

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren :
Energy Delivery of Ohio, Inc. for : Case No. 18-0762-GA-RDR
Authority to Adjust its Distribution :
Replacement Rider Charges. :

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

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

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INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (Commission) Opinions and Orders adopting the Stipulation and Recommendations filed in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT ("*2007 Rate Case*" and "*2013 DRR Extension Case,*" respectively), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned case seeking authority to increase its Distribution Replacement Rider (DRR). The purpose of the DRR increase is to allow VEDO to: (1) recover a return of and on certain investments made in 2017 to replace aging natural gas pipeline infrastructure, and (2) recover the costs of assuming ownership and repair of previously customer-owned service lines. These comments present a summary of the Commission Staff's (Staff) investigation of VEDO's Application and the Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 318,000 customers in west central Ohio.¹ It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code and subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved a Stipulation and Recommendation (*2007 Rate Case Stipulation*) and authorized VEDO to establish the DRR for a period of five years or until new rates were approved pursuant to a base or alternative rate case. The Commission's Opinion and Order in Case No. 13-1571-GA-ALT approved a Stipulation and Recommendation (*Case No. 13-1571-GA-ALT Stipulation*) that authorized VEDO to continue the DRR Program for an additional five-year period (for recovery of investments made in years 2013 through 2017) and to expand the Program's scope. The purpose of the DRR is to permit VEDO to seek recovery of: (1) the return of and return on² plant investment, including post-in-service carrying costs (PISCC), and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the

¹ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges*, Case No. 18-0762-GA-RDR (Application at 1) (May 1, 2018).

² The pre-tax rate of return used in this case is 10.36% in order to reflect the Tax Cuts and Jobs Act of 2017 (TCJA) federal income tax rate reduction from 35 percent to 21 percent. The rate prior to the TCJA was 11.67% as established in the *2007 Rate Case*.

Company's riser investigation pursuant to Case No. 05-0463-GA-COI;³ (3) costs for replacement of prone-to-fail risers; (4) incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and (5) actual annual Operations and Maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

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

³ The initial DRR rate for recovery of VEDO's actual deferred costs of its riser investigation as of July 2008 was in effect from March 1, 2009 through February 28, 2010. The DRR was reset to zero effective March 1, 2010.

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

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

VEDO'S APPLICATION

VEDO filed its Application on May 1, 2018. The Application is supported by the testimony and exhibits of Steven A. Hoover, Director of Engineering, and J. Cas Swiz, Director of Rates and Regulatory Analysis. Mr. Hoover's testimony and exhibits present the progress made in 2017 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's 2018 BS/CI replacement plans, maintenance costs associated with the 2017 BS/CI Replacement Program, the 2017 incremental costs for maintenance and repair of service lines previously owned by customers, 2017 capital costs for replacement of previously customer-owned service lines, and the operation and maintenance cost savings realized in 2017.

Mr. Swiz's testimony and exhibits provide explanations of the various components of the Company's proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the 2017 Mains and Service Line and Riser Replacement Programs; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with the Mains and Service Line and Riser Replacement Programs; a discussion of

the Company's rationale and policies for recording retirements, PISCC,⁵ and AFUDC; and a schedule showing the true-up for and the over-or-under-recovery of the revenue requirement adopted in last year's DRR application, Case No. 17-1155-GA-RDR. In addition, Mr. Swiz's testimony also provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

In its Application, VEDO indicates that in 2017 it replaced 42.54 miles of bare steel and 5.72 miles of cast iron mains, replaced 4,904 BS/CI service lines (with an additional 422 service lines retired), and moved 3,980 inside meters outside as part of its Replacement Program. The Company also adjusted its authorized pre-tax rate of return used to calculate the DRR revenue requirement from 11.67 percent to 10.36 percent in order to recognize the Tax Cuts and Jobs Act of 2017 (TCJA) federal income tax rate reduction from 35 percent to 21 percent. With these changes in effect, VEDO proposed a Mains Replacement Program revenue requirement of \$12,166,195 and \$30,632,068 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of \$42,798,263.

On June 8, 2018, VEDO filed a Supplemental Application when it discovered the calculation of the DRR revenue requirement contained two inadvertent errors. A rounding error of \$108 in connection with the allocation of the O&M Savings

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

Adjustment between Exhibits JCS-2 and JCS-3 and an understatement of incremental service-line responsibility by \$38,445 resulting from the inadvertent inclusion of last year's figure in this year's filing. The corrections have no impact on Rates 345 or 360, but do have a minor effect on other rates and on the amount of deferred revenue in excess of the residential rate cap. With these corrections, VEDO proposes a Mains Replacement Program revenue requirement of \$12,166,086 and \$30,670,513 for the Service Line and Rise Replacement Program for a total DRR revenue requirement of \$42,836,599, which is an increase of \$38,336 from the original Application. The Company proposes the DRR revenue requirement (as corrected) be allocated to customers as follows:

