

**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)	

**DIRECT TESTIMONY OF
J. CAS SWIZ
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.**

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

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**Direct Testimony of
J. Cas Swiz**

I. BACKGROUND AND QUALIFICATIONS

Q1. Please state your name and business address.

A. My name is J. Cas Swiz 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 or the Company)?

A. I am Director, Rates and Regulatory Analysis for Vectren Utility Holdings, Inc. (VUHI), the immediate parent company of VEDO. I also hold this same position with two other utility subsidiaries of 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 am a 2001 graduate of the University of Evansville with a Bachelor of Science degree in Accounting, and a 2005 graduate of the University of Southern Indiana with a Masters of Business Administration.

Q4. Please describe your professional experience.

A. From 2001 to 2003, I was employed by ExxonMobil Chemical as a Product and Inventory accountant. Since 2003, I have been employed with VUHI in various accounting capacities. In 2008, I was named Manager, Regulatory and Utility Accounting, and in November 2012, I was promoted to Director, Regulatory Implementation and Analysis. I was named to my current position in August 2015.

1 **Q5. What are your present duties and responsibilities as Director, Rates and Regulatory**
2 **Analysis?**

3 A. I am responsible for the regulatory and rate matters of the regulated utilities within VUHI
4 in proceedings before the Indiana and Ohio utility regulatory commissions. I also have
5 the responsibility for the financial analysis and implementation of all regulatory
6 initiatives of VUHI, as well as the preparation of accounting exhibits submitted in various
7 regulatory proceedings.

8 **Q6. Have you previously testified before this Commission?**

9 A. Yes. I have testified in VEDO's Distribution Replacement Rider (DRR) proceedings,
10 Case Nos. 13-1121-GA-RDR, 14-0813-GA-RDR, 15-0865-GA-RDR, 16-0904-GA-
11 RDR, and 17-1155-GA-RDR.

12
13 **II. SUMMARY**

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

15 A. I directed the preparation of a significant portion of VEDO's Application and the
16 supporting information supplied to meet the Public Utilities Commission of Ohio
17 (Commission) Standard Filing Requirements (SFRs) that were filed with the Commission
18 on March 30, 2018. More specifically, I am responsible for and directed the preparation
19 of: Section A, revenue requirements; Section B, rate base; portions of Section C,
20 operating income and its components; portions of Section E, specifically test year
21 revenue and consumption and the resulting bill comparison analysis. I also sponsor
22 certain Supplemental Filing Requirements submitted in compliance with section (C). I
23 will discuss each of the specific schedules in greater detail throughout my direct
24 testimony. I will also discuss VEDO's proposal to continue the Distribution Replacement

Rider (DRR). Finally, I will discuss the recovery of the Capital Expenditure Program (CEP) investments and deferral in this proceeding, and the plan to consolidate the proposed CEP Rider request noticed in Case No. 18-0049-GA-ALT in this proceeding.

Q8. Are the Company's books and records kept in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts?

A. Yes. The Company's books and records are kept in accordance with the FERC Uniform System of Accounts as adopted by this Commission.

III. STANDARD FILING REQUIRMENTS

Q9. What is the test year and the date certain in this proceeding?

A. The test year is the twelve months ended September 30, 2018, and the date certain is December 31, 2017. The test year represents three months of actual financial data for the months of October, November, and December 2017 and nine months of budgeted data through September 2018. The Commission approved the test year and the date certain in its Entry dated March 13, 2018.

IV. A SCHEDULES

Q10. Please describe Schedule A-1.

A. Schedule A-1 is an overall financial summary of the Application including rate base, operating income, rate of return and the proposed revenue increase. Specific schedule references are made on Schedule A-1 to the various supporting schedules. As indicated on this summary schedule, the current earned rate of return of 3.90 percent is significantly below the level required to provide VEDO with a reasonable rate of return. Evidence on the cost of capital and required rate of return is summarized on Schedule D-

1 1 which is jointly sponsored by VEDO Witnesses Patrick C. Edwards and Michael J.
2 Vilbert. The revenue increase supported by the details of the Application totals \$34
3 million, which is consistent with the increase derived from the noticed rates reflected in
4 Schedule E-1.

5 **Q11. Please describe Schedule A-2.**

6 A. Schedule A-2 presents the calculated Gross Revenue Conversion Factor used to
7 determine the overall revenue increase on Schedule A-1. This Gross Revenue Conversion
8 Factor uses the current statutory federal income tax rate of 21 percent and the effective
9 Ohio Excise Tax Rate of 4.9261 percent proposed within VEDO's Tariff for Gas Service.

10 **Q12. Please describe Schedule A-3.**

11 A. Schedule A-3 presents the calculation of the Mirrored Construction Work in Progress
12 (CWIP) Revenue Sur-Credit Rider proposed for inclusion in rates. VEDO is not
13 proposing to include CWIP in its Rate Base, nor did it include CWIP in its Rate Base in
14 its last rate case, Case No. 07-1080-GA-AIR.

15
16 **V. B SCHEDULES**

17 **Q13. What is the purpose of Section B, Rate Base?**

18 A. The purpose of Section B is to present the jurisdictional rate base as of the date certain,
19 December 31, 2017. The rate base summary is shown on Schedule B-1 and includes
20 various components from other schedules within Section B. As shown on Schedule B-1,
21 VEDO's date certain rate base value is \$627,591,444. The supporting schedule references
22 are indicated on Schedule B-1 and are Schedules: B-2, plant in service; B-3, reserve for
23 depreciation; B-4, construction work in progress; B-5, working capital; and B-6,
24 miscellaneous items.

1 **Q14. Is all of the plant in service used and useful in providing utility service?**

2 A. Yes. The plant in service as of the date certain is rendering service to VEDO's customers
3 receiving service subject to the Commission's jurisdiction and is used in that regard.

4 **Q15. Has the plant in service been identified by accounts and sub accounts in accordance**
5 **with the Uniform System of Accounts and VEDO's continuing property records?**

6 A. Yes. Schedule B-2.1 details the Company's jurisdictional plant in service by account and
7 sub account as of the date certain, December 31, 2017. VEDO's gas distribution
8 operations are wholly under this Commission's jurisdiction so there is no allocation of
9 amounts contained on Schedule B-2.1. Date certain plant in service is summarized by
10 major property groupings on Schedule B-2.

11 **Q16. Were any adjustments made to plant in service?**

12 A. Yes, two categories of adjustments were made and reflected on Schedule B-2.2. First,
13 VEDO removed balances in its Manufactured Gas Production Plant Accounts (Accounts
14 304 through 311) which were retired from service but not yet retired in the fixed asset
15 system as of the date certain. This adjustment reduced VEDO's Plant In Service Balance
16 on Schedule B-2. Second, VEDO transferred specific General Plant balances into sub-
17 accounts to isolate investments that are still used in service as of the date certain, but are
18 fully depreciated. As a result of the depreciation study, sponsored by VEDO Witness
19 John J. Spanos, these balances were identified and transferred to an account whereby no
20 additional depreciation expense would be recorded. These adjustments were also made to
21 Accumulated Depreciation and Amortization on Schedule B-3.1.

Q17. Please describe Schedule B-2.3.

A. Schedule B-2.3 summarizes gross additions, retirements and transfers to plant in service from August 31, 2007, the date certain in Case No. 07-1080-GA-AIR, to December 31, 2017, the date certain in this proceeding.

