

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
VECTREN ENERGY DELIVERY OF OHIO,
INC. FOR AUTHORITY TO ADJUST ITS
DISTRIBUTION REPLACEMENT RIDER
CHARGES.

CASE No. 18-762-GA-RDR

FINDING AND ORDER

Entered in the Journal on August 22, 2018

I. SUMMARY

{¶ 1} The Commission approves the application of Vectren Energy Delivery of Ohio, Inc., as supplemented, to adjust its distribution replacement rider.

II. DISCUSSION

{¶ 2} Vectren Energy Delivery of Ohio, Inc. (VEDO or Company) is a natural gas company as defined by R.C. 4905.03 and a public utility as defined by R.C. 4905.02, and, as such, is subject to the jurisdiction of the Commission pursuant to R.C. 4905.04, 4905.05, and 4905.06. VEDO provides natural gas distribution service to approximately 318,000 customers in west central Ohio.

{¶ 3} On January 7, 2009, the Commission authorized VEDO to establish a distribution replacement rider (DRR) to recover the costs of the Company's bare steel and cast iron (BS/CI) pipeline replacement program. The DRR was approved for a five-year period ending February 2014. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 07-1080-GA-AIR, et al. (2007 VEDO Rate Case), Opinion and Order (Jan. 7, 2009).

{¶ 4} On February 19, 2014, the Commission approved a Stipulation and Recommendation (Stipulation) that authorized VEDO to continue the DRR program for an additional five-year period and to expand the program's scope. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1571-GA-ALT (2013 DRR Extension Case), Opinion and Order (Feb. 19, 2014). The 2013 DRR Extension Case provides that DRR costs incurred through December

31, 2017, are recoverable in the DRR. Further, it accelerates the pace of the DRR program and clarifies and expands the scope of costs recoverable in the DRR.

{¶ 5} As approved in the *2013 DRR Extension Case*, the purpose of the DRR is to permit VEDO to seek recovery of: the return of and return on plant investment, including post-in-service carrying costs and certain incremental expenses incurred in implementation of its accelerated BS/CI mains and service lines replacement program; deferred expenses associated with the Company's riser investigation pursuant to the Commission's decision in *In re Investigation of Gas Service Risers*, Case No. 05-463-GA-COI, Finding and Order (Mar. 12, 2008); costs for replacement of prone-to-fail risers; incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and actual annual operations and maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

{¶ 6} On August 30, 2017, the Commission approved VEDO's application that established the current DRR charges for the period September 1, 2017, through August 31, 2018, and permitted VEDO to recover DRR costs incurred in 2016. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 17-1155-GA-RDR, Finding and Order (Aug. 30, 2017).

{¶ 7} On May 1, 2018, as supplemented on June 8, 2018, VEDO filed its application in this case to adjust its DRR for the recovery period September 1, 2018, through August 31, 2019, and to recover DRR costs incurred in 2017. The Company proposes that the DRR revenue requirement of \$42,836,599 be allocated to customers as follows:

Rate Schedule	\$ Per Month	\$ Per Hundred Cubic Feet	Increase Over Current Rate
310, 311, and 315 (Residential)	\$9.25		\$1.33
320, 321, and 325 (Small General)	\$9.25		\$1.33
320, 321, and 325 (Large General)		\$0.07682	\$0.01667
341 (Dual Fuel Standard Choice Offer)	\$103.84		\$15.33
345 (Large General Transportation)		\$0.01598	\$0.00052
360 (Large Volume Transportation)		\$0.01098	\$0.00106

{¶ 8} VEDO states that the proposed DRR charges for residential and small general service customers comply with the rate cap of \$9.25 per month, which was established in the *2013 DRR Extension Case*. In support of its application, VEDO submitted exhibits with its application, including a revised tariff sheet, and the testimony of Steven A. Hoover and J. Cas Swiz, employees of Vectren Utility Holdings, Inc. (VUHI), the immediate parent company of VEDO. The exhibits and the supporting testimony detail progress and costs associated with the DRR. (VEDO App. at 9-140; Ex. SAH-1 to SAH-9; Ex. JCS-1 to JCS-8.)

