BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan	)))	18-0049-GA-ALT
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates	)))	18-0298-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan	)))	18-0299-GA-ALT

OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF VECTREN ENERGY DELIVERY OF OHIO, INC.

In accordance with R.C. 4909.19(C), Ohio Adm. Code 4901-1-28(B), and the Commission's October 3, 2018 Entry in this docket, Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company) submits its Objections to the Staff Report of Investigation (Staff Report) and its Summary of Major Issues.

VEDO's lack of objection to any adjustment or treatment recommended in the Staff Report should not be construed as indicating VEDO's support for such adjustment or treatment. Any dollar amounts specified within any objections are preliminary, presented for informational purposes only, and based on currently available information; VEDO reserves the right to update such dollar amounts, including insofar as they may be dependent on how other issues or objections are resolved.

OBJECTIONS TO STAFF REPORT

I. REVENUE REQUIREMENT

Objection No. 1: Revenue Requirement Increase. VEDO objects to the revenue requirement range of $162,354,183 to $166,446,971 recommended by Staff, based on a revenue increase of

$12,094,296 to $16,187,084. (Staff Report at 48.) Staff's proposed revenue requirement range significantly understates the magnitude of the increase to which VEDO is entitled and that VEDO supported through its filed case. As more specifically described in the Objections below, Staff's recommended revenue requirement range is based upon unreasonable and unlawful adjustments and assumptions that yield rates that are insufficient to provide VEDO just compensation and an opportunity to earn an adequate return and to provide safe and reliable natural gas service for its customers.

Objection No. 2: Rider Revenues. The Staff Report noted that VEDO's adjusted test year revenues included "riders which would typically be adjusted out of the test year," and stated that this "caused delays in Staff's investigation." (*Id*. at 9.) Staff recommended that "the Company remove such riders from its test revenue in its next base distribution rate case filing."

a. Although VEDO does not object to the removal of these riders from the test year in this case, the Company does object to any implication that VEDO improperly caused any delay in this proceeding. VEDO presented this case in the same fashion as in its last two base rate proceedings, *see* Case Nos. 07-1080- and 04-571-GA-AIR, and in compliance with the standard filing requirements.

b. VEDO also objects to the recommendation that in its next base rate case, VEDO must present rider revenues to match the Staff adjustment in this case. VEDO does not necessarily object to this recommendation in principle, and it is willing to consult with Staff on this issue. But VEDO objects because it does not believe that it should be formally bound at this time to a particular presentation in the next case, given that it does not know what filing requirements will be in effect, nor what Staff's preferences will be at that time.

II. OPERATING INCOME AND RATE BASE

Objection No. 3: Rate Base – Land and Easement Rights. VEDO objects to the Staff Report's adjustment to exclude $1,230,635 from gross plant included in rate base and $(54,962) from accumulated depreciation reserve included in rate base related to 43.7 acres of a parcel that Staff alleges is "not currently used and useful in providing utility service." (Staff Report at 10.) The sole reason the parcel in question was purchased was to enable the relocation of a transmission main that was located under an active runway at the Dayton International Airport, and VEDO had no reasonable alternative but to purchase the entire parcel in question. The parcel was purchased solely to permit relocation of the transmission main; the main had been installed within the parcel before the date certain; and was being used to provide service as of the date certain. Therefore, there is no basis to exclude the parcel, any portion thereof, or any value associated with the purchase of the parcel, from rate base. In addition, Staff erroneously classified this parcel of land as part of FERC Plant Account 367 – Transmission Mains, which resulted in a calculated level of accumulated depreciation reserve that is incorrect. This asset at date certain (December 31, 2017) was classified as Land within FERC Plant Account 374. This objection results in an increase of approximately $1,175,673 in the Staff Report rate base.

