

**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	)	

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**DIRECT TESTIMONY OF  
DAVID M. BOWLER  
ON BEHALF OF  
VECTREN ENERGY DELIVERY OF OHIO, INC.**

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<u>  X  </u>	Management policies, practices, and organization
<u>     </u>	Operating income
<u>     </u>	Rate base
<u>  X  </u>	Allocations
<u>     </u>	Rate of return
<u>     </u>	Rates and tariffs
<u>  X  </u>	Other

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**Direct Testimony of  
David M. Bowler**

**I. BACKGROUND AND QUALIFICATIONS**

**Q1. Please state your name and business address.**

A. My name is David M. Bowler and my business address is One Vectren Square,  
Evansville, Indiana 47708.

**Q2. What position do you hold with Vectren Energy Delivery of Ohio, Inc. (VEDO)?**

A. I am Vice President, Controller and Assistant Treasurer of VEDO. I also hold this same  
position with Vectren Corporation (Vectren), Vectren Utility Holdings, Inc. (VUHI),  
Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. (Vectren  
North) and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery  
of Indiana, Inc. (Vectren South).

**Q3. Please describe your educational background.**

A. I graduated from Purdue University with a Bachelor of Science in Mechanical  
Engineering Technology. I have a Masters of Business Administration with a  
concentration in finance from the University of Indianapolis and hold a Post-  
baccalaureate Certificate in Accountancy from the University of Southern Indiana. I am a  
certified public accountant licensed in the State of Indiana, license number CP11400210.

**Q4. Please describe your professional experience.**

A. I have over 11 years of experience in various financial and accounting roles at Vectren  
and 15 years of total experience, inclusive of time spent in roles prior to Vectren. I began  
working for Vectren in December 2006 as a Senior Analyst and have held accounting  
leadership positions within Vectren since November 2009, including the Director of  
Corporate Services, Systems and Management Reporting prior to my current role. In June

1 2017, I assumed my current responsibilities as Vice President, Controller and Assistant  
2 Treasurer of Vectren, VUHI, and the utility subsidiary companies, VEDO, Vectren North  
3 and Vectren South. Prior to joining Vectren, I was employed by Northrop Grumman as a  
4 Program Cost Analyst.

5 **Q5. What are your present duties and responsibilities as Vice President, Controller and**  
6 **Assistant Treasurer of Vectren, VUHI, Vectren North, Vectren South and VEDO?**

7 A. I am responsible for maintaining the books and records of Vectren, VUHI and the Utility  
8 subsidiary companies. These duties include, amongst other responsibilities, overseeing  
9 and directing all accounting functions for the Company, including VEDO. In addition, I  
10 am responsible for Vectren's short and long-term financial planning process, which  
11 includes the development of the detailed budget utilized for the test year period.

12 **Q6. Have you previously testified before any state regulatory utility commission?**

13 A. No.  
14

## 15 **II. PURPOSE AND SCOPE OF TESTIMONY**

16 **Q7. What is the purpose and scope of your testimony in this proceeding?**

17 A. My testimony will provide an overview of the Company's budget and forecasting  
18 process, as well as the allocation process by which common costs of Vectren and VUHI  
19 are allocated to VEDO. I am also responsible for various Standard Filing Requirement  
20 (SFR) schedules, which were either prepared by me or under my direction and  
21 supervision. For the SFRs that are my responsibility, it is my understanding that I will be  
22 identified on the schedule as the witness, or one of the witnesses, responsible.

**III. BUDGET PROCESS**

**Q8. What is the test year period that VEDO is using for this rate application?**

A. VEDO is using a test year period that is the twelve-month period ending September 30, 2018.

**Q9. Does this test year period necessarily require VEDO to rely, in part, on estimated financial data in its rate application?**

A. Yes. VEDO's application relies, in part, on estimated data for the nine-month period ending September 30, 2018.

**Q10. What is VEDO relying on as the primary basis for the 2018 estimated data?**

A. Vectren relied on its 2018 corporate budget to develop the estimated data for its rate application.

**Q11. Please describe the process for the corporate budget used by Vectren to develop the 2018 estimated financial data for this rate application.**

