferred with carrying charges calculated at VEDO’s long-term debt rate, and VEDO may include such deferred costs in any subsequent DRR application, so long as the inclusion of those deferred costs does not cause VEDO to exceed the applicable DRR Residential customer cap in that subsequent year.

VEDO further proposes that the caps on the monthly DRR charge shall not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered. In future annual DRR filings, for purposes of evaluating whether the applicable cap has been exceeded, the Residential customer monthly charge will be calculated based only on the DRR revenue requirement, exclusive of any variances. After comparing this charge to the approved Residential customer monthly DRR caps, any over- or under-recovery variances will then be added or credited to the DRR revenue requirement in order to calculate the proposed monthly DRR charges to be implemented. The allocation of any over- or under-recovery variances will continue to be based upon how the revenue requirement from the most recent DRR filing was allocated between mains and service lines.

Finally, VEDO proposes to calculate the General Service - Group 1 (Group 1) monthly DRR charge by maintaining the same ratio between the proposed base rate Residential Monthly Charge and the proposed base rate Group 1 Customer Charge. As an example, VEDO has proposed in the present base rate proceeding a Residential Monthly Charge of \$35.41 and a Group 1 Customer Charge of \$46.19. The proposed Group 1 charge is approximately 130 percent of the Residential Monthly Charge. In future DRR proceedings, the proposed Residential DRR rate will be multiplied by 130 percent (or other applicable ratio depending on the approved Monthly Charges) to arrive at the Group 1 DRR monthly rate. The Group 1 customers, although not directly subject to a DRR rate cap, will be indirectly capped at this ratio of the calculated Residential DRR charge.

B. Energy Conversion Factor.

As another element of its Alternative Rate Plan, VEDO proposes to implement an “energy conversion factor” (or ECF) that will be applied to all customers’ metered usage. Any and all volumetric rates will then be applied based on those adjusted volumes. *See* VEDO Schedule E-1, Sheet No. 47. When multiplied by a customer’s metered volumetric usage, the ECF modifies that usage to reflect the actual energy consumed by the customer. The ECF effectively adjusts the customer’s metered usage such that the basis for billing (referred to as “Billing Ccf” in the Tariff) reflects the volume of gas that the customer would have used (all else equal) had the energy (or Btu) content of the gas not changed since the rate case in which the rates were determined.

The adoption of the ECF will not affect the base rate portion of the bills of customers to which straight fixed variable (SFV) rate design is applicable. Presently, SFV rate design applies only to residential customers; SFV is proposed in this case to also be applicable to VEDO’s smallest general service (commercial) customers. That proposal is described below. Customer

usage as modified by the ECF will however be the basis for billing SFV customers for any and all volumetric riders as well as commodity costs.

1. Background regarding ECF.

Historically, VEDO's base rates and other cost recovery mechanisms have been based on the volume of natural gas consumed. Although VEDO bills for service based on the volume of consumption measured in hundred cubic feet (Ccf), end-use appliances and equipment require and consume energy, which is measured in British Thermal Units (or Btus). The amount of energy contained in a known volume of gas varies with the Btu content of that gas. All other things being equal, the higher the Btu content of natural gas, the lower the volume of natural gas consumed. Thus, with no energy adjustment to volumetric rates, an increase in Btu content tends to reduce the recovery of VEDO's fixed costs. Likewise, a decrease in the Btu content tends to increase fixed cost recovery.

Btu content, which historically had been stable, began rising in 2012 and sharply increased in July 2014. The rise in energy content is attributable to the massive increase in production to the east of VEDO's system, specifically in the Utica and Marcellus shale, with such gas manifesting a substantially higher Btu content than the gas physically delivered to VEDO's system historically. Over the past several years, the sharp rise in Btu content has resulted in end users extracting the same energy from relatively lesser volumes, with consequent reductions in Ccf throughput on VEDO's system.

The result of these Btu-related throughput reductions has been the erosion of VEDO's ability to recover certain of its fixed costs. VEDO estimates the financial impact of higher Btu content since July 2014 has been approximately \$1 million to \$1.5 million per year.

