

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an) Case No. 18-0049-GA-ALT
Alternative Rate Plan.)

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an Increase) Case No. 18-0298-GA-AIR
in Gas Rates.)

In the Matter of the Application of Vectren Energy)
Delivery of Ohio, Inc., for Approval of an) Case No. 18-0299-GA-ALT
Alternative Rate Plan.)

**CONSUMER PROTECTION OBJECTIONS TO THE PUCO STAFF REPORT
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

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I. INTRODUCTION

In this case, Vectren Energy Delivery of Ohio, Inc. (“VEDO”) filed an application for approval of a rate increase for its approximately 321,000 customers, as well as approval of an Alternative Rate Plan. The Alternative Rate Plan consists of four proposals affecting customers: (1) an expansion of the so-called straight-fixed-variable rate design for VEDO’s residential and other small customers, under which VEDO is proposing to increase its fixed monthly base distribution charge from \$18.37 to \$35.31; (2) a pilot program that would provide an incentive to qualifying builders and owners to provide gas service to multi-family housing facilities; (3) to adjust customers’ usage each month to reflect the variability in the energy content of the gas they consume; and (4) an extension of the accelerated bare steel and cast iron pipeline replacement program (“the Replacement Program”) with charges to customers through the Distribution Replacement Rider (“DRR”).

The Staff of the Public Utilities Commission of Ohio (“PUCO Staff”) investigated VEDO’s application to determine if VEDO should be permitted to implement a rider to charge customers for VEDO’s Capital Expense Program Deferrals and the corresponding assets. The PUCO Staff issued its Staff Report on October 1, 2018, which focused predominately on the Company's application for an increase in gas rates rather than VEDO's proposed Alternative Rate Plan. The Office of the Ohio Consumers’ Counsel (“OCC”) appreciates the PUCO Staff’s investigation and files these objections to the PUCO Staff Report on behalf of VEDO’s residential consumers.

OCC reserves the right to amend and/or supplement its objections in the event that the PUCO Staff changes, modifies, or withdraws its position, at any time before the closing of the record, on any issue addressed in the Staff Report. Additionally, where the PUCO Staff has indicated that its position on a particular issue is not known at the date of the Staff Report, OCC reserves the right to later supplement its objections once the PUCO Staff’s position is made known. Moreover, OCC witnesses reserve the right to amend and/or supplement their testimony in the event that the PUCO Staff changes, modifies, or withdraws its position on any issue contained in the Staff Report. OCC also submits that the lack of an objection in this pleading to any aspect of the Staff Report does not preclude OCC from cross-examining or introducing evidence or argument in regard to issues on which the PUCO Staff changes, modifies, or withdraws its position on any issue contained in the Staff Report. OCC reserves the right to supplement its testimony to incorporate additional outstanding discovery responses.

OCC supports the following recommendations in the PUCO Staff Report:

- The PUCO Staff properly recommended that the (1) PUCO Maintenance Assessment; (2) Consumer Counsel Assessment; and (3) Statutory Ohio Excise Rate be removed from the calculation of the revenue conversion factor (Staff Schedule A-2).
- The PUCO Staff properly recommended various adjustments to plant in service related to (1) intangible plant; (2) transmission plant; (3) distribution plant; and (4) general plant, all of which reduced rate by \$4.954 million and reduced what consumers will pay (Staff Report at 10-11).
- The PUCO Staff properly adjusted depreciation reserve to reflect (1) the impact of the aforementioned adjustments to reduce plant in service; and (2) the impact of Staff's recommended depreciation rates (Staff Report at 11).
- The PUCO Staff properly recommended that depreciation accrual rates should be reviewed every three to five years and therefore recommended that VEDO submit a depreciation study within five years of the Commission issuing its Final Order in the current proceeding.
- The PUCO Staff, in concurrence with VEDO, properly did not recommend an allowance to charge customers for construction work in progress ("CWIP") (Staff Report at 12).
- The PUCO Staff, in concurrence with VEDO, properly did not recommend an allowance to charge customers for working capital (Staff Report at 12).
- The PUCO Staff properly recommended an adjustment to remove customer deposits from rate base, to protect customers from paying VEDO a return on the funds that customers (not investors) supply (Staff Report at 12).
- The PUCO Staff properly recommended to adjust fixed charge revenue to reflect actual and projected customer counts by rate schedule (Staff Report at 13).