Q18. Has the Company included leased property in its date certain valuation?

A. No. As indicated on Schedule B-2.4, the Company does not have any leased property devoted to its Ohio gas operations. Since the Company does not have any leased property, Schedule B-3.4 likewise does not reflect a depreciation reserve for leased property.

Q19. Are there any other properties excluded from the determination of rate base?

A. No. As indicated on Schedule B-2.5, the Company does not have any property that should be excluded from rate base. All plant is used for providing gas service as of December 31, 2017, the date certain in this proceeding.

Q20. Please describe Schedules B-3 and B-3.1.

A. Schedule B-3 identifies the current accumulated depreciation reserve as of December 31, 2017, by account similar to the presentation of plant in service found on Schedule B-2.1. Schedule B-3.1 calls for the identification of potential adjustments to the depreciation reserve. As noted in explanation of Schedule B-2.2, VEDO has made adjustments to account for (1) certain retirements that occurred after the date certain, which reduces the Reserve for Accumulated Depreciation, and (2) transfers to isolate fully depreciated plant identified within its proposed Depreciation Study.

Q21. Is the Company requesting new depreciation rates in this proceeding?

A. Yes. The Company filed proposed depreciation accrual rates with this Commission as part of its Application on March 30, 2018. The proposed deprecation accrual rates,

sponsored by VEDO Witness Spanos, are set forth on Schedule B-3.2. VEDO has presented both current and proposed depreciation rates on this schedule.

Q22. Please describe Schedule B-3.3.

A. This schedule provides the depreciation reserve, retirements and transfers from August 31, 2007, the date certain in Case No. 07-1080-GA-AIR, through December 31, 2017, the date certain in this proceeding.

Q23. Is the Company requesting that a construction work in progress allowance be included in rate base?

A. No. As reflected in Schedule B-4, the Company is not proposing to include construction work in progress in rate base. As a result, Schedules B-4.1 and B-4.2 likewise reflect no construction work in progress amounts in rate base.

Q24. Is the Company requesting an allowance for working capital?

A. No. As reflected on Schedule B-5, the Company is not proposing to include any working capital items in rate base. As a result, Schedule B-5.1 likewise reflects no working capital items.

Q25. Please describe Schedule B-6.

A. Schedule B-6 reflects other rate base items, including reductions for the date certain balances for customer advances for construction, deferred income taxes, and authorized deferred balances for the Percentage of Income Payment Plan (PIPP) recovery mechanism, the DRR, and the deferral for the CEP under House Bill 95 (HB95).

Q26. How have deferred income taxes reflected on the Company's balance sheet been reflected in this case?

A. As is the practice in Ohio ratemaking, deferred income taxes totaling approximately \$190.1 million have been deducted from rate base as shown on Schedule B-1. This includes the balance as of December 31, 2017, associated with excess deferred income

taxes, created as a result of the Tax Cuts and Jobs Act of 2017 (TCJA), discussed in greater detail by VEDO Witness Stephen A. Allamanno.

Q27. Were there any other rate base adjustments?

A. No. As indicated on Schedule B-6.1, there were no other rate base adjustments.

Q28. Does the Company have any contributions in aid of construction?

A. No, as indicated on Schedule B-6.2, any contributions in aid of construction received are netted against gross plant in service.

Q29. Please describe Schedules B-7 and B-7.1.

A. Both of these schedules pertain to the determination and use of allocation factors. As previously indicated, VEDO's operations are completely under the jurisdiction of this Commission so there are no jurisdictional allocation factors employed.

Q30. Please describe Schedule B-7.2.

A. This schedule requires an explanation of changes in allocation procedures from the previous rate case. There have been no changes to jurisdictional allocations since the last case as VEDO is completely under the jurisdiction of this Commission.

Q31. Please describe Schedule B-8.

A. Schedule B-8 is VEDO's calculation of unaccounted for gas for the twelve months ending August 31, 2017, and includes gas received, gas sales and deliveries, and company use. VEDO has presented this information as of August 31, 2017, which is the end of the annual unaccounted for gas measurement period for VEDO's system.

Q32. Please describe Schedule B-9.

A. Schedule B-9 requires mirrored allowances for CWIP projects that have been included in rate base. As discussed earlier in testimony, mirrored allowances for CWIP projects have not been included in rate base in the current nor previously approved case.

1
2 **VI. C SCHEDULES**

3 **Q33. Please describe your understanding of Section C of the Application regarding**
4 **operating income.**

5 A. The purpose of Section C is to provide the Company's operating income for the test year,
6 describe operating income adjustments necessary to reflect the fair, reasonable, and
7 recurring items that are proper for establishing an ongoing level of expenses and revenue
8 and reflect pro forma adjustments resulting from the requested increase. This section also
9 includes other statistical data relating to the income statement.

10 **Q34. Please describe Schedule C-1.**

11 A. Schedule C-1 is the jurisdictional pro forma income statement showing adjusted revenues
12 and expenses under existing customer rates and the impact of the proposed revenue
13 increase. This schedule shows that under the current rates, the Company's rate of return is
14 3.90 percent. The revenue increase calculated within Section E is based on the rates
15 submitted as part of VEDO's proposed tariff supplied under Schedule E-1. By adjusting
16 the current adjusted operating income statement by the impact of the proposed rates, this
17 schedule shows that the Company's rate of return will increase to 7.97 percent, which is
18 the requested Rate of Return reflected on Schedule D-1 and discussed by VEDO
19 Witnesses Edwards and Vilbert.

20 **Q35. Please describe Schedule C-2.**

21 A. Schedule C-2 reflects the Company's operating income for the test year, the twelve
22 months ended September 30, 2018, adjusted for several items as identified in Schedule C-
23 3. These adjustments will be discussed later in my testimony.

1 **Q36. Please describe Schedule C-2.1.**

2 A. Schedule C-2.1 provides the detail of the revenue and expenses for the test year, by
3 account in accordance with the Uniform System of Accounts. The detail provided on this
4 schedule represents the test year amounts and is unadjusted.

5 **Q37. What costs are included in the amounts reflected on Schedule C-2.1?**

6 A. Both direct costs and allocated costs are reflected in Schedule C-2.1. Allocated costs
7 include costs associated with providing common functions or services to Vectren's utility
8 and non-utility subsidiaries that are then allocated to the various subsidiaries. VEDO
9 Witness David M. Bowler provides additional information related to allocated costs.

10 **Q38. Please describe Schedule C-3.**

11 A. The amounts indicated on Schedule C-3 represent a summary of the adjustments which
12 are detailed on Schedules C-3.1 through C-3.24. The adjustments are necessary to reflect
13 the annual effect of expenses and revenues for ratemaking purposes and establish test
14 year expense and revenue levels appropriate for ratemaking purposes.

15 **Q39. Please describe Schedule C-3.1.**

16 A. Schedule C-3.1 reflects the change to operating revenues of \$85,048 to adjust Monthly
17 Fixed Charge revenues for actual and projected Customer Count by Rate Schedule. This
18 amount was determined by adjusting, by Rate Schedule, the Fixed Charge revenue for the
19 test year to match the calculated level of customers multiplied by the currently effective
20 rates. The Company did not adjust the level of customers reflected in the test year.