2. VEDO's Proposal.

To eliminate the risk both VEDO and its customers bear associated with Btu fluctuations, over which neither VEDO nor its customers have any control, VEDO seeks authority to apply the ECF to all metered customer usage volumes, resulting in "Billing Ccf." Commodity charges, volumetric base rates, and volumetric riders would then be applied to the Billing Ccf. As noted, the ECF will not affect the base rate portion of customer bills to which SFV rate design applies (residential customers receiving service pursuant to Rates 310, 311 and 315 and, as proposed in this proceeding and described below, VEDO's smallest general service customers receiving service pursuant to Rates 320, 321 and 325) or any other fixed charges.

VEDO will continue to record actual volumes in Ccf, as measured at the meter. This will be considered "Metered Ccf" under its Tariff and as presented on the customer's bill. As discussed above, VEDO will then convert the Metered Ccf to "Billing Ccf" by applying the ECF.

The ECF will be updated monthly and will be based on the ratio of the actual Btu on VEDO's system at the time of billing to the Btu on VEDO's system during the test year in this proceeding (1070 per Ccf). VEDO will determine the actual system-wide, weighted average Btu content based on energy content measurements and volumetric deliveries reported by all interstate pipelines connected to VEDO's system. Due to the timing in which actual energy content measurements are received by VEDO, the ECF applicable to each month will be based on the weighted average Btu value from two months prior.

3. Customer impact.

If not alleviated, volatility in energy content will continue to pose the risk of under-recovery for the Company, or over-recovery from customers. Neither VEDO nor its customers control the composition of the natural gas present on its system. Interstate pipelines permit Btu levels as high as 1200 per cubic foot, and one pipeline feeding VEDO's system imposes no

ceiling at all. The physical composition of gas on VEDO's system depends on nationwide pipeline flow patterns and is not affected by any given supplier's contract with a pipeline. Thus, the energy content of the gas consumed by VEDO's customers cannot be controlled via supply contracts.

This rate design modification will not eliminate the benefits that customers may derive from efficiency investments or conservation efforts. Customer bills will continue to be based on volumes consumed: both with respect to the volumetric component of VEDO's rates, if applicable, and commodity costs themselves. Thus, efficiency efforts by customers will continue to result in customer savings.

In summary, the application of the ECF will eliminate the possibility of energy-content-related over- or under-recoveries. This will ensure that VEDO's opportunity to recover those costs approved as just and reasonable by the Commission is neither augmented nor hindered by circumstances beyond the Company's control.

C. Multi-Family Housing Pilot Program.

As part of its Alternative Rate Plan, VEDO also proposes the adoption of a Multi-Family Housing Pilot Program (the Pilot Program or the Pilot).

1. General Program Description.

The purpose of the Pilot Program is to offer a choice for natural gas as a heating and energy source for residential customers living in multi-family housing (such as apartment complexes). Although natural gas is a highly efficient and cost-effective heating source, developers of multi-unit properties frequently do not install the necessary piping and venting to permit the use of natural gas appliances, predominantly due to the relatively high up-front costs. The Pilot is designed to remove that cost barrier and facilitate access to and the benefits of natural gas service for multi-family housing residents. The Pilot will provide a cost-effective

opportunity for developers and owner/operators of multi-family buildings to install infrastructure needed to offer natural gas service to the residents; at the same time, the level of the incentive, coupled with the fact it will increase the number of new customers, ensures that the program will benefit existing customers.

2. Incentive and Rate Treatment.

VEDO is proposing a project-specific contribution of no more than \$2,000 per housing unit that may be provided to multi-family housing developers to help offset the costs of piping and venting to individually metered apartments or condominium units. If actual costs are less than \$2,000 per unit, the incentive will be capped at the builder/developer's actual cost. The amount of the incentive is intended to approximate the average cost of a new service line, which is provided at no cost to new customers residing in single-family housing.

To qualify for the incentive, the multi-family developer will be required to submit appropriate documentation or other information verifying the actual costs of the installed venting and piping. VEDO proposes to cap the annual incentive amount applicable to the Pilot at \$1 million per year; if contributions in excess of this amount prove necessary, the Company would need to receive additional authority from the Commission.