- The PUCO Staff properly recommended to adjust test year operating revenue to reflect actual periods for calendar month days of service (Staff Report at 13).
- The PUCO Staff properly recommended that test year revenue be adjusted to reflect volumes for weather normalization (Staff Report at 13).
- The PUCO Staff properly recommended that the revenues and expenses associated with certain riders that are not being rolled into base rates be eliminated from base distribution rate filing. These riders include: (1) Percentage of Income Payment Plan ("PIPP"), (2) Uncollectible Expense Rider ("UEX"), (3) SB287 Excise Tax Rider ("SB287"), and (4) Gross Receipts Tax Rider (Staff Report at 14-15).
- The PUCO Staff properly recommended that the revenues and expenses associated with the Distribution Replacement Rider ("DRR") be rolled into distribution base rates (Staff Report at 14).
- The PUCO Staff properly recommended that a portion of the expenses associated with the Exit Transition Cost Rider ("ETC") will be recovered through base rates, and that the remaining ETC Rider revenues and expenses be eliminated from base rates (Staff Report at 14).
- The PUCO Staff properly recommended that test year operating revenue and expenses be adjusted to reflect normalized gas cost revenues and gas costs at a rate of \$0.42923 per CCF (Staff Report at 14).
- The PUCO Staff properly adjusted miscellaneous revenue and removed non-recurring revenue, including revenues associated with VEDO's proposed increase to the Investigation Fee (Staff Report at 15).
- The PUCO Staff properly recommended that VEDO's labor expense be adjusted to reflect: (1) annualizing direct labor expense based on average hourly rates and employee levels as of May 2018; (2) union pay increases that took effect subsequent to May 2018, but still within the test year; (3) a three-year average for calculating percentages for O&M labor and overtime; (4) VEDO's loader rates to calculate fringe benefits and payroll taxes; (5) adjusting VEDO's

pension loader rate to remove Supplemental Executive Retirement Plan ("SERP") expense; and (6) adjusting test year incentive compensation related to (i) VEDO's operational goals, (ii) removing the portion tied to earnings per share ("EPS"), and (iii) removing restricted stock (Staff Report at 15).

- The PUCO Staff properly recommended to (1) eliminate \$5.6 million from base rates for Conservation and to be collected through the Energy Efficiency Funding Rider ("EEFR"); (2) deny approval of an annual performance incentive; and (3) discontinue using a collaborative process to approve the EEFR program portfolio and instead require VEDO to file an application with the Commission for authority to amend or continue its EEFR program portfolio and related charges to customers (Staff Report at 15-16).
- The PUCO Staff properly recommended with regard to VEDO's rate case expense that VEDO is seeking to charge to customers that the Commission review the Company's most recent updated information prior to issuing its Final Order (Staff Report at 16).
- The PUCO Staff properly recommended that PUCO/OCC maintenance expense be adjusted to reflect the latest known rates (Staff Report at 16).
- The PUCO Staff properly recommended that expenses related to employee parties and recognition, meals, dues to various organizations not related to the gas industry, and other miscellaneous items be removed from the test year (and from what consumers would pay to VEDO). In addition, the PUCO Staff Report properly recommended that interest on customer deposits be included in VEDO's revenue requirement pursuant to its recommendation that customer deposits should be reflected as an offset to rate base (Staff Report at 17).
- The PUCO Staff properly recommended adjusting test year operating expenses to account for costs associated with common assets held by VEDO's parent, Vectren Utility Holdings, Inc., and charged to VEDO (Staff Report at 17).
- The PUCO Staff properly recommended that depreciation expense should reflect its recommended depreciable plant

in service as of the date certain at Staff's recommended depreciation rates (Staff Report at 17).