21 **Q40. Please describe Schedule C-3.2.**

22 A. Schedule C-3.2 reflects the reduction to operating revenues of \$(247,262) to adjust the
23 actual periods of October through December 2017 to reflect actual calendar month days
24 of service. VEDO bills its customer over 21 billing cycles during a calendar month. At

1 any point in time, customers could receive bills that reflect days of service below or in
2 excess of the actual calendar days of the current month. The VEDO budget is calculated
3 assuming calendar month factors: (1) baseload, or non-weather sensitive, usage per
4 customer for each month, plus (2) weather sensitive usage per normal heating degree day
5 for each calendar month. This adjustment is necessary to adjust the actual baseload usage
6 by customer for October through December 2017 to a calendar month baseload amount to
7 ensure that the test year reflects 365 days of service and aligns with the budgeted usage in
8 the test year.

9 As an example, the month of October 2017 produced billed usage during the
10 month that captured approximately 29.8 days of service. This adjustment would add
11 approximately 1.2 days of *baseload* usage to the test year (weather sensitive usage is
12 adjusted in another schedule), resulting in a full 31 days of usage for the month.

13 **Q41. Please describe the annualized revenue adjustment for weather normalization**
14 **included in Schedule C-3.3.**

15 A. Schedule C-3.3 reflects the increase to operating revenues of \$449,401 to adjust actual
16 sales volumes for weather fluctuations. Weather sensitive sales were adjusted based on a
17 30-year average for the city of Dayton determined by the National Oceanic and
18 Atmospheric Administration (NOAA) for 1981 through 2010. For the actual months of
19 the test year, October through December 2017, weather was approximately 32 percent
20 warmer than normal, resulting in reduced usage for the weather sensitive Rate Schedules
21 (Residential 310/311/315 and General Service 320/321/325). In addition, this adjustment
22 also normalizes VEDO's budgeted period, January through September 2018, which was
23 originally calculated based on normal weather defined in VEDO's last base rate case and

not the NOAA 30-year average. This adjustment increases sales and revenues for the test year to reflect normal weather.

Q42. Please describe Schedule C-3.4.

A. Schedule C-3.4 reflects the annualization of PIPP Rider revenue at the rate of \$(0.00066) per ccf currently in effect, using the adjusted volumes in the test year. This adjustment affects both operating revenue and operating expense as these riders represent dollar for dollar recovery of PIPP-eligible uncollectible expense. In total, this adjustment has no impact on net operating income.

Q43. Please describe Schedule C-3.5.

A. Schedule C-3.5 reflects the annualization of Uncollectible Expense (UEX) Rider revenue at the rate of \$0.00397 per ccf currently in effect, using the adjusted volumes in the test year. This adjustment affects both operating revenue and operating expense as this rider represents dollar for dollar recovery of eligible uncollectible expense. In total, this adjustment has no impact on net operating income.

Q44. Please describe Schedule C-3.6.

A. Schedule C-3.6 reflects the annualization of Energy Efficiency Funding Rider (EEFR) revenue at the rate of \$0.00558 per ccf currently in effect, using the adjusted volumes in the test year. This adjustment affects both operating revenue and operating expense as this rider represents dollar for dollar recovery of eligible Gas Conservation program expenses. In total, this adjustment has no impact on net operating income.

Q45. Please describe Schedule C-3.7.

A. Schedule C-3.7 reflects the annualization of DRR revenues at the projected rates as of September 1, 2018, using the adjusted volumes in the test year. VEDO files for adjustments to its DRR rates annually with rates effective September 1, and this

adjustment reflects current proposed rates to recover its investments in DRR-eligible projects through December 31, 2017.

Q46. Please describe Schedule C-3.8.

A. Schedule C-3.8 reflects the annualization of Exit Transition Cost Rider (ETC) revenues at the rate of \$0.00829 per ccf currently in effect, using the adjusted volumes in the test year. This adjustment affects both operating revenue and operating expense as this rider represents dollar for dollar recovery of eligible costs associated with exiting the merchant function.

Q47. Please describe Schedule C-3.9.

A. Schedule C-3.9 reflects the change in operating revenues and operating expense for normalized Gas Cost Revenues using the adjusted volumes in the test year. This applies only to those customers who are not Choice eligible (Rate 310/320), and assumes an average rate of \$0.42923 per ccf. This increases operating revenue by \$852,233 and increases operating expense by \$812,381 to synchronize the revenue and expense, for a net adjustment of \$39,852 to pre-tax operating income. This difference is a result of gross receipts tax revenues on the change in Gas Cost collections. The overall gross receipts tax rider revenue impact on tax expense is captured in Schedule C-3.12. In total and as reflected on Schedule C-2, this adjustment has no impact on net operating income.

Q48. Please describe Schedule C-3.10.

A. Schedule C-3.10 annualizes the Senate Bill 287 (MCF) Excise Tax revenue to reflect the volumetric changes noted in Schedules C-3.2 and C-3.3 and synchronize the expense with the adjusted level of revenue. The total adjustment is an increase to gross operating income of \$15,234, of which \$324,491 is an increase to operating revenue with a corresponding offset of \$309,257 increase in operating expense. This difference is a

1 result of gross receipts tax revenues on the change in MCF Excise Tax collections. The
2 overall gross receipts tax rider revenue impact on tax expense is capture in Schedule C-
3 3.12. In total, this adjustment has no impact on net operating income.

4 **Q49. Please describe Schedule C-3.11.**

5 A. Schedule C-3.11 adjusts the miscellaneous revenue charges during the test year, removes
6 the booked unbilled revenue for October through December 2017, and removes other
7 non-recurring miscellaneous items during the test year. This adjustment is a total
8 decrease of \$(3,770,724) to gross operating income. As discussed by VEDO Witness
9 Scott E. Albertson, there are various adjustments to miscellaneous revenue charges to
10 capture revised calculations. These proposed charges have been used to adjust the test
11 year revenues based on the test year number of occurrences. In some instances, VEDO
12 has adjusted the number of occurrences in the test year because the budgeted period did
13 not contain a sufficient level of occurrences based on historical trends. In addition,
14 VEDO has adjusted the forfeited discounts amounts to reflect a three-year average of late
15 payment fees as a percentage of operating revenue. The net of these adjustments is an
16 increase of \$156,547 to operating revenues.

17 The adjustment also removes the change in unbilled revenue recorded in the test
18 year actual periods of \$(3,629,796). By removing the booked unbilled amounts and using
19 the other revenue-based adjustments discussed in my testimony, the Company is
20 presenting the test year on a billed basis rather than an unbilled basis.

21 The adjustment also captures changes in contractual discounts provided to
22 specific customers as a result of the proposed rates in this proceeding. This reduces test
23 year revenues by \$(199,974) to reflect the proposed impacts.

1 Finally, the adjustment reduces revenues by \$(97,501) to remove test year
2 revenues related to non-recurring items, or items already captured in other adjustments
3 (for instance, DRR activity).

4 **Q50. Please describe Schedule C-3.12.**

5 A. Schedule C-3.12 reflects the change in operating revenues and operating expense for
6 normalized Gross Receipts Tax Rider recoveries at the proposed tariff rate of 4.9261
7 percent. The operating revenue adjustment is an increase of \$55,690 after taking into
8 account the amounts captured in Schedules C-3.1 through C-3.11. The operating expense
9 adjustment needed to synchronize revenues with expense is an increase of \$127,910 for
10 an operating income decrease of \$(72,220).