Objection No. 4: Rate Base – Vehicles. VEDO objects to the Staff Report's adjustment to exclude certain vehicles from rate base.

a. According to the Staff Report, "Staff . . . discovered some vehicles in the Applicant's continuing property record (CPR) had been sold, retired or were not being used by employees in Ohio" by "compar[ing] vehicles in the CPR to a current fleet list provided by the Applicant." (*Id*. at 11.) Staff incorrectly relied on a list of vehicles that was maintained for operational purposes by local field supervisors and was not maintained for the purpose of updating the official record of vehicle ownership. Because Staff relied on an incorrect listing, not maintained for the purpose used by Staff, Staff recommended removing a substantial number of vehicles (at least 62) that were used and useful in providing natural gas service on the date certain. VEDO contends that a portion of the amounts adjusted by Staff should be included in plant in service, with corresponding adjustments to the associated reserve, resulting in an increase of approximately $761,000 to the Staff Report rate base.

b. Independent of the error identified in the previous paragraph, the Staff Report also calculated a level of accumulated depreciation reserve for the removal of vehicles that is inconsistent with how accumulated depreciation is calculated within VEDO's fixed asset system. VEDO calculates depreciation based on the month and year the asset was placed in service. The values used within the Staff Report on Schedule B-3.1 do not match those that would be assigned to these assets if calculated using VEDO's defined standard procedures, and, if the Staff Report values are accepted, would result in a greater amount being removed from rate base when compared to the amounts determined under the Company's standard procedures.

Objection No. 5: Accounting for Retirements. VEDO also objects to the Staff Report's recommendation to exclude the net book value of certain assets from plant in service that were deemed to be retired but not recorded within VEDO's fixed asset system. VEDO employs a composite depreciation rate methodology. This means that classes of property are depreciated, rather than specific assets. This methodology results in a cumulative depreciation reserve that, over time, represents the asset class value. As specific assets are retired, they are retired against the depreciation reserve, not charged off as is inherent in the treatment used by the Staff. Retiring property against the depreciation reserve, even if there is a positive net book value as is the case in this instance, has no impact on net plant or rate base. Therefore, the Staff's proposal to exclude the net book value from plant in service is contrary to customary utility accounting practice and misstates the net book value of plant that is used and useful in providing natural gas service as of the date certain in this case. The assets to which this error applies include but are not limited to (1) the first- and second-generation laptops removed from General Plant; (2) the CNG station in Fairborn; (3) vehicles; and (4) transmission plant related to minor units of property retired.

Objection No. 6: Depreciation Study Requirement. VEDO objects to the Staff Report's recommendation "that within five years after the Commission Order in this proceeding, the Applicant submit a depreciation study for all its gas plant accounts." (*See* Staff Report at 12.) VEDO does not object to the recommendation to update its depreciation accrual rates within the general timeframe specified. However, VEDO believes that depreciation accrual rates should be updated in the context of a base rate case filing; thus, VEDO should not be required to update its depreciation study until its next base rate case filing, even if this is somewhat later than five years after the Commission order in this proceeding.

Objection No. 7: Labor and Labor Related Expense. VEDO objects to the Staff Report's Labor Adjustment (*see id*. at 15), for the following reasons:

a. The Staff Report Labor Adjustment improperly relies on May 31, 2018 wage rate and employee headcount data to annualize a level of labor expense for the test year period. The approved 2018 corporate budget, which VEDO utilizes, establishes a reliable and reasonable amount of estimated test year labor expense for the projected period. The Staff Report does not justify the use of a snapshot of actual data at the end of a given month.

b. The Staff Report Labor Adjustment contains a material error in the application of overhead rates to annualize a level of labor expense for the test year period. If the Commission adopts the Staff Report methodology, the application of overhead rates in the annualization calculation must be corrected. The correction to the Staff proposed adjusted test year labor expense would result in an increase of approximately $920,000.