- The PUCO Staff properly recommended that the amortization of the deferral of the HB95 Capital Expenditure Program ("CEP") be amortized over the average life of the plant of 1.61 percent and not VEDO's proposed average system depreciation rate of 3.10 percent (Staff Report at 17).
- The PUCO Staff Report properly recommended that the amortization of the deferral of the Distribution Replacement Rider ("DRR") be amortized over the average life of the plant of 1.48 percent and not VEDO's proposed average system depreciation rate of 3.10 percent (Staff Report at 18-19).
- The PUCO Staff properly recommended that property tax expense be calculated by applying the latest known property tax rate to the property valuation at date certain (Staff Report at 19).
- To help reduce the financial impact on consumers, the PUCO Staff correctly recommended that a five-year amortization period be adopted by the PUCO for the recovery of deferred costs associated with the Distribution Accelerated Risk Reduction ("DARR") program rather than the three years proposed by VEDO. (Staff Report at 16).
- The PUCO Staff appropriately recommended that the PUCO terminate VEDO's authority to continue deferring expenses related to the DARR contemporaneous with new rates being adopted in this case (Staff Report at 16).
- The PUCO Staff properly recommended a used and usefulness, prudence, and necessity audit of Vectren's annual CEP rider filings (Staff Report at 18).
- The PUCO Staff properly recommended that the PUCO deny VEDO's request for a Multi-Family Pilot Program, which is a customer funded subsidy to incent builders to use gas rather than electric (Staff Report at 24).
- The PUCO Staff properly recommended rejecting annual performance incentive (profit) for VEDO's Energy Efficiency program (Staff Report at 15).

The PUCO Staff also should have recommended additional changes to VEDO's Rate Application for the benefit of consumers. OCC's objections are discussed in more detail below. OCC's recommendations, if adopted, would protect consumers from paying rates that would be higher if all of the PUCO Staff's recommendations were to be adopted.

II. OBJECTIONS TO THE PUCO STAFF REPORT

A. RATE BASE

Objection 1 - The PUCO Staff Report failed to recommend for consumer protection a used and usefulness, prudence, and necessity audit of Vectren's 2011-2017 Capital Expenditure Program ("CEP") investments, a depreciation offset for those assets that have been retired, and that CEP investments as of the date certain be included in rate base.

Staff performed an audit of CEP investments as part of the Staff review. OCC recommends an audit of capital investments according to ratemaking standards including but not limited to used and useful, necessity, and prudence during 2011-2017 to be performed by an independent auditor. These capital investments and related deferrals will be recovered in the current rate case. However, Staff's audit was merely a financial audit and did not review according to ratemaking standards such as used and usefulness, necessity, and prudence of the investments. To evaluate the necessity of the investments (and what consumers should pay), the audit must ensure that Vectren's capital budgets were based on reasonable forecasts. The audit must review whether there is a need for the CEP investments -- what data, methodologies, quantitative models and other analytical tools were used to forecast such important parameters as number of customers, consumption and peak demand, etc. and whether and how such forecasts were used to plan capital projects and budgets.

B. OPERATING INCOME

Objection 2 –The PUCO Staff Report failed to recommend (but should have recommended) that VEDO’s unprotected Excess Accumulated Deferred Income Taxes ("EADIT") that resulted from the passage of the Tax Cut and Jobs Act ("TCJA") should be amortized over five years and flowed through base rates to customers as a credit to current income tax expense.

The PUCO Staff Report removed the average annual amortization of EADIT in the amount of \$2.6 million, which VEDO proposed be flowed through as a credit to current income tax expense in its revenue requirement. This amount is comprised of protected EADIT of \$57.465 million and unprotected EADIT of \$20.080 million amortized over 30 years.

The PUCO Staff recommended that the entire balance of EADIT (protected and unprotected) associated with the TCJA be removed from base rates and be recovered through a credit mechanism. In addition, the Staff Report recommended that VEDO update the credit mechanism on an annual basis to capture the exact amount of the EADIT credit. Additionally, the PUCO Staff recommended that the credit be passed back to customers on a volumetric basis and that any balances should be reconciled annually, and that the annual updates to the credit mechanism would be subject to an annual audit with new rates going into effect 90 days after the annual reconciliation.