11 **Q51. Please describe Schedule C-3.13.**

12 A. Schedule C-3.13 reflects labor and compensation related adjustments, which combine to
13 decrease expense by \$(1,509,434). VEDO Witness Bowler provides additional
14 information related to these adjustments.

15 **Q52. Please describe Schedule C-3.14.**

16 A. Schedule C-3.14 reflects the adjustment of \$(132,951) for annual program costs
17 associated with conservation initiatives focused on residential and general service
18 customers. This adjustment brings the annual level of program costs to \$5.6 million.
19 VEDO Witness Rina A. Harris will provide further details related to the conservation
20 programs.

21 **Q53. Please describe Schedule C-3.15.**

22 A. Schedule C-3.15 reflects the estimated costs of this proceeding. The adjustment to
23 increase test year expenses by \$305,000 reflects the annual amortization of these
24 estimated costs assuming a five year amortization period.

1 **Q54. Please describe Schedule C-3.16.**

2 A. Schedule C-3.16 reflects an adjustment to decrease expenses to capture the PUCO and
3 the OCC maintenance fees based on the adjusted test year revenues. The fees are based
4 on the latest known assessment levels reflected in the Gross Revenue Conversion Factor
5 on Schedule A-2.

6 **Q55. Please describe Schedule C-3.17.**

7 A. Schedule C-3.17 annualizes expense associated with the Distribution Accelerated Risk
8 Reduction (DARR) Program and Integrity Management (IM) Program. The adjustment
9 includes the amortization of the estimated December 31, 2018, DARR deferral balance
10 assuming a three year amortization period, resulting in an increase in expense of
11 \$3,372,939. Deferral of these expenses was approved in Case No. 15-1741-GA-AAM,
12 and covered eligible expenses starting January 1, 2016 through December 31, 2018. In
13 addition, this adjustment captures increases to operating expenses related to the annual,
14 ongoing level of IM costs, inclusive of future DARR-related costs not deferred, using a
15 five year average of projected costs. This results in an additional \$2,208,883 of expense,
16 driven by the inclusion of the DARR programs which have been previously deferred.
17 VEDO Witness Sarah J. Vyvoda provides additional information related to the DARR
18 and IM programs.

19 **Q56. Are the DARR expenses incurred and deferred in accordance with Case No. 15-**
20 **1741-GA-AAM incremental to costs included in current base rates?**

21 A. Yes. As noted within the Company's request in Case No. 15-1741-GA-AAM, the DARR
22 Program costs are all incremental to what is currently included in VEDO's approved base
23 rates.

1 **Q57. Please describe Schedule C-3.18.**

2 A. Schedule C-3.18 reflects adjustments to the budget for new expenses not contemplated
3 when the budget was prepared in the fall of 2017. The first component adds \$48,000 to
4 annual operating expense representing additional allocated insurance costs to increase
5 Vectren Corporation's excess liability coverage, which was not originally captured in the
6 budget. The second component adds \$78,000 to annual operating expense representing
7 additional cellular costs for non-residential transportation customer meter reads.
8 Currently, transportation customers are required to have a dedicated telephone line to be
9 able to communicate daily meter reads to VEDO. In some instances, these telephone lines
10 are not functioning, requiring VEDO to designate company personnel to work with the
11 customer on the required information. VEDO is in the process of replacing approximately
12 700 of these devices which rely on the telephone lines with equipment that uses cellular,
13 which results in additional cellular service fees each year for VEDO but efficiencies in
14 managing the communication network for these customers.

15 **Q58. Please describe Schedule C-3.19.**

16 A. Schedule C-3.19 reflects a decrease in expense of \$(1,272,125), which is related to the
17 VUHI shared asset charge described in detail in the testimony of VEDO Witness Bowler.
18 The shared asset charge represents the costs allocated to VEDO for centrally owned and
19 operated assets held at VEDO's parent, VUHI, which benefits the customers served by all
20 of VUHI's utilities subsidiaries. The charge, reflected on VEDO's operating expenses
21 similar to a lease or rental charge, includes depreciation, property taxes, and a fair and
22 reasonable return on the assets based on the requested return in this case. This adjustment
23 annualizes the shared asset charge using an end of test year VUHI net plant balance and
24 the rate of return proposed in this proceeding.

1 **Q59. Please describe Schedule C-3.20.**

2 A. Schedule C-3.20 reflects an adjustment to annualize depreciation expense as calculated
3 on Schedule B-3.2 based on plant in service December 31, 2017, at proposed depreciation
4 rates. As previously noted in my testimony, VEDO has conducted a depreciation study,
5 performed by VEDO Witness Spanos, to support revisions to its depreciation rates. The
6 result of these proposed rates, as reflected on Schedule B-3.2 and explained in detail by
7 VEDO Witness Spanos, would result in a decrease to VEDO's annual depreciation
8 expense. However, VEDO has deferred depreciation expense associated with its
9 approved HB95 CEP, and this adjustment also captures the annualization of this expense
10 which will no longer be deferred. The net impact of the reduction in depreciation rates
11 and the shifting of depreciation from the deferral to the income statement is an increase
12 of \$6,301,845 to depreciation expense.

13 **Q60. Please describe Schedule C-3.21.**

14 A. Schedule C-3.21 reflects an increase to operating expense of \$2,041,088 associated with
15 the amortization of the deferral of HB95 CEP programs. VEDO has included the total
16 deferred balance through December 31, 2017, on Schedule B-6 as part of its rate base,
17 and this adjustment reflects the amortization of that deferred balance, using the Average
18 System Depreciation Rate from Schedule B-3.2, 3.10 percent.

19 **Q61. The Orders in Case Nos. 12-530-GA-UNC and 13-1890-GA-UNC (collectively, the**
20 **CEP Orders) approving the deferral of these costs specified that the deferral could**
21 **not exceed \$1.50 per customer per month for the Residential (Rates 310/311/315)**
22 **and General Service (Rates 320/321/325) group 1 customers. Does the recovery of**
23 **this deferral yield an amount in excess of this cap?**

24 A. No. The inclusion of the total deferred balance in rate base at the return proposed in this
25 proceeding, and the recovery of the deferral using the 3.10 percent depreciation rate
26 factor, results in an estimated monthly impact to residential customers of \$1.35.

Q62. Please describe Schedule C-3.22.

A. Schedule C-3.22 reflects an increase to operating expense of \$534,289 associated with the amortization of the deferral of DRR programs less amounts projected to be collected in current DRR Rider rates. These deferrals are currently authorized for recovery in the DRR in each annual filing. This adjustment annualizes the amount in the test year to coincide with the deferrals as of December 31, 2017.

Q63. Please describe Schedule C-3.23.

A. Schedule C-3.23 is the adjustment to the test year property tax expense to capture the annualized expense at current tax rates on all investment in-service as of December 31, 2017. The test year level of property tax expense does not capture amounts associated with taxable plant investments which have been approved for deferral authority under HB95. The inclusion of these investments for recovery in this case ceases the deferral, which results in an increase of \$6,698,316 to the level of expense from that captured in VEDO's unadjusted test year. VEDO Witness Allamanno supports this adjustment in his testimony.

Q64. Please describe Schedule C-3.24.