c. The Staff Report Labor Adjustment improperly excludes Supplemental Executive Retirement Plan (SERP) expense. SERP provides an additional nonqualified retirement benefit for the purpose of recruiting, retaining, and rewarding key employees. If the Commission adopts the Staff Report methodology, the pension/401K rate must be adjusted to include SERP expense, resulting in an increase to the Staff proposed adjusted test year labor expense of approximately $240,000.

d. The Staff Report Labor Adjustment improperly excludes accrued 2018 expense associated with short-term and long-term Vectren Corporation (Vectren) incentive compensation plans. The excluded accrued expense, although based on financial performance metrics, allows VEDO to offer competitive compensation packages to attract and retain a qualified and experienced workforce, which directly benefits customers. Vectren designs its compensation so that base salary together with the incentives at the target level (which is what has been included in its rate filing) is competitive with comparable sized companies in the energy and utility markets as determined by market survey data and advice from an independent compensation consultant. Thus, the Staff's exclusion of the incentive compensation would set compensation expense for VEDO's employees at a below market rate. If the Commission adopts the Staff Report methodology, the Staff calculations must be adjusted to include in rates the accrued expense associated with these plans, resulting in an increase of approximately $1,942,000 to the Staff proposed adjusted test year labor expense.

Objection No. 8: Property Tax Expense. VEDO objects to the Staff Report's calculation of Property Tax Expense (*see id*. at 19), for the following reasons:

a. The Staff Report methodology for calculating test year Property Tax Expense uses outdated values, lacks the detail of VEDO's calculation, and is inconsistent with the approach VEDO uses for budgeting property tax expense in the ordinary course of business. The Commission should reject the Staff's unreliable methodology and inaccurate adjustment.

b. The Staff Report methodology for calculating test year Property Tax Expense also contains the following materially erroneous assumptions. If the Commission adopts the Staff methodology, the Commission must correct the Staff calculation for these errors.

i. The estimated valuation percentage was calculated using the assessed value from the 2017 property tax filing, which had been reduced as a result of VEDO's settlement of its property tax appeal for 2017. The settlement reduction will not be applied to assessments after the 2017 filing and should therefore be excluded from any calculations related to 2018 property tax expense as it is a fixed, known, and measurable adjustment. This correction impacts the valuation percentage calculated by Staff and applied to VEDO's Personal Property. Correcting this error would result in an increase of approximately $730,000 to Staff's proposed property tax expense.

ii. In addition, the estimated valuation percentage was calculated using (1) the total assessed value of personal property from the 2017 property tax return, and (2) the original cost of property at December 31, 2016 from the 2017 property tax return, without any adjustments. That percentage was then applied to the original cost of property from Schedule B-2.1 to determine the assessed value of VEDO's personal property at December 31, 2017. This is an inconsistent basis for application of the calculated ratio, effectively applying a full, unadjusted ratio to a partial tax base. If applied to the original cost of property from Schedule B-2.1, the ratio calculation using the 2017 property tax return would need to be adjusted. Correcting this ratio, and applying it to the Schedule B-2.1 original cost of property would result in an increase of approximately $2,750,000 from Staff's proposed property tax expense.

iii. Staff's calculation also makes unsupported and unrealistic assumptions on the tax rate based on historical trends. This ignores changes as a result of the addition of new property (impacting the "percent good" value of plant in the return) and changes to the property tax rate year-over-year. VEDO's filed position assumed growth in the property tax rate based on historical factors, understanding that the rate applied in 2018 bills (on the assessed value of 2016 personal property) was lower than prior years and not trending in line with past experience. Regardless of the assumptions utilized regarding the tax rate, VEDO has filed and received approval of its 2018 property tax return, which captures the assessed value on personal property at December 31, 2017 (the date certain in this proceeding). This value would more accurately reflect the basis to calculate property tax expense from in the revenue requirement, resulting in an increase of approximately $650,000 from Staff's proposed property tax expense.