VEDO proposed to amortize both the protected and unprotected EADIT in accordance with the Average Assumption Rate Method ("ARAM") and as noted above, VEDO proposed to amortize the protected and unprotected EADIT balances over 30 years under a straight-line approach. The PUCO Staff agreed with VEDO's proposal to amortize the protected EADIT in accordance with the ARAM as prescribed by federal law. However, the Staff Report disagreed with VEDO's proposal to amortize the unprotected EADIT over 30 years in accordance with the ARAM, and instead

recommended that the balance of unprotected EADIT be amortized through the credit mechanism over a period not greater than 10 years.

OCC is not opposed to the protected EADIT being recovered through a credit mechanism and amortized over 30 years in accordance with the ARAM as such amounts are subject to fluctuations. However, OCC objects to Staff's recommendation to remove the amortization of the unprotected EADIT from base rates as a credit to current income tax expense and instead be recovered through a credit mechanism.

OCC recommends that the unprotected EADIT be amortized over five years and flowed through VEDO's test year revenue requirement as a credit to current income tax expense for customers. Compared to Staff's recommendation to recover the protected EADIT through its proposed credit mechanism, amortizing the unprotected EADIT over five years¹ and flowing it through base rates results in a credit to current income tax expense of \$4.016 million, thereby benefiting consumers.

Objection 3 – The PUCO Staff failed to recommend (but should have recommended) that a portion of investor relations expense be removed from test year operating expenses.

The PUCO Staff report adjusted Miscellaneous Expenses in the test year to eliminate operations and maintenance expenses. However, the Staff Report did not eliminate any amounts related to VEDO's Investor Relations expense from the test year cost of service that customers pay. As such, OCC objects to the Staff including for customers to pay 100 percent of expenses in the test year that relate to VEDO's Investor Relations, because these expenses primarily benefit shareholders. The response to OCC discovery INT-6-143 indicates that VEDO has included in the test year Investor Relations

¹ Five years is also the Company's proposed cycle for amortizing rate case expense.

expense related to labor of \$45,582 and \$146,704 for non-labor, for a total of \$192,286 that customers would pay. OCC recommends a 50 percent reduction to the amount of Investor Relations expense VEDO has included in the test year (i.e., \$96,143) to reflect that these expenses primarily benefit shareholders.

Objection 4 – The PUCO Staff failed to analyze the deferred balances for alleged previous Distribution Accelerated Risk Reduction (DARR) expenses to verify that these expenses are just and reasonable and appropriate for future collection from customers.

The PUCO Staff failed to investigate the just and reasonableness of VEDO's spending towards the DARR between 2016 and July 2018 to verify that the expenses were prudently incurred before being charged to customers. The PUCO approved the DARR deferral conditioned upon VEDO using best efforts to identify and implement efficiencies and cost-savings measures to reduce the level of the deferrals. Staff merely accepted the deferred spending balances as provided by VEDO without investigating the reasonableness of the spending and if VEDO had in fact implemented any efficiencies or cost savings measures to reduce the costs.

While the Staff Report reduced the level of the DARR deferral from the approximate \$10.1 million proposed by VEDO to approximately \$8.9 million, further reductions are appropriate to limit the amount of money collected from customers to only just and reasonable costs according to ratemaking standards. While the 2016 expenses were below the original DARR estimates, the 2017 and 2018 costs exceeded the original cost projections. Yet, the Staff failed to investigate if VEDO implemented the efficiencies and cost-savings measures it was required to implement to help control the costs. Given the lack of demonstration that the expenses for 2017 and 2018 are just and reasonable, OCC recommends that the amount of money that VEDO be authorized to collect from

customers associated with the DARR deferral be limited to \$8,270,141. This includes the actual expense of \$2,249,183 for 2016 and the original planned expenses of \$2,948,689 and \$3,072,269 for 2017 and 2018 respectively.

Objection 5 – The PUCO Staff failed to establish reasonable on-going costs for the Distribution Accelerated Risk Reduction (“DARR”), Distribution Integrity Management Program (“DIMP”), and Transmission Integrity Management Program (“TIMP”).