<u>Rate Schedule</u>	<u>Proposed \$ Per Month</u>	<u>\$ Per Ccf</u>	<u>Increase Over Current Rate</u>
310, 311, and 315	\$9.25		\$1.33
320, 321, and 325 (Group 1)	\$9.25		\$1.33
320, 321, and 325 (Group 2 and 3)		\$0.07682	\$0.01667
341	\$103.84		\$15.33
345		\$0.01598	\$0.00052
360		\$0.01098	\$0.00106

VEDO has proposed in this DRR proceeding to recover Program investments made through December 31, 2017 in accordance with the approved stipulation in the 2013 DRR Extension Case. However, on March 30, 2018, VEDO filed a base rate case in Case No.18-0298-GA-AIR (*2018 Rate Case*). The proposed rate base for the *2018 Rate Case* includes all Company plant investments since the date certain balance in its most recent base rate case, *2007 Rate Case*, including all DRR Program investments. In

order to avoid double recovery of DRR investments in the DRR and in base rates, VEDO proposes that at such time as an Order is received in the *2018 Rate Case* proceeding establishing new base rates and charges, the Company will remove the Program investments from the DRR, thus leaving only the unrecovered DRR over-recovery variance proposed to be included in the DRR rate. In keeping with the prior-approved DRR filing schedule, the Company will then submit its next annual DRR filing on May 1, 2019 for recovery of DRR investments made in 2018 (after the December 31, 2017 rate case date certain), as adjusted for reconciliation of any under or over recovery of 2017 investments and recovery of any eligible deferred amounts from this DRR proceeding.

STAFF’S INVESTIGATION SUMMARY AND COMMENTS

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

A. VEDO’s Competitive Bidding Process

VEDO employs a competitive bidding process for the majority of the capital work associated with DRR projects. The Company issues for bid individual bid packages (which are multiple projects grouped together) to contractors that VEDO has determined

are qualified and capable of performing the scope of work detailed in the bid packages. The contractors, in turn, submit unitized bid prices based on the expected number of units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) per project as well as identifying any capacity limitations and preferred bid packages. In comments filed in last year in Case No. 17-1155-GA-RDR, Staff stated that it believed that this process has served to effectively control DRR project labor costs. Last year, Staff also reported that five contractors had submitted bids for 2016 project packages and that thirty-two percent of available contract packages covering approximately forty-seven percent of the total contracted dollars had been awarded to Miller Pipeline Company, which is affiliated with VEDO. Staff stated that it would continue to annually monitor VEDO's contractor bidding and selection process to ensure that the Company does not provide any preferential treatment to Miller, establish unreasonable qualification standards, or impose any other unreasonable barriers that would prevent contractors from participating in the DRR bidding process.

For 2017, Staff found that the number of contractors that submitted bids remained at five, with a new contractor invited to bid in order to replace a prior contractor removed from the bidding process due to performance issues. All five invited contractors submitted bids. VEDO awarded contracts to four of the five contractors and reported that the "new contractor invited to bid did not provide competitive pricing." Miller was awarded approximately forty-six percent of available bid packages, which represented approximately forty-nine percent of the total contracted dollars. The next two contractors with the largest percentage shares of the available bid packages had twenty-seven percent

and twenty-three percent, respectively. Combined, the bid packages awarded to these contractors totaled approximately forty-two percent of the total contacted dollars. In Staff's opinion, the number of contractors submitting and winning bids along with the facts that awarded bid packages contract dollars were spread out over the eligible contractors and that no contractor was awarded a disproportionate share suggests that VEDO's contractor bidding and selection process in 2017 was effective in controlling DRR costs. As noted in last year's DRR comments, however, Staff will continue to annually review VEDO's contractor bidding and selection process.

STAFF'S CONCLUSIONS AND RECOMMENDATIONS

Based on its investigation and findings, Staff concludes that VEDO's Application complies with the Commission's Opinions and Orders in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT and will result in just and reasonable DRR rates. However, Staff notes that the Commission is currently investigating the financial impacts of the TCJA in Case No. 18-0047-AU-COI to determine what, if any, adjustments should be made to utility company rates in Ohio as a result of the federal income tax rate reduction. The Commission's investigation is ongoing and, to date, the Commission has issued no directives to utilities on how to reflect the tax rate change in their rates. Therefore, Staff reserves the right to recommend adjustments to VEDO's DRR rates proposed to take effect in September of 2019, including potential refunds to customers, on the basis of Staff's ongoing investigation and/or Commission findings and directives in the 18-0047-AU-COI case. Staff also recommends that the Commission direct VEDO to note in its

tariffs that the DRR charge is subject to reconciliation and potential refunds as determined by the Commission. Lastly, Staff agrees that the Company's proposed methodology for coordinating DRR recovery in this case with base rate recovery in Case No. 18-0298-GA-AIR is a workable process for avoiding double recovery of DRR investments. Therefore, with adoption of the recommendations made herein, Staff recommends that the Commission approve the Company's Application.

Respectfully submitted,

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

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following parties of record, this 20th day of July, 2018.

/s/ Werner L. Margard III

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