From an accounting standpoint, VEDO proposes to treat these costs the same as standard capital expenditures for other new business investments, which average around \$10 million per year. With the Commission's authorization in this case, any incentives paid would then be included in rate base at such time that VEDO files a subsequent rate case. VEDO expects any customer rate impact to be negligible; even if Pilot Program incentives were fully utilized at \$1 million per year for all seven years of the Pilot (likely an unrealistic assumption), the rate impact standing alone would be approximately \$0.17 per customer per month, and in reality, the expansion of the customer base would tend to offset this impact. Because the incentive

approximates the cost of a new service line, will be accounted for like a new service line, and drives the same benefit of expanding the customer base, any rate impact associated with the Pilot should be considered reasonable.

3. Program Eligibility and Procedures.

For purposes of the Pilot Program, a multi-family project is defined as a building containing at least four individually metered dwelling units. This program will be available for new projects, as well as existing multi-family buildings whose units are not currently served on an individually metered basis but are being converted. The proposed tariff also provides that VEDO may adopt additional eligibility criteria and application procedures as it gains experience implementing the Pilot Program.

The builder, developer, or building owner of any multi-family project served under the Pilot will be responsible for installation, ownership and maintenance of all piping downstream of the Company's meter, consistent with standard regulatory practice. The proposed tariff provision governing the Pilot clarifies that VEDO assumes no liability related to such installations.

4. Program Term and Reporting.

The Company proposes the Pilot Program for an initial term of seven years from the date that rates approved in Case No. 18-0298-GA-AIR are implemented. This period of time is necessary in view of the considerable lead time associated with construction of multi-family projects. For the most part, multi-family developers have historically built multi-family buildings as all-electric complexes. It will be necessary to educate these developers about the opportunity under the Pilot, including the architects, engineering firms and contractors these developers engage to help design and construct their complexes. Given that incentives will not be payable until construction is completed, VEDO expects that it may take years (rather than months) before an approved Pilot translates into fully constructed, natural-gas-fueled multi-family complexes.

Following approval, the Company proposes to file an annual program report no later than February 1 in this docket or another docket designated by the Commission. The report will describe incentives offered and paid, projects completed and under construction, and any other matters required by the Commission. Prior to the expiration of the seven-year term, VEDO will make a recommendation for extending or modifying the Pilot Program, which could include recommending that it be made a permanent offering.

5. Customer Impact.

Two groups of customers will be impacted by the Pilot Program: new customers receiving service under the Pilot, and existing customers.

New customers (i.e., residents of multi-family units) will benefit primarily through the increased availability of an efficient, low-cost heating and energy source. Over the past several years, natural gas bills have fallen significantly: total bills today are approximately 25 percent lower than nearly a decade ago, and gas costs are projected to remain relatively low and stable well into the future. For space heating, natural gas is far and away the most cost-effective option available to consumers. For example, nationwide in 2017, the average heating cost of a high-efficiency natural gas furnace was more than \$1,300 less than the cost of an electric resistance furnace (which is often the technology selected by developers for a multi-family complex). For this reason, for single-family homes, natural gas is the leading choice for space and water heating in the Midwest generally and in VEDO's service area. By eliminating the up-front disincentive to project builders and developers, VEDO's goal is to make this low-cost heating option available to multi-family residents as well.

Existing customers will also benefit under the program. If successful, the program will increase the number of new customers entering VEDO's system. In recent years, VEDO has experienced modest gross customer growth (over the past five years, the Company has added

less than 1,400 customers per year on average in the residential new construction segment). Robust customer growth ensures that fixed costs are spread among a larger base, and (all else being equal) results in lower natural gas rates over time than would otherwise result with a stagnant or declining customer base. Only a small percentage of multi-family units presently use natural gas, and VEDO's belief is that by focusing on this under-served, higher-density population, VEDO's net additions will increase. The \$2,000-per-unit cap on project contributions will help ensure both that costs remain commensurate with benefits and that new customers are added in a cost-effective manner—such an amount would be expected to be paid back in well less than ten years, and again, is similar to the “per unit” service line benefit already enjoyed by single-family residences.