The PUCO Staff recommended an on-going annual level of DARR costs at \$3,954,164, which is the amount that VEDO alleges it incurred in 2017. However, there was not an investigation of the 2017 costs to verify that the expenses were just and reasonable. Further, there was no evaluation of the expenses to determine that this is an appropriate level for future spending. The number of gas leaks on VEDO’s distribution system have declined and are expected to continue to decline because of spending on the Distribution Replacement Rider (“DRR”), DARR, and other on-going base rate spending on the distribution system. The on-going costs for the DARR should not exceed \$3,072,269 annually, which is the originally planned level of expenditures for 2018.

The PUCO Staff used a five-year average of DIMP and TIMP costs in recommending that the DIMP continue at a level of \$573,907 and that TIMP continue at a level of \$3,316,294. However, Staff failed to evaluate that the DIMP and TIMP costs have dropped substantially between 2015 and 2017. Use of 2017 expenses is a more accurate projection of the future DIMP and TIMP costs. The 2017 DIMP costs were \$345,604 and the TIMP expenses were \$2,640,584. Customers should be protected from being charged too much for these costs.

Objection 6 – The PUCO Staff failed to recommend that as a condition for obtaining the additional funding for DARR activities, VEDO be required to maintain specific performance measures including declining leak rates for the benefit of customers.

The PUCO recommended that on-going costs for the DARR activities be continued in base rates. However, the Staff did not recommend that as a condition for collecting these funds from customers, that VEDO be required to continue to aggressively remediate leak repairs on its distribution system. According to VEDO, 3,313 of the Grade 3 leaks (or 87%) of the backlog of grade 3 leaks that precipitated the DARR in the first place were completed as of December 31, 2017. VEDO should be required to continue remediating grade 3 leaks to prevent (and protect customers from) a future backlog. The PUCO should require VEDO to establish specific performance measures including declining leak rates and to annually report on the status of the different DARR activities including leak monitoring and remediation efforts for customers.

C. RATE OF RETURN

Objection 7 - The PUCO Staff used an unreasonably high risk-free interest rate of 4.66% in its CAPM analysis, that will lead to VEDO charging too much to customers.

The PUCO Staff inappropriately increased its proposed cost of common equity for VEDO by using a risk-free return of 4.66% in its CAPM analysis.² This risk-free return of 4.66% is based on Staff's own forecasted yields of the U.S. Treasury 30-year Bonds, which is in turn derived from the average (4.16%) of the two forecasted yields on 10-year U.S. Treasury Notes published by the U.S. Bureau of Labor Statistics (4.3%) and the U.S. Energy Information Administration (4.02%) plus 50 basis points to account for

² See Staff Report at 21.

the historical difference between yields of the 10-year Notes and 30-year Bonds.³ This risk-free return of 4.66% is overstated and unreasonable. The use of forecasted yields of treasury bonds has been proven to be unreliable and unsupported by financial theory or current market conditions. The exclusive use of the yield of the 30-year U.S. Treasury Bonds is also unreasonable.

Additionally, the methodology used in this Staff Report is a significant departure from the methodology that has been consistently used by the PUCO Staff in many prior rate cases. For example, in the recent-completed Dayton Power and Light Company rate case (PUCO Case No. 15-1830-EL-AIR et al.), the PUCO Staff used the actual yields of the 10-year and 30-year treasury bonds in estimating the risk-free return of 2.55%.⁴ The use of an inflated and unreasonable risk-free return of 4.66% will unnecessarily and unreasonably increase the cost of gas services to Vectren's residential customers.

Objection 8 - The PUCO Staff inappropriately increased the rate of return and the cost of common equity by allowing an adjustment for equity issuance and other costs, that will lead to VEDO charging too much to customers.

The addition of an equity issuance and other costs to the PUCO Staff's estimate of cost of common equity is not supported by sound regulatory principles.⁵ Even if an adjustment for equity issuance and other costs were allowed, the Staff Report inappropriately increased the cost of common equity by using a hypothetical and generic issuance cost factor of 3.5%.⁶ The Staff Report has not explained why this generic

³ Id.