A. Vectren and VEDO utilize a two-year, detailed calendar-year budget. The annual budget process generally begins in June and ends in November and results in approval of the budget of the first year of the budget period. In this instance, the 2018 corporate budget relied on for the estimated data for VEDO's rate application was reviewed and approved in November 2017. The detailed budget includes a two-year operating, capital and workforce plan based on input from officers, directors and managers across Vectren. This plan integrates key initiatives and regulatory plans, and establishes financial and operational benchmarks by which actual performance will be measured. The operating budget comprises the income statement and detail to support each line item, including specific project work and expenditure type for Operations and Maintenance (O&M) costs that are aggregated by cost center or department, as well as Federal Energy Regulatory Commission (FERC) account detail. The capital budget includes activity based and

1 project level detail for distribution and transmission infrastructure and new business.

2 Lastly, the workforce plan includes employee level detail for exempt, non-exempt and  
3 bargaining unit employees. Employee labor hours by cost center are then budgeted to  
4 projects and tasks within the budget system.

5 **Q12. Please describe management's role in the budget process?**

6 A. The budget is developed under the guidance and supervision of Vectren's Executive  
7 Management team with three operational and financial management committees  
8 providing oversight and approval of the process. These committees include: (1) VUHI  
9 Capital Planning and Approval Committee; (2) VUHI Operational and Financial  
10 Committee; and (3) VUHI Financial and Resource Oversight Committee. The VUHI  
11 Capital Planning and Approval Committee, which is comprised of VUHI and VEDO  
12 Officers, is responsible for the review and approval of VUHI capital expenditure  
13 programs and projects, as well as monitoring and reporting on the progress of capital  
14 expenditures compared to plan. These responsibilities also include approving the capital  
15 expenditure budget prior to being reviewed by Executive Management. The VUHI  
16 Operational and Financial Committee, which is comprised of VUHI and VEDO Officers,  
17 is responsible for supporting achievement of the VUHI and VEDO operating plan by  
18 implementing initiatives directed by the VUHI Financial and Resource Oversight  
19 Committee, including evaluating progress against current year operating and financial  
20 plans and reviewing the detailed budget prior to being reviewed by Executive  
21 Management. The VUHI Financial and Resource Oversight Committee, comprised of  
22 Executive and Senior Officers, is responsible for the establishment of short-term financial  
23 targets, including targets for the budget, as well as providing oversight and direction to  
24 the VUHI Capital Planning and Approval Committee and the VUHI Operational and

1 Financial Committee. Upon review of the budget by the VUHI Financial and Resource  
2 Oversight Committee, the budget is presented to the Executive Management team,  
3 including the CEO, for review and approval prior to being presented to the Vectren Board  
4 of Directors for approval.

5 **Q13. Please describe the guidelines provided by the budget department to develop**  
6 **VEDO's annual budget?**

7 A. The guidelines provided by the budget department are a detailed set of instructions that  
8 provide key information for the budget process that include deadlines for each process,  
9 general assumptions to follow for O&M and capital budgeting, key regulatory  
10 information, and other considerations throughout the budgeting process. There are  
11 detailed instructions on budgeting productive and non-productive labor hours and dollars,  
12 including information on assumed wage increases and labor loadings that are applied to  
13 labor costs. In addition, there are instructions on budgeting non-labor expenditures that  
14 should be included within the business unit's cost center and expenditure items that are  
15 centrally budgeted by specific departments. For example, non-labor costs that would be  
16 budgeted within a business unit's cost center include; training expenses, hiring and  
17 relocation costs, professional fees, contract labor and non-labor, as well as material  
18 issued from inventory. Non-labor costs that are centrally located include, but are not  
19 limited to, depreciation expense, information technology equipment, insurance and  
20 building expenses.