Applying the multi-family housing contribution in this manner results in a program that will allow new customers to enjoy the benefits of clean, low-cost natural gas, while creating a positive economic value to existing customers.

D. Straight Fixed Variable Rate Design for General Service - Group 1 Customers.

The final component of VEDO's Alternative Rate Plan proposed in this proceeding is to expand straight fixed variable (SFV) rate design to its General Service - Group 1 customers.

SFV was first approved for VEDO's residential customers as part of VEDO's last base rate proceeding, Case No. 07-1080-GA-AIR. VEDO's current base rate filing continues the same method of rate design for residential customers that was approved in that case and has been in effect since 2010. The updated SFV charges applicable to residential customers are subject to review in the base rate portion of this proceeding; they are not a component of the Alternative Rate Plan.

VEDO does propose expanding the customer classes to whom SFV rates apply as part of the Alternative Rate Plan. VEDO proposes that an SFV rate design be applicable to the smallest

general service customers (those designated as Group 1 customers) served under Rates 320, 321 and 325. Under the current construct, distribution costs are recovered using a combination of a fixed monthly customer charge and a volumetric distribution rate. Under the proposed SFV rate design, VEDO's costs of providing gas delivery service to Group 1 customers (which are predominantly fixed) will be recovered entirely through a fixed monthly charge. Gas commodity costs and certain riders will continue to be billed on a volumetric basis.

VEDO proposes transitioning Group 1 customers to SFV rates because they exhibit many of the same gas load and cost characteristics as its residential customers. The similarities between these two customer groups, and the basis for designing their rates in a similar fashion, are addressed in the direct testimony of Russell A. Feingold. For the Company, SFV rate design makes the recovery of its fixed costs more predictable and the bills of customers more stable by eliminating the possibility of over- or under-recoveries of fixed costs based on fluctuations in gas consumption, which have no bearing on the cost to serve. SFV rate design also removes any disincentive the Company may have to encourage energy efficiency or demand side management programs, and in this case, VEDO does propose continuation of such programs, which are available to Group 1 customers.

Group 1 customers are already assessed a fixed DRR charge (like residential customers) and not a volumetric DRR charge (like larger general service and industrial customers). Additionally, SFV rate design has been approved for non-residential customer classes for other natural gas companies. *See In re Eastern Natural Gas Co. and Pike Natural Gas Co.*, Case No. 08-940-GA-ALT, Order at 12 (June 16, 2010) (approving SFV rate design for "residential" and "commercial" general service customers); *In re Suburban Natural Gas Co.*, Case No. 17-594-

GA-ALT, Order at 5–6 (Nov. 1, 2017) (approving transition to SFV rate design for both “residential and small commercial customers”).

Only the Company’s proposal to transition its Group 1 customers to SFV rate design is being presented as part of this Alternative Rate Plan. The level of the rates themselves, the associated rate inputs, and related issues, are addressed as part of VEDO’s base rate proceeding that is being simultaneously filed.

II. Ohio Adm. Code 4901:1-19-06(C)(3), Statements regarding exemptions.

VEDO has been granted exemptions by the Commission with respect to its provision of commodity service. *See* Case No. 07-1285-GA-EXM (original exemption); Case No. 12-483-GA-EXM (modification). VEDO's approved code of conduct is set forth at Sheet No. 72 in its Tariff for Gas Service. *See* Schedule E-1.

III. Ohio Adm. Code 4901:1-19-06(C)(4), Cross-Subsidization.

The Alternative Rate Plan will not result in the cross-subsidization of services. With respect to the extension of the DRR, all customers will benefit from the continued provision of safe, affordable, and reliable service, and rates will be subject to Commission review and approval.

With respect to the adoption of SFV rates for the Company's Group 1 customers, the proposed rate design ensures that Group 1 customers will contribute neither more nor less than their appropriate share of VEDO's fixed costs based on any variations in actual gas volumes consumed.