⁴ See PUCO Case No. 15-1830-EL-AIR et al., Staff Report (March 12, 2018) at 19.

⁵ See Staff Report at 21-22.

⁶ See Staff Report at 122.

issuance cost factor is reasonable or why it should be applied in this proceeding. In addition, there is no demonstration in the Staff Report that VEDO is likely to incur these costs in the near future, or the magnitude of these costs. The addition of arbitrary and unproven equity issuance and other costs will unnecessarily and unreasonably increase the cost of gas services to Vectren's residential customers.

Objection 9 - The PUCO Staff recommended an unreasonably high rate of return, that will lead to VEDO charging too much to customers.

The Staff Report recommended a rate of return in the range of 6.97% to 7.49%⁷ and a return on equity (or cost of common equity) in the range of 8.80% to 9.81%.⁸ These unwarranted and overstated recommendations are based on unreasonable methodologies and data used in the Staff Report for its rate of return analysis.

Further, the Staff Report's recommended rate of return and return on equity are unreasonable because they do not adequately consider the many favorable riders and accelerated collection of revenues under VEDO's alternative regulation plan that significantly reduces Vectren's risk of providing utility service. The Staff Report should recommend that VEDO's authorized rate of return and return on common equity be set at the very low end of the returns authorized for gas distribution utilities in recent years. An unreasonably high rate of return will unnecessarily and unreasonably increase the cost of gas services to VEDO's residential customers.

⁷ See Staff Report at 20.

⁸ See Staff Report at 22.

Objection 10 - The PUCO Staff Report failed to make an adjustment for consumer protection to reduce the recommended return on common equity in recognition of the reduced risks that VEDO will face with respect to revenues and cost recovery if the PUCO continues to use (or even increases) the high fixed charge (the so-called straight fixed variable charge).

The PUCO Staff Report did not acknowledge that VEDO's rate design of a high fixed charge to customers reduces its risk. And the PUCO Staff failed to make any corresponding reductions to the rate of return to reflect these reduced risks and to result in lower charges to customers.

D. RATES AND TARIFFS

Objection 11 – The PUCO Staff Report failed to reject VEDO's proposed SFV rate design.

The PUCO Staff should have rejected VEDO's proposed SFV rate design. SFV rate design adversely impacts low-usage customers, sends an improper price signal to customers, fails to encourage customer-initiated conservation, and adversely impacts customer efficiency efforts.

Objection 12 - The PUCO Staff Report failed to recommend that if base rate increases are added to a fixed rate component (SFV rate design), modifications are needed in VEDO's proposed SFV rate design to provide relief to low income low usage residential customers.

Without relief, VEDO's low-usage residential customers will experience double digit increases on their natural gas bills. Relief can take the form of a monetary credit to reduce their bills. Such a credit should come from shareholder funds.

Objection 13 - The PUCO Staff Report failed to recommend a modification to VEDO's Straight Fixed Variable (SFV) rate design by charging customers all base rate increases in a fixed charge on their bills, rather than a volumetric charge.

The SFV rate design sends an improper price signal to the consumer. This occurs because the higher fixed charge results in a lower Ccf charge. The lower volumetric

charge encourages consumption and discourages customer-initiated conservation and, adversely affects VEDO's and its customers' energy efficiency efforts.

Objection 14 - The PUCO Staff Report erred when it recommended a 68.5% increase to the residential customer fixed charge, instead of placing the incremental base rate increase into a volumetric component.

That high an increase to the fixed portion of their bill will present a challenge for customers seeking to manage the volumetric commodity charge. The PUCO Staff should have instead placed the incremental base rate increase into a volumetric component to give customers more options to control their natural gas bills.

Objection 15 - The PUCO Staff Report erred when it added the total base rate increase to the existing fixed charge that causes a disproportionate higher bill impact (some of the increases are double digit) to low usage residential customers when compared to large residential users.

OCC objects to the PUCO Staff's recommendation of a rate structure primarily based on a fixed distribution service charge, or Straight Fixed Variable ("SFV") rate design. Moreover, the Staff Report recommendation for the SFV rate design is contrary to the principles of gradualism that have long guided the Staff and PUCO in rate design matters and the significant increases in the customer charge violates the principle of guarding against rate shock.