21 **Q14. Will VEDO be providing any other information in the SFRs related to its corporate**  
22 **budget and the budget process?**

23 A. Yes. VEDO has provided its five year (2018-2022) capital expenditures budget in the  
24 Schedule S-1, which is sponsored by VEDO Witness J. Cas Swiz. The Schedule S-2,  
25 which I sponsor, contains VEDO's five year forecast (2018-2022) for its income

statement, balance sheet and statement of cash flows. In addition, Schedules S-4.1 and 4.2, which I also sponsor, contains information on VEDO management policies, practices and organization on the functional areas of Plant Accounting and the Management Reporting & Budgets Group. Included in the Schedule S-4.2 materials is additional documentation of the annual budget process, the budget guidelines and the cost allocation process, which I discuss below.

**Q15. Will VEDO provide actual data for 2018 in connection with this rate application?**

A. Yes. VEDO must file a comparison of the twelve-month actual income statement versus the partially forecasted income statement and any variances within three months after the end of the test year. At that time, Vectren must also explain any material differences between estimated and actual data.

**Q16. Based on Vectren's budgeting procedures and policies, do you believe that the 2018 budget provides a reasonable basis for estimated data for the test year period?**

A. Yes.

**IV. ALLOCATED COSTS**

**Q17. Please describe Vectren's corporate organization**

A. Vectren is an energy holding company headquartered in Evansville, Indiana. Vectren's wholly owned subsidiary, VUHI, serves as the intermediate holding company for three operating utilities: Vectren North, Vectren South and VEDO.

**Q18. Are you familiar with the SFRs concerning jurisdictional allocation factors?**

A. Yes. Schedule B-7 would identify any factors used in allocating total utility rate base and operating income to the jurisdiction. In addition, Schedule C-2.1 would identify any jurisdictional allocations of operating revenues and expenses by FERC account.

**Q19. Are you providing testimony in support of any jurisdictional allocation factors?**

A. No. VEDO Witness Swiz would be the witness responsible for those SFRs. However, since VEDO's operations are consolidated completely under the jurisdiction of this Commission, there are no factors being utilized to allocate VEDO's costs within Ohio.

**Q20. Please describe the Schedule C-2.1 being filed by VEDO with this rate application.**

A. Schedule C-2.1 provides the detail of the revenue and expenses for the test year period, by account in accordance with the Uniform System of Accounts. The detail provided on this schedule represents the test year amounts, based on 2017 actual and 2018 estimated data, and is unadjusted.

**Q21. What costs are included in the amounts reflected on Schedule C-2.1?**

A. Both VEDO's direct and allocated costs are reflected in Schedule C-2.1.

**Q22. What are VEDO's allocated costs?**

A. Allocated costs include costs associated with providing common functions or services to Vectren's subsidiaries, including VEDO. For example, functions like accounting, legal and human resources exist at a Vectren corporate level and provide services to all entities. The costs of those shared services are then distributed to Vectren's affiliated companies using an allocation process and allocation factors that are appropriate to the cost as well as the entity receiving the cost.

**Q23. Please describe further the cost allocation process in effect during the test year period.**

A. Cost allocation factors are used to distribute common administrative, supervision and certain other costs to the affiliated companies within Vectren. Allocation factors appropriate for each type of shared cost, such as number of customers, number of employees, company margins, capital expenditures, etc., are used to derive weighted

percentages that are then applied to costs incurred that are relevant to the allocation factor. As an example, customer service costs like customer contact center and billing are common costs that are allocated to the various utility companies based on the number of customers served by each utility.

**Q24. Has Vectren issued any internal guidance on its cost allocation process?**

A. Yes. Vectren has a cost allocation brochure and regularly reviews its cost allocation process. The allocation factors currently in effect and proposed to be in effect during the test year period have been developed using the methodologies outlined in the cost allocation procedures.

**Q25. Please describe the annual process for updating cost allocators.**

A. On an annual basis, Vectren reviews the cost allocation factors applied to each cost center to determine whether any changes in allocation factors for particular cost centers should be made. Any changes to allocation factors are identified in the cost allocation brochure. In addition, Vectren annually updates its cost allocation factors using final budget data. For the test year period, any allocated amounts in VEDO's estimated 2018 costs have been allocated using updated cost allocation factors based on final 2018 budget data. The updated allocator factors based on the most recent final budget data are also included in the cost allocation brochure.