In a similar manner, the ECF proposal will ensure that the contribution to VEDO's fixed cost recovery by customers does not vary with changes in natural gas Btu content.

With respect to the Multi-Family Housing Pilot Program, no subsidization will occur because the \$2,000-per-unit cap ensures that projects will not receive incentives beyond what are expected to be paid back within well less than ten years; the level of incentive is similar to the benefit received by new single-family customers.

For all elements of VEDO's Alternative Rate Plan, any rates or charges reflecting the costs of the program elements, and the Company's implementation of those elements, will be subject to review and approval by the Commission. Any affected rates and charges will reflect appropriate allocations of cost responsibility to customer classes in accordance with any cost of service study or other related analysis applicable to the case in which the rates are set.

In sum, no cross-subsidization shall occur under any element of VEDO's Alternative Rate Plan.

IV. Ohio Adm. Code 4901:1-19-06(C)(5), Compliance with Revised Code Provisions

VEDO will address compliance with R.C. 4905.35, substantial compliance with R.C. 4929.02, and the justness and reasonableness of the plan, in that order.

A. Compliance with R.C. 4905.35.

R.C. 4905.35 provides in its entirety as follows:

(A) No public utility shall make or give any undue or unreasonable preference or advantage to any person, firm, corporation, or locality, or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage.

(B)(1) A natural gas company that is a public utility shall offer its regulated services or goods to all similarly situated consumers, including persons with which it is affiliated or which it controls, under comparable terms and conditions.

(2) A natural gas company that is a public utility and that offers to a consumer a bundled service that includes both regulated and unregulated services or goods shall offer, on an unbundled basis, to that same consumer the regulated services or goods that would have been part of the bundled service. Those regulated services or goods shall be of the same quality as or better quality than, and shall be offered at the same price as or a better price than and under the same terms and conditions as or better terms and conditions than, they would have been had they been part of the company's bundled service.

(3) No natural gas company that is a public utility shall condition or limit the availability of any regulated services or goods, or condition the availability of a discounted rate or improved quality, price, term, or condition for any regulated services or goods, on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from the company.

VEDO is compliant with R.C. 4905.35. In accordance with R.C. 4905.35(A), VEDO does not make or give any undue or unreasonable preference or advantage to any person, firm, corporation, or locality, or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage.

In accordance with R.C. 4905.35(B)(1), VEDO offers its regulated services or goods to all similarly situated consumers, including persons with which it is affiliated or which it controls,

under comparable terms and conditions, as evidenced by VEDO's Supplier Code of Conduct and Affiliate Code of Conduct (*see* Tariff Sheets No. 52 and No. 72). Consistent with the obligation to make its service offerings available on a comparable and non-discriminatory basis, VEDO has applied these principles in developing its service offerings, the terms and conditions upon which it provides public utility service, and its rates. Such services, terms and conditions and rates have been reviewed and approved by the Commission and are currently incorporated in VEDO's tariff.

With respect to R.C. 4905.35(B)(2), VEDO does not presently have any bundled service offerings that include a regulated and unregulated service.

In accordance with R.C. 4905.35(B)(3), VEDO does not condition or limit the availability of any regulated services or goods, or condition the availability of a discounted rate or improved quality, price, term, or condition for any regulated services or goods, on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from VEDO.

B. Substantial compliance with R.C. 4929.02.

The Commission's rules require VEDO to discuss its current compliance with state policy and its expected compliance with that policy following implementation of the proposed plan.

R.C. 4929.02 establishes Ohio's state policy regarding the provision of natural gas service and goods. The policy promotes, among other things, the availability of adequate, reliable, and reasonably priced services and goods as well as the unbundling and comparability of those services and goods. It supports effective choices for supplies and suppliers; encourages market access to supply- and demand-side services and goods; and acknowledges the importance of effective competition and the regulatory treatment needed to support competition.