The Staff's SFV design sends an improper price signal to the consumer and fails to encourage customer-initiated conservation, and adversely affects the Company's energy efficiency efforts.

In addition, the biggest negative impact of the SFV rate design being the fixed charge rate often results in larger price increases to low-use customers. A secondary disadvantage is that the fixed charge structure reduces the incentive on the part of the customer to reduce usage.

Adding a volumetric distribution component in the bill will help mitigate the large bill increases for low use customers and better balance the increases for high use customers.

Objection 16 - The PUCO Staff Report erred by not recommending a revenue decoupling mechanism to accompany the adding of a volumetric component to residential base rates.

The symmetrical mechanism of a decoupling mechanism will reconcile VEDO's revenue loss with a true-up annually and provide residential customers with a credit when VEDO's authorized revenue requirement is exceeded. That approach provides more fairness for customers because it is based on the volume used.

E. ALTERNATIVE REGULATION

Objection 17 – The PUCO Staff should have found that non-participating customers do not benefit from natural gas Demand-Side Management (“DSM”) (energy efficiency) programs and that charges to customers for VEDO's DSM programs should be limited to charging for low-income DSM programs.

VEDO has produced no evidence that natural gas DSM programs provide benefits to Vectren on a system-wide basis or to non-participating customers, regardless of the price of natural gas.

Reductions in consumption would help the individual consumers that were in a position to take advantage of a DSM program, but it does not necessarily follow that there is a reduction in the cost of gas. Thus, there are minimal, if any, benefits to customers other than those that can participate in a particular DSM program. The PUCO Staff should have found that non-participating customers do not benefit from natural gas demand-side management (DSM) (energy efficiency) programs and that charges to

customers for VEDO's DSM programs should be limited to charging for low-income DSM programs.

Objection 18 - The PUCO Staff failed to define the necessity standard with enough specificity for achieving effective cost controls for customer protection regarding VEDO's proposed annual CEP Rider filings.

Staff recommended a future used and usefulness, necessity, and prudence audit of CEP assets between the current and the next rate case.⁹ Staff also recommends a minimum of four months between when VEDO files its application and Staff issues a report.¹⁰ OCC supports Staff's recommendation of allowing four months between filing of the application and the audit. OCC also recommends allowing at least one month after the Staff audit for the OCC and other parties to review the audit and file comments. OCC further recommends that the necessity audit be more clearly defined as a scrutiny of investments to determine whether the level of assets added have a reasonable relationship to the level of demand or customer needs it was intended to serve (and that ratemaking standards for consumer protection are being met by VEDO). The necessity audit needs to identify instances of investments made in excess of what is actually needed. Factors that might be included in a necessity audit are load forecast or customer growth forecasts, existing and projected system capacity, and known construction/replacement/upgrade project needs to comply with federal or state safety and environmental regulations. The necessity audit for CEP would need to look at the data and methodology that was used to plan capital projects and forecast capital budgets. Finally, the necessity audit for the CEP

⁹ Staff Report at 18.

¹⁰ *Id.*

should be able to detect duplications of capital projects that fall both under the CEP and the DRR.

Objection 19 - the PUCO staff report failed to recommend a used and usefulness, prudence, and necessity audit of Vectren's 2011-2017 investments.

Staff performed a financial audit of CEP investments as part of the Staff review. OCC recommends a used and useful, necessity, and prudence audit of capital investments during 2011-2017 be performed by an independent auditor. OCC recommends a similar audit that the Staff has recommended for future Vectren CEP investments. These capital investments and related deferrals will be recovered from customers in the current rate case. However, Staff's audit was merely a much less rigorous financial audit and did not review the used and usefulness, necessity, and prudence of the investments. In particular, to evaluate the necessity of capital investments, the audit needs to ensure that capital budgets were based on realistic forecasts. The audit must review what data, methodologies, quantitative models and other analytical tools were used to forecast such important parameters as number of customers, consumption and peak demand, and whether and how such forecasts were used to plan capital projects and budgets. VEDO should satisfy under ratemaking standards that the charges are just and reasonable and lawful for consumers to pay.