Objection No. 9: Conservation Programs. VEDO objects to certain of Staff's recommendations regarding energy-efficiency and conservation programs. (*See id*. at 15–16.)

a. VEDO objects to the recommendation to eliminate the proposed $5.6 million from base rate funding and permit VEDO to collect a maximum of $5.6 million through its Energy Efficiency Funding Rider (EEFR). The Staff Report fails to articulate any support for this recommendation. It is unreasonable to recommend deferring VEDO's request to a different proceeding but then recommend issuing rulings on the merits of given issues in this proceeding, such as imposing a maximum funding level. Additionally, the Staff Report fails to address the need to avoid disruption of cost recovery in the event there is a transition in funding procedures.

b. VEDO objects to the recommendation to deny approval of an annual performance incentive. Performance incentives encourage cost-effectiveness and the achievement of program targets and reduce the disincentive to invest in energy efficiency activities as opposed to other capital investment. The Staff Report fails to articulate any support for the recommended denial. It is also unreasonable to recommend deferring VEDO's request to a different proceeding but then recommend issuing a ruling on the merits of the performance incentive in this proceeding. Denying the performance incentive also results in treating VEDO differently than other similarly situated utilities. *See, e.g.*, *In re Columbia Gas of Ohio*, Case No. 16-1309-GA-UNC, *In re Duke Energy Ohio,* Case No. 11-4393-EL-RDR.

c. VEDO objects to the recommendation to discontinue using the Collaborative process to approve the EE program portfolio. The Staff Report fails to articulate any support for this recommendation, and fails to address the need to avoid disruption of programs in the event there is a transition in governance procedures.

Objection No. 10: Distribution Replacement Rider (DRR). VEDO objects to certain of Staff's recommendations regarding the DRR. (*Id*. at 18–19.) For the most part, VEDO does not necessarily object to Staff's recommendations in principle, but to ensure it understands Staff's recommendations and to preserve its right to discuss such issues with Staff.

a. VEDO objects to the recommendation for "continuation of the DRR for a new five-year period, through 2023, contingent on the Company filing a base rate case in 2024." There are six program years remaining (from 2018 through 2023), but the Staff Report recommends only a five-year extension. Regarding the requirement to file a rate case in 2024 upon the completion of the program, VEDO should not be subject to this requirement; other utilities have not been required to file any base rate case as a condition of continuing an infrastructure program, yet under Staff's proposal VEDO would ultimately have been required to file two such cases (the present case being the first). In addition, any requirement to file a base rate case, if one is adopted, should be "not later than" a particular year, not within that year.

b. VEDO objects to the recommended five years of rate caps applicable to the DRR. The proposed rate caps omit recovery for 2022, and an extension of the DRR would require recovery for that year.

c. VEDO objects to the recommendation that it "continue to implement rigorous cost control mechanisms" and "rigorous negotiations with municipalities regarding permitting, restoration, fees, etc.," and "other similar measures." Although VEDO supports the overarching goal of cost control, these recommendations require clarification and could be interpreted to impose unreasonable and counterproductive obligations on the Company, which could result in project delays.

d. VEDO objects to the recommendation that it "be required to complete the current bare steel, cast iron, etc. replacement program on schedule by the end of 2023." VEDO agrees that this should be the target, but the Company should not be foreclosed from proposing modifications to the terms and conditions of the Replacement Program or the DRR if it appears necessary based on future developments.

Objection No. 11: Distribution Accelerated Risk Reduction (DARR) and Integrity Management (IM) Programs. VEDO objects to certain of Staff's recommendations regarding VEDO's DARR and IM Programs. (*Id*. at 16.)

a. VEDO objects to Staff's failure to recommend that VEDO update the balance of deferred DARR expenses up to the date the new rates are adopted in this case. The DARR deferral is authorized until the date new rates are placed into effect, and VEDO should be permitted to include all deferred costs in base rates.

b. VEDO objects to Staff's use of historical costs rather than projected costs to adjust DIMP and TIMP program expenses. Staff did not show that historical costs provide a more accurate indicator of future costs. Staff's only basis for using historical costs instead of projected costs is that "it is inappropriate to set rates based on projections of unknown future costs," but this rationale contradicts Ohio law, which expressly permits the recovery of projected costs as part of the test year. *See, e.g.*, R.C. 4909.15(D). Moreover, the evidence demonstrates that new Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations set to be issued in the near future are expected to drive this expense even higher.