VEDO currently works to promote, encourage, recognize, facilitate and ensure the goals in R.C. 4929.02 are met. VEDO's record of service in Ohio includes a proactive effort to work with stakeholders to implement unbundled and ancillary service offerings that provide customers with effective and convenient choices to meet their natural gas supply needs. VEDO's current tariff provides numerous options for service of varying terms and conditions to meet its customers' needs for the purchase and delivery of natural gas. VEDO's services provide all customers the opportunity to choose an alternative commodity supplier. VEDO's current rates provide no subsidies flowing to or from regulated services or goods. VEDO developed and implemented a successful residential and commercial natural gas choice program within the first two years of its ownership and operation of the VEDO system, and as approved in Case No. 07-1285-GA-EXM, it has implemented an auction-based commodity-service procurement since 2008.

VEDO also provides funding for low-income conservation programs resulting in more efficient use and conservation of natural gas for qualifying customers. VEDO's energy efficiency programs provide annual funding for low-income conservation programs resulting in more efficient use and conservation of natural gas for qualifying customers. In collaboration with the VEDO DSM Collaborative, VEDO's programs also provide annual funding for energy-efficiency and conservation programs for residential and small business customers. VEDO's conservation portfolio also includes resources, such as an online energy audit tool and a dedicated conservation connection hotline, to assist customers in becoming more energy efficient and managing their bills.

Moreover, VEDO's bill inserts, public outreach initiatives, and customer service representatives provide information useful to customers in making choices about natural gas services and goods.

The Commission has previously ruled that VEDO is in compliance with R.C. 4929.02, based on information that is substantially unchanged. *See* Case No. 07-1825-GA-EXM, Opin. & Order (Apr. 30, 2008); Case No. 05-1444-GA-UNC, Opin. & Order (Sept. 13, 2006); Case No. 13-1571-GA-ALT, Opin. & Order (Feb. 19, 2014) (approving application and stipulation filed under R.C. 4929.05). VEDO will continue to comply with R.C. 4905.35 and to substantially comply with the policies specified in R.C. 4929.02, after implementation of VEDO's Alternative Rate Plan proposals.

None of the proposed programs will detrimentally affect VEDO's compliance with state policy. VEDO's proposal for accelerated replacement of certain plant and service lines and recovery of the associated costs through the proposed DRR is a coordinated, cost-effective, and efficient systematic approach to preserving infrastructure reliability and public safety by decreasing the instances of leakage. The Multi-Family Housing Pilot Program will promote and expand the availability of natural gas service to a currently underserved segment of VEDO's market and permit such customers to avail themselves of additional choices and benefits related to natural gas service. As a form of revenue decoupling mechanism, the adoption of SFV rates for Group 1 General Service customers is specifically permitted by statute within the Alternative Rate Plan, and such a mechanism has been approved on multiple occasions by the Commission for numerous natural gas companies. The ECF proposal represents an innovative, flexible plan to eliminate a potential source of over- or under-recovery of VEDO's fixed costs and ensure that the rates approved by the Commission are not distorted by uncontrollable changes in the

composition of gas on VEDO's pipeline system. Finally, although not part of the Alternative Rate Plan, VEDO also proposes continuing its demand-side-management programs, ensuring that in accordance with state policy VEDO will continue to promote an alignment of natural gas company interests with consumer interest in energy efficiency and energy conservation.

In sum, implementation of these proposals, combined with VEDO's existing services and programs, will ensure continued and enhanced compliance with the policies described in Section 4929.02, Revised Code.

C. The proposed plan is just and reasonable.

For all of the foregoing reasons, and additional reasons set forth below, VEDO's proposed plan is just and reasonable.

With respect to the DRR, approval of the plan will continue to ensure timely and reasonable cost recovery of the investments needed to support the continued provision of safe and reliable service. The annual review process proposed for the DRR will ensure that only just and reasonable costs are recovered. The justness and reasonableness of the plan is also demonstrated by the fact that the Commission approved a similar plan for VEDO in Case Nos. 07-1081-GA-ALT and the fact that similar plans have been approved and extended for VEDO and other LDCs in Ohio. *See* Case Nos. 13-1571-GA-ALT (VEDO); 11-2401-GA-ALT (Dominion East Ohio); 11-5515-GA-ALT (Columbia Gas of Ohio, Inc.); & 15-0362-GA-ALT (Dominion East Ohio).