A. Schedule C-3.24 is the adjustment needed to Federal income tax expense to reflect the test year expense at the statutory rate of 21 percent. This adjustment, explained in greater detail in the testimony of VEDO Witness Allamanno, reduces the test year income tax expense, which was reflected at 35 percent, to the new level effective January 1, 2018, in the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA also resulted in the creation of an excess deferred tax liability, which will be refunded to customers consistent with Internal Revenue Service (IRS) requirements. The amortization of this liability results in a credit

1 of \$(2,584,822) per year, which is the average amortization amount over the life of the
2 liability.

3 In addition, the adjustment captures the Federal income tax expense on the
4 requested revenue increase in this proceeding. The calculation of this adjustment is
5 shown on Schedule C-4 and Schedule C-4.1.

6 **Q65. Is there an alternative to including the amortization of the Excess Deferred liability**
7 **in base rates in this proceeding?**

8 A. Yes. As noted by VEDO Witness Allamanno, the balance and amount established in
9 Schedule C-3.24 reflects the Company's initial estimate. A final amount will not be
10 determined until the tax return is completed later in 2018. In addition, the annual
11 amortization for protected excess deferred tax balances, which requires the use of the
12 Average Rate Assumption Method (ARAM) to avoid violation of the IRC normalization
13 rules, results in an annual amortization amount that is not evenly spread over the
14 approximate 30-year period. As such, establishing a representative level in base rates that
15 does not result in returning to customers the excess deferred balance quicker than
16 required could add complexity to the approach. VEDO Witness Allamanno lays out a
17 proposal to address this issue in his testimony. An alternative, which has been proposed
18 by Vectren's other utility subsidiaries in Indiana, is to create an excess deferred tax rider
19 which would be adjusted annually to return to customers the actual amount recorded on
20 VEDO's income statement as the credit. In this approach, customers receive the exact
21 amount of the credit each year.

22 **Q66. Has VEDO formally proposed this approach in this proceeding?**

23 A. No. VEDO has not included a formal proposal for the creation of this rider in this
24 proceeding. However, due to the focus of the Commission and other parties on the impact

1 of the TCJA on customer rates, VEDO believes it is a reasonable consideration for all
2 parties to discuss as part of this proceeding.

3 **Q67. What is the estimated impact in this proceeding of the TCJA on customer rates?**

4 A. VEDO estimates that the overall revenue increase proposed in this proceeding has been
5 reduced by approximately \$14 million as a result of the lower Federal tax rate and the
6 inclusion of the excess deferred tax credit.

7 **Q68. Other than those discussed within Schedule C-3, do you believe any other test year**
8 **items need to be adjusted?**

9 A. No. As stated in the testimony of VEDO Witness Bowler, the nine months of budget are
10 comprised of a series of estimates which were assembled to prudently guide the operation
11 of a business for the budget period. As time passes, there is often new information that
12 can impact those budget assumptions. In preparing for this proceeding, considerable time
13 and effort has been expended in reviewing and validating budget assumptions and
14 estimates. Based on this review, the budget period included in this filing, as adjusted, is
15 appropriate and can be used by the Commission to determine a revenue requirement for
16 VEDO that is fair, just and reasonable.

17 **Q69. Please describe Schedule C-5.**

18 A. Schedule C-5 requires the detail of social and service club dues and fees. As indicated on
19 this schedule, social and service club dues and fees are not included in test year expenses.

20 **Q70. Please describe Schedule C-6.**

21 A. Schedule C-6 requires the detail of charitable contributions. As indicated on this
22 schedule, charitable contributions are not included in text year expenses.

1 **Q71. Please describe Schedule C-7.**

2 A. Schedule C-7 shows the breakdown of marketing expenses included in the test year into
3 the category of labor and non-labor components.

4 **Q72. Please describe Schedule C-8.**

5 A. Schedule C-8 details the estimated cost of this proceeding and is the basis of Schedule C-
6 3-15 which reflects the five year amortization of these costs for ratemaking purposes.

7 **Q73. Please describe Schedule C-11.1 through Schedule C-11.4.**

8 A. Schedule C-11.1 and Schedule 11.3 present the gas revenues and gas sales, respectively,
9 for the five most recent calendar years, the test year, and the next five projected calendar
10 years. As previously explained in my testimony, VEDO's operations are completely
11 under the jurisdiction of this Commission so there are no jurisdictional allocation factors
12 employed, thus Schedule C-11.2 and Schedule C-11.4 are not applicable.

13 **Q74. Please describe Schedule C-12.**

14 A. Schedule C-12 requests the analysis of the Reserve for Uncollectible Accounts as of the
15 end of the test year in this proceeding, and for the most recent three calendar years.
16 VEDO's uncollectible accounts are fully recovered in either the PIPP or UEX riders;
17 therefore, activity in the reserve nets to zero for each period.

18
19 **VII. E & S SCHEDULES**

20 **Q75. Please describe Schedule E-4 and Schedule E-4.1.**

21 A. Schedule E-4 is a summary by Rate Schedule and Schedule E-4.1 is the detail by Rate
22 Schedule of the operating revenues at current and proposed rates. Current revenues,
23 totaling \$168,206,479, represent the adjusted test year totals incorporating changes made
24 in Schedule C-3. Proposed revenues, totaling \$202,227,707, use the same billing

determinants (number of bills or customers, throughput) at the rates and charges proposed by VEDO Witnesses Russell A. Feingold and Scott E. Albertson in this proceeding.

Q76. Please describe Schedule E-5.

A. Schedule E-5 consists of twenty-five pages showing typical bill comparisons for various usage levels under each Rate Schedule for the proposed rates and charges.

Q77. Please describe Schedule S-1.

A. Schedule S-1 presents VEDO's capital expenditures budget for the next five years, 2018 through 2022, by major project category.

VIII. DISTRIBUTION REPLACEMENT RIDER EXTENSION

Q78. Please describe the currently approved DRR.

A. The DRR was established pursuant to a Stipulation and Recommendation approved by the Commission in VEDO's last general rate case, Case No. 07-1080-GA-AIR. As a requirement of that Order, the DRR was initially in effect for five years, at which point VEDO requested an extension in Case No. 13-1571-GA-ALT (the Extension Case). A Stipulation and Recommendation was approved in that proceeding on February 19, 2014, setting forth an additional five year extension of the DRR with certain modifications. As approved in the Extension Case, the DRR recovers the following costs (Replacement Program costs):

- 1) the return on and of plant investment, including capitalized interest, or post-in-service carrying costs (PISCC), along with incremental costs incurred under a multi-year program for the accelerated replacement and retirement of cast iron mains and bare steel (BSCI) mains and service lines;
- 2) deferred expenses incurred during the Company's investigation of the installation, use, and performance of natural gas service risers;
- 3) all costs of replacement of prone-to-fail risers;
- 4) the incremental costs attributable to assuming ownership of all service lines installed or replace by Company; and
- 5) the incremental cost of assuming maintenance responsibility for all service lines;
- 6) less the actual annual savings of certain Operations and Maintenance (O&M) expenses from the baseline O&M of \$1,192,153.

By May 1 of each year, VEDO files a request to adjust the DRR to include recovery of costs incurred through the prior calendar year, with rates to be implemented on September 1. For example, the 2017 Annual DRR Filing (Case No. 17-1155-GA-RDR) was filed on May 1, 2017, for recovery of Replacement Program costs incurred through December 31, 2016.