Objection No. 12: Capital Expenditure Program (CEP). VEDO objects to certain of Staff's recommendations regarding VEDO's CEP and proposed CEP Rider. (*See id*. at 17–18.)

a. VEDO objects to approval of the CEP Rider being contingent upon the filing of a base rate application upon completion of the Distribution Replacement Rider (DRR) program and no later than in 2024. VEDO has elsewhere explained its objection to the requirement to file an additional base rate case upon completion of the DRR program.

b. VEDO objects to the CEP Rider being made subject to annual caps and unspecified cost controls. Although VEDO is willing to discuss this issue with Staff, the Staff Report assumes that it is necessary to impose caps on the CEP Rider. Ohio law does not impose caps on CEPs or CEP riders and it not appropriate to require them as a condition of approval.

c. VEDO objects to the recommendation that the CEP deferral balance "should be amortized over the average life of the plant (1.61%)," and not VEDO's "average system depreciation rate of 3.10%." This recommendation will significantly lengthen the period during which the deferred assets are included in rate base, and ultimately increase the return on those assets paid for by customers. This could also result in the deferral remaining on the books significantly longer than the useful life of the assets that generated the deferral.

d. VEDO objects to the recommendation that VEDO create a depreciation offset within the CEP Rider. VEDO already nets out retired assets in the calculation of deferred depreciation, as recognized by Staff in VEDO's original CEP application. *See* 12-530-GA-UNC Order at 7–8 (noting Staff's recommendation that, "unlike proposals by other natural gas companies in CEP applications, VEDO's proposed depreciation expense calculation properly subtracts the plant retirements from each month's gross plant additions prior to applying the applicable depreciation rate"). Creating an additional "offset" to reflect the impact of retirements on depreciation expense would be duplicative and overstate this impact. Additionally, a depreciation offset is not required by R.C. 4929.111, the law establishing CEPs. Finally, this recommendation is also improper in conjunction and inconsistent with Staff's recommendations that VEDO be required to file additional rate cases; VEDO will have already updated depreciation expense in this proceeding and (if Staff's recommendation is adopted) again within a few years.

e. VEDO objects to the recommendation to deny VEDO's proposal to defer and capitalize shared asset charge (SAC) expenses. The SAC results from capital expenditures made for the purpose of providing service to VEDO's customers, and all SAC components are permissibly recovered in a CEP: carrying costs, depreciation expense, and property tax expense. The proposed charge mirrors the treatment that would exist if the underlying assets were included as plant in service on VEDO's general ledger. Ohio law does not prohibit the recovery of an allocated share of capital expenditures, nor condition recovery of such deferrals on the manner in which the activity is recorded on the utility's books.

f. VEDO does not necessarily object in principle to the recommendations to "initiate discussion with Staff regarding the potential creation of a single rider that would include all capital investments" or regarding modification of VEDO's proposed procedural schedule. VEDO is willing to discuss the "single rider" proposal, as well as adjustments to the proposed schedule. VEDO objects to preserve the ability to resolve these issues with Staff going forward.

Objection No. 13: Multi-Family Housing Pilot Program. VEDO objects to Staff's recommendation "that the Commission deny VEDO's request for the proposed Multi-Family Pilot Program." (Staff Report at 24.) The reasons given by Staff do not justify denial of the Pilot Program. Contrary to the Staff Report, VEDO may permissibly recover the costs associated with piping and venting as part of an alternative rate plan regardless of ownership; may impose conditions ensuring that the piping and venting are dedicated to VEDO customers; and has provided good cause for removing disincentives associated with the installation of natural gas service to multi-family residences.