The proposal to implement an energy conversion factor is also just and reasonable. The Btu content of natural gas is not constant and, for those customers subject to volumetric charges, is a source of potential over- or under-recovery of fixed costs. VEDO's proposal is even-handed and will merely eliminate this source of volatility, regardless of whether it would favor VEDO or the customer. The concept of adjusting volumetric usage for energy content is common to many

jurisdictions, and all necessary components are available to VEDO: measurement of volumes, Btu content measurements, and capable billing systems and processes. All that will change is that a potential cause of the over- or under-recovery of VEDO's fixed costs will be eliminated.

The proposed Multi-Family Housing Pilot Program is also just and reasonable. The program will permit an additional, underserved portion of VEDO's service area to benefit from the increased availability of an efficient, low-cost heating and energy source. By eliminating the cost disincentive to project builders and developers, the Pilot will encourage the availability of low-cost heating options to multi-family residents. Existing customers will benefit because program incentives will result in an increase of the number of new customers entering VEDO's system. The \$2,000-per-unit cap on project contributions, and the overall Pilot Program cap of \$1 million per year, will ensure that costs remain commensurate with benefits and that any impact on existing ratepayers remains modest.

The proposal to transition Group 1 General Service customers to an SFV rate design is also just and reasonable. As the Commission most recently recognized in *Suburban Natural Gas Co.*, Case No. 17-594-GA-ALT, SFV rate design upholds the state policies set forth in R.C. 4929.02(A) by promoting the availability of adequate, reliable, and reasonably priced natural gas service and goods to consumers. Order at 10 (Nov. 1, 2017). SFV also provides for a more accurate, equitable recovery of costs among customers, and encourages conservation by diminishing the utility's incentive to increase gas sales. *Id.* at 10–11. In this regard, Group 1 customers are eligible to participate in certain components of VEDO's energy-efficiency programs.

In comparison to other decoupling methods, an SFV rate design “has the added benefit of producing more stable customer bills throughout the year because fixed costs will be recovered

evenly throughout the year.” *In re VEDO*, Case No. 07-1080-GA-AIR, Opinion & Order at 11 (Jan. 7, 2009). A levelized rate design is also “easier for customers to understand” and “sends better price signals to customers.” *Id.* at 12.

The Commission has approved SFV rates for numerous natural gas companies, including VEDO. *See, e.g., In re VEDO*, Case No. 07-1080-GA-AIR, Opin. & Order (Jan. 7, 2009); *In re Duke Energy Ohio, Inc.*, Case No. 07-589-GA-AIR, Opin. & Order (May 28, 2008); *In re The East Ohio Gas Co. d/b/a Dominion East Ohio*, Case NO. 07-829-GA-AIR, Opin. & Order (Oct. 15, 2008); *In re Columbia Gas of Ohio, Inc.*, Case No. 08-72-GA-AIR, Opin. & Order (Dec. 3, 2008); *In re Eastern Natural Gas Co. and Pike Natural Gas Co.*, Case No. 08-940-GA-ALT, Opin. & Order (June 16, 2010); *In re Suburban Natural Gas Co.*, Case No. 17-594-GA-ALT, Opin. & Order (Nov. 1, 2017).

Approval of an SFV rate design for Group 1 customers is accordingly consistent with past Commission practice and will advance the principles and benefits as recognized here and in numerous other cases. All this demonstrates that the proposal is just and reasonable.

V. Ohio Adm. Code 4901:1-19-06(C)(6), List of Witnesses.

In accordance with the Commission's rules, below is the list of witnesses who will sponsor testimony on behalf of VEDO's Alternative Rate Plan in this proceeding.

- Scott E. Albertson
- Russell A. Feingold
- K. Chase Kelley
- Ellis S. Redd
- J. Cas Swiz
- Sarah J. Vyvoda

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

3/30/2018 11:29:05 AM

in

Case No(s). 18-0298-GA-AIR, 18-0299-GA-ALT

Summary: Application and Alternative Rate Plan Exhibits electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.