**Q26. Does any outside entity regularly review Vectren's allocation methodologies?**

A. Yes. Vectren's independent auditor, Deloitte & Touche, LLP (Deloitte), regularly reviews Vectren's cost allocation brochure, as part of the annual financial statement audit, since the effects of intercompany allocations are material to the financial statements and are therefore considered to be a critical accounting policy.

1 **Q27. What are some of the more significant allocators that will be in effect for the test**  
2 **year period?**

3 A. The allocation percentages for the more significant allocators in place for 2018 for  
4 VEDO are as follows:

- 5 • If costs are allocated based on number of employees, the allocation percentage for  
6 VEDO is 12 percent. This allocation percentage would generally apply to costs  
7 that would be allocated based on the employee base, such as Human Resource  
8 costs.
- 9 • If costs are allocated based on number of utility customers, the allocation  
10 percentage for VEDO is 27 percent. This allocation generally applies to customer  
11 contact center, billing, and certain functions within Information Technology.
- 12 • If costs are allocated based on a weighting of margin, capital expenditures, and  
13 payroll, the allocation percentage for VEDO is 16 percent. This allocation  
14 generally applies to costs such as corporate employee salaries within Accounting,  
15 Treasury, Legal and other corporate support functions.
- 16 • If costs are allocated using an equal weighting of total customers and total  
17 employees, the allocation percentage to VEDO is 21.5 percent. For example, this  
18 allocation is used to allocate costs of shared assets like computer systems and  
19 buildings.

20 **Q28. Please describe the allocation of costs related to shared assets as mentioned above.**

21 A. Certain assets, like computer systems, are owned by VUHI, a subsidiary of Vectren.  
22 VUHI is the holding company for Vectren's utility operations. The assets owned by  
23 VUHI are shared among Vectren's operations and are used predominantly by the utility  
24 operations. Because the functions performed by these assets are common to the utilities  
25 (i.e. customer billing systems, financial systems, buildings, etc.), it is more efficient to  
26 have them centrally owned and operated. Without this sharing, each utility company  
27 would own its own such assets and include the costs in its rate base with a fair return  
28 thereon required. Centralized ownership certainly provides the opportunity for economies  
29 of scale. The amounts charged to each utility, the "asset charge", mirror the treatment that  
30 would be achieved if the assets were in rate base by charging a return of and on the

investment, as well as operating costs like depreciation and property taxes. The amount charged to VEDO is shown on its financial statements as an operating expense, akin to a lease or rental charge. The costs that comprise the asset charge allocated to each of Vectren's entities include depreciation, property taxes, and a fair and reasonable return on the assets. The return component reflected in the asset charge is based on the requested return in this case. The asset charge is allocated to each utility based on the equal weighting of customers and employees, except for the Oracle Enterprise Resource Planning (ERP) system, which utilizes an equal weighting of margin, capital expenditures, and payroll. VEDO's shared resources practices are similar to the practice employed by other utilities in similar circumstances and results in economies of scale that are ultimately passed on to customers through allocation procedures that fairly distribute costs among and between the affiliated companies using such resources. VEDO has included an adjustment to its asset charge on Schedule C-3.19, sponsored in testimony by VEDO Witness Swiz.

**Q29. Based on Vectren's allocation procedures and policies, do you believe that the 2018 allocations provide a reasonable basis for allocated estimated data for the test year period?**

A. Yes.

**V. O&M EXPENSE – LABOR AND LABOR RELATED COSTS**

**Q30. Please describe the labor expense adjustment included in Schedule C-3.13 and shown in detail on WPC-3.13.**

A. Schedule C-3.13 is an adjustment to operating expense to capture a comprehensive review of labor and labor related costs. WPC-3.13a shows the derivation of the portion of the adjustment related to pro forma labor costs. Test year labor expense was \$23,838,368

1 and the pro forma level is \$23,117,654, which results in a decrease of \$720,714. The pro  
2 forma level is calculated based on the 2018 budgeted labor, which normalizes the last  
3 three months of the test year with the annual budget. The fringe benefit costs (healthcare,  
4 401K, and other costs) and payroll tax rates are based on the 2018 budgeted costs and are  
5 expected to be in effect for the twelve months subsequent to the test year. These costs,  
6 which are based on the 2018 budget, were used to determine the pro forma level of  
7 benefit expenses. A loading process is used to distribute benefit costs based on direct  
8 labor charges. The portion of the adjustment related to wages is \$183,803 and the portion  
9 related to benefit costs is \$536,911.