Objection No. 14: Tax Cuts and Jobs Act (TCJA) Credit Mechanism. VEDO does not object in principle to the recommendation that "excess deferred income taxes associated with the TCJA be recovered through a credit mechanism as opposed to being embedded in base rates." (*Id*. at 19.) VEDO objects only to the extent necessary to clarify that this recommendation is consistent with the alternate proposal set forth in the Direct Testimony of VEDO witness J. Cas Swiz (*see* pp. 20–21); to preserve the right to address issues associated with such proposal, including any impact on other rates or cost-recovery mechanisms; and to determine additional details regarding such proposal in this or any other docket.

Objection No. 15: Revenue Requirement Impacts. VEDO further objects to the effect of Staff's adjustments as they impact and flow through the revenue requirement model used by Staff, including but not limited to adjustments and expenses related to the depreciation reserve, benefits, payroll taxes, depreciation expense, property tax, federal income tax, and any other tax calculations or other consequential impacts. Adjustments made and corrected must be carried through the models to accurately reflect the Company's rate base, operating expenses, and ultimate revenue requirement.

III. RATE OF RETURN

A. Rate of Return – Staff Proxy Group

Objection No. 16: Proxy group industry. VEDO objects to Staff's industry assumptions for the proxy group. The Staff's proxy group is not comparable to VEDO. Staff's proxy group used companies from a different regulated industry than VEDO.

a. Staff selected a five-company sample consisting of electric utility companies with "significant gas distribution operations." (*Id*. at 20) However, VEDO is a natural gas local distribution company, and therefore not comparable to Staff's sample.

b. Staff states that "VEDO is classified as an electric utility by *Value Line*." (*Id*.) This statement is incorrect. *Value Line* only provides information on public companies. VEDO is a subsidiary company of Vectren Corporation and therefore is not listed in *Value Line*. However, VEDO's parent, Vectren Corporation, is listed and classified by *Value Line* as an electric utility.

c. The *Value Line* classification for Vectren Corporation does not apply to VEDO. In this proceeding, the allowed return for VEDO is being estimated, not the allowed return for Vectren Corporation. Electric utilities—even ones with significant gas distribution operations—are not the best comparable companies to VEDO. As described by Staff, VEDO "is a natural gas company and a public utility engaged in the business of transporting and distributing natural gas." Staff's decision to use electric utilities as comparable peers to VEDO contradicts Staff's own characterization of VEDO.

Objection No. 17: Inconsistent proxy group selection. VEDO objects to inconsistencies in Staff's proxy group selection criteria.

a. Staff's inclusion of OGE Energy Corp (OGE) in its proxy group violates Staff's own selection criteria. Staff explains that its sample selection only includes companies with "significant gas distribution operations, which Staff determined to be at least 20 percent of total energy revenues directly attributable to gas distribution operations." (*Id.*) However, OGE does not generate revenue from natural gas distribution. OGE sold its retail natural gas business in 1928 and is no longer engaged in the natural gas distribution business. Instead, OGE is active in natural gas midstream operations, which includes gathering, processing, transporting and storing natural gas.

b. Staff's decision to use the industry classification of the parent company rather than the applicant contradicts Staff's selection criteria in VEDO's 2007 rate case. In the 2007 rate case, Staff selected companies that are "publicly traded on the New York Stock Exchange, and are categorized as natural gas distribution companies" as comparable peers to VEDO.

Objection No. 18: Proxy group size. VEDO further objects to the sample size of Staff's proxy group. The limited sample size of five companies can adversely affect the statistical properties of the estimates.