{¶ 9} Mr. Hoover, Director of Engineering for VUHI, describes VEDO's accelerated BS/CI replacement program, the status of pipe replacement and retirement, the costs incurred, and the benefits identified in 2017. Mr. Hoover also discusses certain other issues, such as meter relocations and plastic pipe retirements, the processes used to assess and award the construction work associated with the replacement program, VEDO's 2018 BS/CI replacement plan, the change in service line ownership and responsibilities and VEDO's incremental investments in 2017 that resulted from that change, and the calculation of O&M savings under the Stipulation approved in the *2013 DRR Extension Case*.

{¶ 10} Mr. Swiz, Director, Rates and Regulatory Analysis for VUHI, explains the calculation of the revenue requirement for VEDO's DRR, the completed natural gas riser replacement program, and incremental costs associated with VEDO's assumption of service

line responsibility. Mr. Swiz also provides an explanation of the accounting procedures VEDO uses to record and segregate the costs recoverable in the DRR, the proposed DRR charges, and VEDO's proposed tariff sheet and associated bill impacts.

{¶ 11} On May 7, 2018, the attorney examiner issued an Entry stating, among other things, that motions to intervene and comments on VEDO's application should be filed by July 20, 2018. Additionally, the attorney examiner set a deadline of July 27, 2018, for VEDO to file a statement informing the Commission whether the issues raised in the comments have been resolved. The May 7, 2018 Entry also stated that, in the event all of the issues raised in the comments are not resolved, or if the Commission deems the application may be unjust or unreasonable, a hearing would commence on August 2, 2018.

{¶ 12} On May 31, 2018, the Ohio Consumers' Counsel (OCC) filed a motion to intervene, which was granted by Entry dated July 27, 2018.

{¶ 13} On July 20, 2018, Staff and OCC both filed comments on VEDO's application.

{¶ 14} In its comments, Staff initially observes that, in 2017, the Company 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 the replacement program. Staff also states that the Company 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 federal income tax rate reduction from 35 percent to 21 percent under the Tax Cuts and Jobs Act of 2017 (TCJA). Staff notes that the Company originally 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. (Staff Comments at 5.)

{¶ 15} Staff states that, on June 8, 2018, VEDO filed a supplemental application when it discovered the calculation of the DRR revenue requirement contained two inadvertent errors. Staff notes that VEDO found a rounding error of \$108 in connection with the

allocation of the O&M savings adjustment 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. Staff states that the corrections have no impact on Rates 345 (Large General Transportation) or 360 (Large Volume Transportation), but do have a minor effect on other rates and on the amount of deferred revenue in excess of the residential rate cap. Further, Staff notes that, with these corrections, VEDO proposes a mains replacement program revenue requirement of \$12,166,086 and \$30,670,513 for the service line and riser replacement program for a total DRR revenue requirement of \$42,836,599, which is an increase of \$38,336 from the original application. (Staff Comments at 5-6.)

{¶ 16} Staff observes that VEDO has proposed in this proceeding to recover DRR program investments made through December 31, 2017, in accordance with the approved Stipulation in the *2013 DRR Extension Case*. Staff notes, however, that VEDO filed a base rate case in *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 18-298-GA-AIR, et al. (*2018 VEDO Rate Case*) on March 30, 2018, and that the proposed rate base for the *2018 VEDO Rate Case* includes all Company plant investments since the date certain balance in the *2007 VEDO Rate Case*, including all DRR program investments. Staff states that, 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 VEDO Rate Case* establishing new base rates and charges, the Company will remove the DRR program investments from the DRR, thus leaving only the unrecovered DRR over-recovery variance that is proposed to be included in the DRR rate. Staff states that the Company then will submit its next annual DRR filing on May 1, 2019, for recovery of DRR program investments made in 2018, which will be adjusted for reconciliation of any under- or over-recovery of 2017 DRR program investments and recovery of any eligible deferred amounts from this DRR proceeding. (Staff Comments at 6-7.)