Q79. Is VEDO proposing to extend the DRR in this proceeding?

A. Yes. The Extension Case Order provides for the recovery of Replacement Program costs incurred through December 2017 in the DRR, and that further extension must be requested as part an application for an increase in distribution rates under R.C. 4909.18 and 4909.19. This proceeding includes a formal request to extend the DRR to cover Replacement Program investments made through 2023, and does not preclude VEDO from seeking to extend or modify the DRR beyond 2023 as explained by VEDO Witness Vyvoda.

1 **Q80. Is VEDO proposing to change the components of the DRR and how it is calculated?**

2 A. Except as modified or expanded in my testimony or the testimony of VEDO Witness
3 Vyvoda, VEDO proposes continuing the Replacement Program on the same terms,
4 conditions, and annual procedures as approved by the Commission in Case Nos. 07-1080-
5 GA-ALT and 13-1571-GA-ALT.

6 **Q81. Please explain the modifications required to the annual DRR revenue requirement**
7 **calculation.**

8 A. The DRR revenue requirement will continue to compute the effect of both the return on,
9 and return of, the net change in plant investment attributable to the Replacement
10 Program. The return on will be calculated using the total net change in plant investment
11 (gross investment inclusive of cost of removal, less retirement and accumulated
12 depreciation, less deferred income taxes) multiplied by the pre-tax rate of return approved
13 in this proceeding (currently defined as 9.43 percent). As of a result of the TCJA, starting
14 with 2018 investments, the Deferred Income Taxes associated with Replacement
15 Program investments will be calculated using a 21 percent federal tax rate. Next, the net
16 change in property taxes (incremental property taxes associated with new plant, less
17 property taxes avoided due to the retirement of plant) will be added to the revenue
18 requirement. Current depreciation expense and incremental O&M expenses resulting
19 from the assumption of service line responsibility (ownership and maintenance) will also
20 be added to the revenue requirement.

21 **Q82. Is VEDO requesting to modify the O&M savings calculation included in the DRR?**

22 A. No. As explained in greater detail by VEDO Witness Vyvoda, VEDO proposes to
23 continue to credit the DRR revenue requirement using a factor of \$5,882 per mile of Bare
24 Steel and Cast Iron main retired, beginning January 1, 2018. This savings credit will be

1 cumulative, starting 2018—for example, if VEDO retires 50 miles of BSCI main in 2018,
2 and an additional 55 miles in 2019, the savings credit in 2019 would reflect 105
3 cumulative miles retired multiplied by the \$5,882 credit per mile.

4 **Q83. Is VEDO requesting to modify the approved accounting treatment (PISCC and**
5 **deferred depreciation) on eligible DRR investments?**

6 A. No, the calculation of PISCC will continue to operate as currently defined, with the only
7 modification required to adjust the rate applied to the investments. The current rate, 7.02
8 percent, reflects VEDO's cost of debt established in the last base rate case (07-1080-GA-
9 AIR). In this proceeding, VEDO proposes a cost of debt of 5.07 percent, which will
10 become the basis for PISCC accruals starting with 2018 investments. VEDO will
11 continue to defer depreciation from the date the eligible investments are placed in-service
12 until such time as they are included for recovery in the DRR. As noted in the testimony of
13 VEDO Witness Spanos, VEDO has proposed adjusted depreciation rates, and those rates
14 will apply to eligible DRR investments once approved by the Commission in this
15 proceeding.

16 **Q84. Is VEDO requesting to modify how the revenue requirement and recoverable costs**
17 **in the DRR are allocated to the Rate Schedules?**

18 A. Yes. As noted in the testimony of VEDO Witness Feingold, VEDO has conducted a cost
19 of service study, which results in changes to the allocations of Mains and Services in base
20 rates, and, consequently, within the DRR. The table below shows the proposed
21 allocations to be utilized in the DRR, pending approval of VEDO's cost of service study
22 in this proceeding:
23
24

<u>Rate Schedule</u>	<u>Mains Allocation</u>	<u>Services Allocation</u>
Residential – 310/311/315	73.331%	89.734%
General Service – 320/321/325	14.221%	9.913%
Large General Transport – 345	4.618%	0.280%
Large Volume Transport – 360	7.830%	0.073%

Q85. Is VEDO proposing to change the current DRR rate design?

A. Yes. As explained more fully by VEDO Witness Albertson, VEDO is requesting to expand the straight fixed variable (SFV) rate design currently in place for VEDO's Residential Customers to the smallest General Service (Rates 320/321/325) customers (Group 1). VEDO has utilized this approach for Residential and General Service Group 1 customers in its DRR since the initial inception in 2010. Going forward, VEDO proposes to continue with a fixed monthly DRR charge for Residential and General Service Group 1, by applying the ratio of the monthly base rate charge for Residential customers and General Service Group 1 customers to the DRR charges. As an example, VEDO has proposed in the present 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 charge will be multiplied by 130 percent (or other applicable ratio, depending on the approved Monthly Charges) to arrive at the Group 1 DRR monthly charge.

Q86. Is VEDO proposing that caps on the monthly DRR charge for Residential customers continue?

A. Yes, with modifications to reset the caps to capture the impact of investments made from 2018 through 2023. The caps noted below apply only to Residential customers; however,

as previously noted, General Service Group 1 customers will be indirectly capped by maintaining the same ratio to the calculated Residential DRR charge.

<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

VEDO proposes that if, during any of the six years of the DRR as proposed in this proceeding, VEDO's actual costs result in a DRR monthly charge to its Residential customers that exceed the caps described above, VEDO may defer 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 (5.07 percent), 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.

Q87. How does VEDO propose to evaluate the monthly DRR charge against these caps?

A. As approved in Case No. 13-1571-GA-ALT, VEDO proposes that the caps on the monthly DRR charge shall not include 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

1 monthly charge will be calculated based only on the DRR revenue requirement, exclusive
2 of any variances. After comparing this charge to the approved Residential customer
3 monthly DRR caps, any over- or under-recovery variances will then be added or credited
4 to the DRR revenue requirement in order to calculate the proposed monthly DRR charges
5 to be implemented. The allocation of any over or under recovery variances will continue
6 to be based upon how the revenue requirement from the most recent DRR filing was
7 allocated between mains and service lines.

8 **Q88. Please describe Attachment A to your testimony.**

9 A. Attachment A to my testimony illustrates the form of the DRR Revenue Requirement to
10 be included in future DRR annual filings which, including all Exhibits and workpapers,
11 will be unchanged under the Company's proposal in this proceeding. The data presented
12 within this is illustrative only, and does not represent a proposal for recovery or the
13 establishment of a DRR rate in this proceeding.

14 **Q89. How will the DRR operate during the pendency and ultimate completion of this**
15 **proceeding?**

16 A. The DRR mechanism is currently approved to allow recovery of Replacement Program
17 costs incurred through December 31, 2017. With this authority, VEDO will file its annual
18 DRR proceeding on May 1, 2018, to seek recovery of the Replacement Program costs
19 incurred through December 31, 2017, with rates effective September 1, 2018. VEDO has
20 also included within the rate base in this proceeding (Schedule B-1) all Replacement
21 Program investments through December 31, 2017. At such time as an Order is received in
22 this proceeding, establishing new base rates and charges, VEDO will remove
23 Replacement Program investments from the DRR, leaving only the unrecovered DRR
24 over- or under-recovery variance in the DRR rate. This will ensure that VEDO is not

recovering Replacement Program investments in both the DRR and base rates. With approval in this proceeding, VEDO will then submit its next annual DRR filing on May 1, 2019, recovering Replacement Program investments made in 2018 only.