10 **Q31. Please describe the incentive compensation adjustments shown on WPC-3.13.**

11 A. WPC-3.13 represents adjustments to reflect the proper level of compensation costs, other  
12 than direct salary, in the test year. As key elements of the Company's total compensation  
13 program, Vectren uses a combination of base salary, long term performance-based  
14 compensation, primarily in the form of restricted stock units, and annual (or short term)  
15 performance-based compensation. The total compensation program is reviewed regularly  
16 by Vectren's Board of Directors in order to determine the appropriate combination and  
17 levels of such compensation elements, as well as setting performance standards and  
18 approval of payout levels. The use of these compensation elements is intended to provide  
19 market based compensation at a target level of achievement. The direct salary adjustment  
20 was included in the previously described labor cost adjustment. The incentive  
21 compensation adjustment on WPC-3.13 adjusts the amount of long term and short term  
22 performance-based compensation, respectively, based on performance at target.

1 **Q32. Please explain how the long term performance-based compensation adjustment was**  
2 **derived.**

3 A. WPC-3-13b shows the appropriate level of expense associated with restricted stock units  
4 that will be incurred by VEDO based on the number of restricted stock units that are  
5 currently outstanding, including an estimated number of restricted stock units that was  
6 expected to be granted effective January 1, 2018, for executives and May 1, 2018, for  
7 other employees. The appropriate level of expense assumes a 5 percent return on Vectren  
8 stock over an annual period, along with quarterly dividends. These assumptions are  
9 consistent with Vectren's targeted shareholder return and generally are consistent with  
10 historical share price performance, except in the most recent year where Vectren's stock  
11 price increased more than 5 percent. The adjustment to reflect the proper level of long  
12 term performance-based compensation at target allocated to VEDO is a decrease in  
13 operating cost from a test year level of \$1,258,231 to \$1,014,000 or a decrease of  
14 \$244,321.

15 **Q33. Please explain the adjustment for annual (short term) performance-based**  
16 **compensation.**

17 A. WPC-13b shows the appropriate level of short term annual performance-based  
18 compensation allocated to VEDO based on the plan performance targets for 2018. The  
19 annual plan is based on a weighting of performance measures such as earnings, safety,  
20 customer satisfaction, and conservation measures that are annually approved by  
21 Vectren's Board of Directors. The adjustment amount of \$73,423 is determined by  
22 comparing the calculated amount of \$1,293,903 which represents targeted performance to  
23 the amount in the test year of \$1,220,480.

1 **Q34. Please describe the deferred compensation adjustment shown on WPC-3.13.**

2 A. WPC-3.13b shows the adjustment to remove deferred compensation expense from the  
3 test year. As part of the overall compensation program, Vectren allows certain employees  
4 to defer compensation, including base salary, long term and short term performance-  
5 based compensation. A record keeping account is established for each participant and the  
6 deferrals are invested in various investment options, including phantom shares of Vectren  
7 common stock. Fluctuations in the liability balance are recorded as expense within O&M  
8 on the Company's income statement. In addition, the Company has certain investments  
9 that are available to pay deferred compensation benefits. Changes in the asset balance of  
10 these investments are recorded below the line in other income on the Company's income  
11 statement. The Company is proposing an adjustment of \$617,822 to remove deferred  
12 compensation expense from the test year so that it is not included in the Cost of Service  
13 collected from customers.

14  
15 **VI. CONCLUSION**

16 **Q35. Does that conclude your prepared direct testimony?**

17 A. Yes.

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Summary: Exhibit 2.0 - Direct Testimony of David M. Bowler electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.