{¶ 17} Staff observes that VEDO employs a competitive bidding process for the majority of the capital work associated with DRR projects. Staff notes that, in comments filed in last year's DRR case (Case No. 17-1155-GA-RDR), it stated its belief that this process

has served to effectively control DRR project labor costs. Staff also reported that the number of contractors submitting bids on available bid packages was five, but noted that more than 32 percent of the contract work was awarded to Miller Pipeline Company (Miller Pipeline), which is affiliated with VEDO. Staff also indicated 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 Pipeline, establish unreasonable qualification standards, or impose any other unreasonable barriers that would prevent contractors from participating in the DRR bidding process. For 2017, Staff states that the number of contractors that submitted and won bids remained at five and that Miller Pipeline was awarded approximately 46 percent of available bid packages, which represented approximately 49 percent of the total contracted dollars. Staff notes that the next two contractors with the largest percentage shares of the available bid packages had 27 percent and 23 percent, respectively. Further, the combined bid packages awarded to these contractors totaled approximately 42 percent of the total contacted dollars. Staff states that, in its opinion, the number of contractors submitting and winning bids, along with the fact that contract dollars for awarded bid packages were spread out over the eligible contractors and no contractor was awarded a disproportionate share, suggests that VEDO's contractor bidding and selection process in 2017 was fair and effective in controlling DRR costs. Staff states that it will continue to annually review VEDO's contractor bidding and selection process. (Staff Comments at 7-9.)

{¶ 18} Staff concludes that VEDO's application complies with the Commission's Orders in the 2007 *VEDO Rate Case* and the 2013 *DRR Extension Case*, and will result in just and reasonable rates. However, Staff notes that the Commission is currently investigating the financial impacts of the TCJA in *In re the Commission's Investigation of the Financial Impact of the Tax Cuts and Jobs Act of 2017 on Regulated Ohio Utility Companies*, Case No. 18-47-AU-COI (*Tax COI Case*), to determine what, if any, adjustments should be made to utility company rates in Ohio as a result of the 2017 federal income tax rate reduction. Staff states that 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. Staff states, therefore, that it 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 *Tax 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 the *2018 VEDO Rate Case* is a workable process for avoiding double-recovery of DRR investments. Staff states that, with the adoption of these recommendations, it recommends that the Commission approve VEDO's application. (Staff Comments at 9-10.)

{¶ 19} In its comments, OCC states that VEDO should immediately provide consumers the full benefits of the TCJA by lowering the DRR revenue requirement to reflect the over-collection of federal income tax between January 1, 2018, when the tax cut became effective, and August 31, 2018, when the new DRR rate will become effective, as well as by crediting to customers the excess accumulated deferred income taxes (ADIT). OCC also states that VEDO should amend the language in its tariff for the DRR to ensure that customers are refunded for overcharges, in accordance with the Court's decision in *In re Rev. of Alternative Energy Rider Contained in Tariffs of Ohio Edison Co.*, Slip Opinion No. 2018-Ohio-229. In addition, OCC states that VEDO should be required to demonstrate that the Company's O&M savings under its DRR program are accurate for 2017 and that the O&M savings are being properly returned to consumers. (OCC Comments at 2-6.)

{¶ 20} On July 27, 2018, VEDO filed its statement to inform the Commission whether the issues raised in the comments have been resolved. In its statement, VEDO indicates that the Company does not object to Staff's recommendations. VEDO notes that, after discussions with the parties, the Company proposes to include the following language in its DRR tariff: "The DRR is subject to reconciliation or adjustment annually, including, but not limited to, increases or refunds. Such reconciliation or adjustment shall be limited to: (1)

the twelve-month period of expenditures upon which the rates were calculated, if determined to be unlawful, unreasonable, or imprudent by the Commission in the docket in which those rates were approved or by the Supreme Court of Ohio; (2) the Commission's orders in Case No. 18-47-AU-COI or in any case ordered by the Commission to address tax reform changes." VEDO further notes that it reserves the right to propose revisions to this or any other tariff language in future proceedings, subject to Commission approval.