B. Rate of Return – Staff DCF Model

Objection No. 19: Data entry errors. VEDO objects to the Staff DCF model as it used incorrect earnings per share (EPS) growth rate projections, which understated the ROE estimates.

a. Reuters: Staff used an outdated Reuters EPS growth estimate for MGEE from 2011. Staff used the wrong Reuters EPS growth estimate for CMS.

b. Yahoo: Yahoo Finance's EPS growth rate projections are provided by Thomson Reuters. Staff's Yahoo Finance EPS rates had the same errors as the Reuters EPS rates.

c. Value Line: Staff used incorrect Value Line EPS projections for AEE, CMS, MGEE, and OGE.

Objection No. 20: Methodology issues. VEDO objects to the methodology Staff used to calculate various factors in its ROE analysis.

a. Staff used unreasonable methodology to calculate annual stock price and dividends, which understate the cost of equity.

i. *Stock Price*: Staff used the average of the daily stock price over a one-year period, 6/26/2017 to 6/25/2018, in its DCF model. It is inappropriate to use a year's worth of historical data as the DCF model is forward looking and should reflect *current* expectations of future, rather than past performance. A company's recent stock price is a better indicator of expected future performance than the historical year-long average stock price.

ii. *Dividends*: Staff calculated the annual dividend by summing the last four quarterly dividends. This method violates the forward-looking purpose of the DCF model as it does not reflect investor expectations of future dividends.

b. Staff methodology for calculating the EPS compound annual growth rate (CAGR) further understates the cost of equity. Staff calculated the CAGR for the Value Line 2019 to 2021-2023 EPS projections over a four-year period. This method implicitly assumes that the Value Line 2021-2023 EPS projections are achieved in 2023. However, the 2021-2023 EPS projections may be reached as early as 2021, which would decrease the time period used to calculate the CAGR from four to two years.

c. Staff uses a very unusual 400-year methodology to calculate the non-constant DCF growth rate cost of equity. The Staff non-constant growth rate DCF model projects dividend payments over a 400-year period. This highly unusual methodology produces nonsensible dividend values. For example, the Staff model shows that in 400 years, AEE's dividend payment will be $92.5 billion. Investors do not consider ROE based on expected dividend payments over a 400-year period.

C. Rate of Return – Staff CAPM

Objection No. 21: Capital Asset Pricing Model (CAPM). VEDO objects to Staff's CAPM as it incorrectly calculates the MRP used in the CAPM.

a. Staff's MRP calculation of 6.1 percent is incorrect. Staff erroneously calculated the MRP using the difference between Ibbotson arithmetic *total return* of 12.1 percent on large company stocks and 6.0 percent on long-term government bonds.

b. Staff should have used the Ibbotson *income return* of 4.99 percent instead of total return on long-term government bonds to calculate the MRP. Ibbotson explicitly instructs that to calculate the MRP, "the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation" as only the income return represents the riskless portion of the return. (*See* Duff and Phelps's Ibbotson SBBI 2018 Yearbook, p. 10-22.)

Objection No. 22: Return on Equity (ROE). For the reasons given above, VEDO objects to the understatement of Staff's rate of return conclusions, including the recommended ROE ranging from 8.80 percent to 9.81 percent. (Staff Report at 22.)

IV. RATES AND TARIFFS

Objection No. 23: Proposed Rates and Charges. VEDO objects to the recommendation in the Staff Report that various rates and customer charges be modified or reduced. This recommendation is based on unreasonable and unlawful adjustments described elsewhere in these objections and fails to properly allocate costs based upon cost causation. In addition, the Staff Report was based upon a cost of service study (COSS) provided by VEDO in response to discovery, and did not include the adjustments proposed by Staff within the report. As such, the COSS and resulting allocations need to be evaluated based on the final resolution of the objections within this proceeding to ensure consistency in the assignment and allocation of costs to each customer class.