IX. HOUSE BILL 95 CAPITAL EXPENDITURE PROGRAM

Q90. Please explain the currently approved HB95 Capital Expenditure Program.

A. In Case No. 12-530-GA-UNC (December 12, 2012, the 12-530 Order), the Commission approved accounting authority, inclusive of the deferral of depreciation and property tax expense and the accrual of PISCC, on investments made under the Company's CEP for the period October 1, 2011 through December 31, 2012. The Commission's Order required that VEDO was to submit, by April 30 of each year, a report detailing the total deferred balance associated with CEP investments and the estimated impacts on customers if included for recovery in rates. The Commission's Order also required the deferral to be offset by incremental revenues received as a result of these investments, which VEDO has complied with as demonstrated within in each annual report submitted in accordance with the 12-530 Order. This accounting authority was granted on investments made starting October 2011 until such point as the cumulative deferral of activity, if included in rates, would result in a bill impact to residential and general service group 1 customers of \$1.50 per customer per month.

In Case No. 13-1890-GA-UNC (December 4, 2013, the 13-1890 Order), the Commission approved the continuation of the CEP investments and deferral beyond December 31, 2012, up to the point when the deferral would reach the \$1.50 per customer per month cap established in the 12-530 Order. The 13-1890 Order did not change the calculation of each of the deferred components, including the offsetting incremental

1 revenue credit, and maintained the requirement for VEDO to file annual reports, by April
2 30 of each year, detailing the CEP investments, deferral, and estimated impacts on
3 VEDO's customers if included for recovery in rates.

4 **Q91. Please explain how the CEP investments and deferral are included for recovery in**
5 **this base rate proceeding.**

6 A. VEDO has utilized the approved accounting authority to compile a total deferred balance
7 of approximately \$66 million as of December 31, 2017, which has been included for
8 recovery as part of rate base in this proceeding (Schedule B-1). As previously explained
9 in my testimony, VEDO has also requested recovery of this deferral over an extended
10 period, using the proposed composite depreciation rate in this proceeding. The impact of
11 the inclusion of the deferral in base rates, as discussed earlier in my testimony, is
12 estimated to be approximately \$1.35 per residential customer per month, which is below
13 the defined cap. Finally, VEDO's Net Utility Plant balance in this proceeding includes
14 the eligible CEP investments for which the accounting treatment has been applied.

15 **Q92. How will VEDO account for additional deferred activity related to these CEP**
16 **investments during this proceeding?**

17 A. Under the terms of the CEP Orders, deferrals are required to cease once the balance
18 reaches the \$1.50 per customer per month estimated cap, until such time as the Company
19 files to recover the existing deferrals and establish a recovery mechanism. VEDO has
20 filed a request in this case to recover the deferrals as of December 31, 2017. With respect
21 to deferrals beginning in 2018 and moving forward, VEDO has filed an application in
22 Case No. 18-0049-GA-ALT¹ to establish an annual recovery mechanism, the Capital
23 Expenditure Program Rider (CEP Rider). Because VEDO has requested authority to
24 recover the existing deferrals, the Company believes it has met the requirements of the

¹ VEDO has requested to consolidate Case No. 18-0049-GA-ALT with this proceeding.

1 CEP Orders, and deferral on the CEP investments will continue during the pendency of
2 this proceeding. The recovery of deferrals not captured in VEDO's base rate proposal
3 will be addressed in Case No. 18-0049-GA-ALT.
4

5 **X. CONCLUSION**

6 **Q93. Does that conclude your prepared direct testimony?**

7 A. Yes, it does.

FOR ILLUSTRATIVE PURPOSES ONLY

Exhibit No. JCS-2
Page 1 of 1

VECTREN ENERGY DELIVERY OF OHIO, INC. DISTRIBUTION REPLACEMENT RIDER ANNUAL REVENUE REQUIREMENT - MAINS

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2018</u>		
3	Additions - Main Replacements	\$ 21,479,712	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	(1,224,232)	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 20,255,480	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2018</u>		
7	Depreciation Expense - Mains	\$ (231,553)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	779,057	Exhibit JCS-2d, Column O, Line 2
9	Original Cost - Retired Mains	1,224,232	-Line 4
10	Total Accumulated Depreciation	\$ 1,771,736	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 456,799	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 218,558	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (95,928)	-Line 11 x 21%
14	Deferred Taxes on Depreciation	\$ (284,129)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	\$ (45,897)	-Line 12 x 21%
16	Net Rate Base	\$ 22,276,619	Sum of Lines 5 and 10-15
17	Pre-Tax Rate of Return	9.43%	As proposed in Case No. 18-0298-GA-AIR
18	Annualized Return on Rate Base - Mains	\$ 2,100,685	Line 16 x Line 17
19	<u>Operations and Maintenance Expenses</u>		
20	Annualized Property Tax Expense	\$ 500,861	Exhibit No. JCS-2f, Line 18
21	Annualized Depreciation Expense	\$ 520,566	Line 5 x 2.57% ⁽¹⁾
22	Annualized PISCC Amortization Expense	\$ 6,526	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	\$ 3,122	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	\$ (159,278)	(2)
25	Total Incremental Operating Expenses - Mains	\$ 871,797	Sum of Lines 20-24
26	Variance	\$ -	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	\$ 2,972,482	Line 18 + Line 25 + Line 26

(To Exhibit No. JCS-1 and Exhibit No. JCS-5, page 1 of 5)

(1) FERC Account 676 depreciation rate proposed in Case No. 18-0298-GA-AIR.

(2) Support provided by VEDO Witness XX, Exhibit No. SAH-7, Column C, Line 6.
Allocation between Mains and Services based upon the cumulative gross investment 2018.

(3) PISCC is accrued at an annual rate of 5.07% from the in service date until investments are reflected in the DRR rate as proposed in Case No. 18-0298-GA-AIR.

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Exhibit No. JCS-3
Page 1 of 1

**VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - SERVICE LINES**

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2018</u>		
3	Additions - Services Replacements (Bare Steel/Cast Iron)	\$ 28,939,092	Exhibit JCS-3a, Column O, Line 2
4	Additions - Meter Installation (Bare Steel/Cast Iron)	7,204,570	Exhibit JCS-3a, Column O, Line 3
5	Additions - Services Replacements (Service Line Responsibility)	11,006,976	Exhibit JCS-3a, Column O, Line 4
6	Additions - Natural Gas Risers	-	Exhibit JCS-3a, Column O, Line 5
7	Original Cost - Retired Services	(442,945)	Exhibit JCS-3b, Column Q, Line 2
8	Original Cost - Retired Meter Installation	(360,229)	Exhibit JCS-3b, Column Q, Line 3
9	Total Plant In-Service	\$ 46,347,464	Sum of Lines 3 - 8
10	<u>Less: Accumulated Depreciation at December 31, 2018</u>		
11	Depreciation Expense - Services	\$ (753,017)	Exhibit JCS-3c, Column O, Line 2
12	Depreciation Expense - Meter Installation	\$ (105,421)	Exhibit JCS-3c, Column O, Line 3
13	Depreciation Expense - Natural Gas Risers	\$ -	Exhibit JCS-3c, Column O, Line 4
14	Cost of Removal - Services	\$ 590,595	Exhibit JCS-3d, Column O, Line 2
15	Original Cost - Retired Services	\$ 442,945	-Line 7
16	Original Cost - Retired Meter Installation	\$ 360,229	-Line 8
17	Total Accumulated Depreciation	\$ 535,331	Sum of Lines 11 - 16
18	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 1,169,795	Exhibit JCS-3e, Column O, Line 10
19	Deferred Depreciation Regulatory Asset Balance - Services	\$ 746,356	Exhibit JCS-3h, Page 1, Column B, Line 3
20	Deferred Depreciation Regulatory Asset Balance - Meter Installation	\$ 104,929	Exhibit JCS-3h, Page 2, Column B, Line 3
21	Net Deferred Tax Balance - PISCC	\$ (245,657)	-Line 18 x 21%
22	Deferred Taxes on Depreciation	\$ (315,064)	Exhibit No. JCS-3g, Line 31
23	Deferred Taxes on Deferred Depreciation Regulatory Asset - Services	\$ (156,735)	-Line 19 x 21%
24	Deferred Taxes on Deferred Depreciation Regulatory Asset - Meter Installation	\$ (22,035)	-Line 20 x 21%
25	Net Rate Base	\$ 48,164,384	Sum of Lines 9 and 17-24
26	Pre-Tax Rate of Return	9.43%	As proposed in Case No. 18-0298-GA-AIR
27	Annualized Return on Rate Base -Service Lines	\$ 4,541,901	Line 25 x Line 26
28	<u>Operations and Maintenance Expenses</u>		
29	Annualized Property Tax Expense	\$ 1,106,417	Exhibit No. JCS-3f, Line 25
30	Annualized Depreciation Expense - Services	\$ 1,520,870	(Line 3+ Lines 5-7) x 3.85% ⁽¹⁾
31	Annualized Depreciation Expense - Meter Installation	\$ 205,330	(Line 4 + Line 8) x 3.00% ⁽¹⁾
32	Annualized PISCC Amortization Expense	\$ 18,819	Exhibit No. JCS-3e, Column D, Line 33
33	Annualized Deferred Depreciation Amortization Expense - Services	\$ 11,482	Exhibit JCS-3h, Page 1, Column C, Line 25
34	Annualized Deferred Depreciation Amortization Expense - Meter Installation	\$ 2,099	Exhibit JCS-3h, Page 2, Column C, Line 21
35	Incremental O&M - Service Line Responsibility	\$ -	(2)
36	Annualized Maintenance Adjustment	\$ (205,406)	(4)
37	Total Incremental Operating Expenses - Service Lines	\$ 2,659,611	Sum of Lines 29-36
38	Variance	\$ -	Exhibit No. JCS-4, Line 16
39	Total Revenue Requirement - Service Lines	\$ 7,201,512	Line 27 + Line 37 + Line 38

(To Exhibit No. JCS-1 and Exhibit No. JCS-5, page 1 of 5)

(1) FERC Account 680 (Line 30) and FERC Account 682 (Line 31) depreciation rates proposed in Case No. 18-0298-GA-AIR.

(2) Support provided by VEDO Witness XX, Exhibit No. SAH-8, Column C, Line 16.

(3) PISCC is accrued at an annual rate of 5.07% from the in service date until investments are reflected in the DRR rate as proposed in Case No. 18-0298-GA-AIR.

(4) Support provided by VEDO Witness XX, Exhibit No. SAH-7, Column C, Line 6.
Allocation between Mains and Services based upon the cumulative gross investment 2018

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Exhibit No. JCS-5
Page 1 of 5

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue <u>Requirement (b)</u>	(B) Service Lines Allocated DRR Revenue <u>Requirement (b)</u>	(C) Total DRR Revenue <u>Requirement</u> (A) + (B)	(D) Customer <u>Count (c)</u>	(E) Proposed DRR per Customer <u>Per Month</u> (C)/(D)/12	(F) Annual <u>Volumes (c)</u> (Ccf)	(G) Proposed <u>DRR per Ccf</u> (C)/(F)
1	310/311/315	\$2,179,751	\$6,462,205	\$8,641,955	295,404	\$2.44		
2	320/321/325	\$422,717	\$713,886	\$1,136,603				
3	Group 1			\$581,351 (d)	15,273	\$3.17		
4	Group 2 & 3			\$555,240 (d)			71,588,963	\$0.00776
5	345	\$137,269	\$20,164	\$157,433			55,160,348	\$0.00285
6	360/370	<u>\$232,745</u>	<u>\$5,257</u>	<u>\$238,002</u>			183,869,935	\$0.00129
7	Total (a)	<u><u>\$2,972,482</u></u>	<u><u>\$7,201,512</u></u>	<u><u>\$10,173,994</u></u>				

- (a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.
(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. JCS-5, Page 2
(c) 2018 Budget - Customer Count and Volumes
(d) From Exhibit No. JCS-5, Page 3

FOR ILLUSTRATIVE PURPOSES ONLY

Exhibit No. JCS-5
Page 2 of 5

VECTREN ENERGY DELIVERY OF OHIO DISTRIBUTION REPLACEMENT RIDER RATE SCHEDULE ALLOCATION FACTORS

<u>Line</u>	<u>Rate Schedule</u>	<u>Description</u>	<u>Mains Allocation Factors (a) (%)</u>	<u>Service Lines Allocation Factors (b) (%)</u>
1	310/311/315	Residential DSS/SCO/Transportation	73.331%	89.734%
2	320/321/325	General DSS/SCO/Transportation	14.221%	9.913%
3	345	Large General Transportation	4.618%	0.280%
4	360/370	Large Volume Transportation	7.830%	0.0730%
5		Total	<u>100.000%</u>	<u>100.000%</u>

(a) Mains Allocation Factor as presented in Case No. 18-0298-GA-AIR

(b) Service Lines Allocation Factor as presented in Case No. 18-0298-GA-AIR

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
ALLOCATION OF REVENUE REQUIREMENT - RATES 320, 321 AND 325**

<u>Line</u>	<u>Description</u>	<u>Amount</u>		<u>Reference</u>
1	Proposed DRR - Rate 310/311/315	\$2.44	Per Month	Exhibit No. JCS-5, Page 1
2	Proposed DRR - Rate 320/321/325 - Group 1	\$3.17	Per Month	to Exhibit No. JCS-5, Page 1 ^(a)
3	Customer Count - Group 1	<u>15,273</u>		Exhibit No. JCS-5, Page 1
4	Revenue Requirement - Group 1 (1)	\$581,351		Line [2] x Line [3] x 12
5	Revenue Requirement - Total 320/321/325	<u>\$1,136,592</u>		Exhibit No. JCS-5, Page 1
6	Revenue Requirement - Group 2 & 3 (1)	<u><u>\$555,240</u></u>		Line [5] - Line [4]

Notes:

(a) Group 1 Allocation Factor as presented in Case No. 18-0289-GA-AIR

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in

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

Summary: Exhibit 11.0 - Direct Testimony of J. Cas Swiz electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.