{¶ 21} In its statement, VEDO also recognizes that OCC reserves the following rights: (1) to present the issues raised in its comments in this case regarding the determination and treatment of TCJA impacts for the Commission's consideration in the *Tax COI Case* or any other relevant docket ordered by the Commission to address the tax reform changes in the *Tax COI Case*; (2) to validate that VEDO has appropriately accounted for excess ADIT and any difference in collections from January 1 through August 31, 2018, between a 35 percent and 21 percent income tax rate in VEDO's 2019 DRR update filing or any other proceeding in which those items are addressed; and (3) to present the issues raised in its comments in this case regarding the determination and treatment of O&M savings in the *2018 VEDO Rate Case* or any other case in which the terms and conditions applicable to the DRR are addressed. VEDO states that, in view of the proposed tariff addition, and the aforementioned reservation of rights, OCC does not oppose VEDO's statement of the issues in this case. VEDO, therefore, requests that the Commission approve its May 1, 2018 application, as supplemented on June 8, 2018, and the proposed tariff language described above.

{¶ 22} In accordance with the attorney examiner's May 7, 2018 Entry, and in light of the fact that VEDO indicated in its July 27, 2018 statement that the issues in the case have been resolved, the scheduled August 2, 2018 hearing was cancelled, pending the Commission's consideration of the application.

{¶ 23} Upon consideration of the application and the comments filed by Staff and OCC, the Commission finds that VEDO's application, as supplemented, to adjust its DRR

charge is reasonable and should be approved. The Commission accepts Staff's recommendations, and notes that VEDO's DRR charge may be adjusted, in the Company's next annual adjustment proceeding, to reflect any reconciliation or refunds resulting from ongoing investigations of the impact of the federal income tax rate reduction and based on the outcome of the Commission proceedings in the *Tax COI Case*. We also find that VEDO's proposed tariff language should be approved.

III. ORDER

{¶ 24} It is, therefore,

{¶ 25} ORDERED, That VEDO's application, as supplemented, to adjust its DRR rate be approved. It is, further,

{¶ 26} ORDERED, That VEDO's proposed tariff language be approved. It is, further,

{¶ 27} ORDERED, That VEDO be authorized to file tariffs, in final form, consistent with this Finding and Order. VEDO shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 28} ORDERED, That the effective date of the new tariff shall be a date not earlier than the date upon which the final tariff page is filed with the Commission. It is, further,

{¶ 29} ORDERED, That VEDO shall notify its customers of the changes to the tariffs via bill message or bill insert within 30 days of the effective date of the revised tariff. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

{¶ 30} ORDERED, That nothing in this Finding and Order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 31} ORDERED, That a copy of this Finding and Order be served upon each party of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

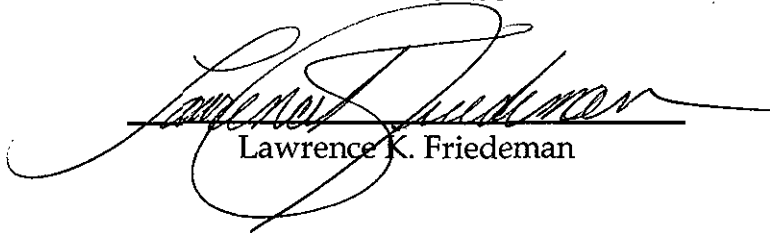
Asim Z. Haque, Chairman



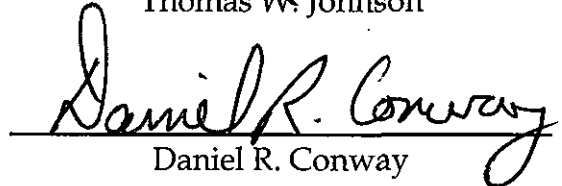
M. Beth Trombold



Thomas W. Johnson



Lawrence K. Friedeman




Daniel R. Conway

KKS/mef

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Barcy F. McNeal
Secretary