Objection No. 24: Meter Testing. VEDO objects to Staff's recommendation that "VEDO should modify the meter testing section to include a free meter test every three years." (*Id*. at 23.)

a. Staff does not articulate a need for this recommendation, and the provision of "free" tests would increase the costs to VEDO and to other customers and would remove customer incentive to rule out other potential causes of any billing inquiries.

b. Staff's recommendation is also inconsistent with Commission precedent. *See* Case No. 13-2225-GA-ORD. In its Order in that case, the Commission rejected an identical proposed rule, "that customers would be able to request a meter test once every three years, at no charge."

Id. at 7. Various utilities argued that this "proposal should be rejected as costly, unnecessary, and failing to account for differences in the electric and gas industries, such as the fact that gas meter testing is a lengthy and costly process that can be inconvenient for customers." *Id*. The Commission "agree[d] with the Joint Companies. The process of testing a gas meter involves considerably more time and expense than is required to test an electric meter. Accordingly, we decline to adopt [this] proposal, as it may impose an undue financial and administrative burden on the gas and natural gas companies." *Id*.

Objection No. 25: Applicants for Service. VEDO objects to Staff's recommendation to deny the proposed tariff language authorizing the Company to verify that applicants for service are either an owner or bona fide lessee of the premises. (*Id*. at 23.) The Staff Report misconstrues this proposed tariff requirement, which would not require such verification but only permit it where appropriate. This provision would enable the Company to limit fraudulent applications for service, fraudulent transfers of account balances, avoidance of credit action, and other situations involving "sham" customers. The Commission has approved a similar provision for at least one other utility.

Objection No. 26: General Service Rate Design. Regarding Staff's recommendations concerning straight fixed variable (SFV) rate design for Group 1, small general service customers, VEDO does not necessarily object to these recommendations in principle, nor to the intent behind them, and is willing to discuss them with Staff. (*Id*. at 33.) VEDO objects to these recommendations because it is not certain that 3,000 CCF is an appropriate threshold for VEDO customers; to ensure that VEDO understands Staff's proposal concerning the treatment of customers above that threshold; and to discuss whether the charge should be tied to 130% of the final approved residential SFV charge.

V. MANAGEMENT AND OPERATIONS REVIEW

Objection No. 27: Budget Requirements. VEDO objects to Staff's recommendation that "in the event that the proposed merger is finalized, and the result materially alters the processes reviewed by Staff, Staff recommends that the Commission be notified prior to the implementation of the next two year budget." (*Id*. at 45.) VEDO does not object in principle to following up with Staff and discussing potential budgetary changes. But VEDO does not believe that potential future modifications to the budgeting process, if such occur, are relevant to the issues under consideration in this proceeding. Additionally, VEDO is concerned that the timing of Staff's recommendation is impractical. Finally, the Staff Report is already recommending that VEDO be required to file a rate case in the near future, and the timing of such case would both permit review of VEDO's budgeting processes and be reflective of any budgeting changes. As such, VEDO believes this recommendation is unnecessary.

SUMMARY OF MAJOR ISSUES

Major Issue No. 1: Return on Equity

VEDO contends that Staff's recommended Return on Equity, ranging from 8.80 percent to 9.81 percent, is too low to permit the Company to earn a reasonable return under the circumstances, and therefore is unjust and unreasonable.

Major Issue No. 2: Rate Base

VEDO contends that the Staff Report's rate-base adjustments unreasonably exclude assets and capital expenses that are just and reasonable, used and useful in providing service, and therefore properly recoverable in rates.

Major Issue No. 3: Operating Income

VEDO contends that the Staff Report unreasonably excludes test-year expenses that are just and reasonable, as well as known and quantified post-test year expenses, which are also just and reasonable.

Major Issue No. 4: Other Issues

VEDO contends that the Staff Report recommends unreasonable denials of, or modifications and adjustments to, other proposals, including the Multi-Family Housing Pilot Program, Energy Efficiency programs, and VEDO's proposed tariffs.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail upon the following this 31st day of October, 2018:

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