Objection 20 - The PUCO Staff failed to recommend (but should have recommended) that VEDO work with OCC and Staff to develop meaningful spending, revenue, and rate caps for limiting charges to consumers under the CEP and to recommend approaches or methods to be used to develop the caps for consumer protection.

Staff recommended that VEDO work with Staff to develop meaningful spending, revenue, and rate caps. OCC recommends that OCC be included in the team to help develop such caps. To protect consumers against potentially unnecessary and excessive

CEP investments and provide incentives for cost control, the caps should be developed with some degree of independence from VEDO's own costs and might include some exogenous parameters such as load and customer growth forecasts, industry-wide forecast of construction/installation costs of gas distribution plant, equipment and other assets, and economic indices.

Objection 21 - The PUCO Staff failed to recommend (but should have recommended) a minimum incremental revenue offset to CEP deferrals.

VEDO's Rider CEP includes an incremental operating revenue offset. VEDO states that if there are positive incremental revenues generated by CEP investments, such revenues will be used to offset CEP deferrals. On the other hand, if the incremental revenues are negative or zero, there will be no offset. OCC recommends that VEDO establish a minimum guaranteed incremental revenue offset to protect consumers, which might be indexed to a combination of load growth forecasts, the level of planned CEP investment and other relevant factors each year. Such a minimum guaranteed incremental revenue offset will constrain excessive investments and overly optimistic projections of growth. This proposed minimum offset will protect consumers from overcharges when customers are made to pay for unnecessary investments, without being credited for incremental revenues because the utility fails to earn such revenues.

Objection 22 - The PUCO Staff proposes combining the CEP and the DRR Riders into a single rider. The PUCO should reject this proposal and OCC recommends abolishing both riders beyond 2023 and collecting the CEP and DRR costs through a rate case.

ORC 4929.111 allows a utility make capital expenditures under the CEP and defer the costs for later recovery. DRR investments are needed to replace obsolete, aging, defective, and failing infrastructure, as well as to comply with safety regulations.

OCC is not opposed to the continuation of CEP and replacement programs under the DRR. However, OCC is opposed to recovery of these costs through multiple riders or a single rider. These costs can be better recovered in base rates in a rate case and there is no statutory or regulatory barrier to doing so. For example, although ORC 4929.111 allows a utility to defer capital expenditures for later recovery, the statute does not mandate any particular cost recovery mechanism, and certainly does not preclude the utility from recovering deferred CEP costs in a rate case.

Objection 23 - The PUCO Staff proposed rate caps that agree with those proposed by VEDO for the DRR for 2018-2023, but then failed to address an exception also proposed by VEDO that essentially negates the cap. OCC recommends that this latter provision be denied.

The PUCO Staff proposed rate caps for a new five-year period for the DRR in this proceeding.¹¹ The caps agree with those proposed by VEDO.¹² The Staff Report, however, does not discuss or address an exception to the rate caps proposed by VEDO. VEDO proposes that in the event its actual costs in a DRR monthly charge to its Residential customers exceeds 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. This exception in VEDO's proposal essentially negates the rate caps. The PUCO Staff should have rejected VEDO's exception. OCC recommends that this

¹¹ Staff Report at 18-19.

¹² Vectren Application at 7-8.

provision in VEDO's rate cap proposal be denied to protect consumers from excessive charges resulting from a rate cap that fails to limit Vectren's spending.

Objection 24 – The PUCO Staff Report failed to address whether VEDO's non-low-income energy efficiency programs (DSM Programs) are cost effective.

The PUCO Staff Report should have addressed whether VEDO's cost-effectiveness calculations were accurate, including, but not limited to, whether VEDO used the appropriate inputs and assumptions when calculating cost-effectiveness scores. The Staff Report should have concluded that VEDO failed to meet its burden of showing that the non-low-income programs are cost-effective. Thus, the Staff Report should have recommended discontinuation of the non-low-income programs.

Objection 25 -- The PUCO Staff failed to recommend with regard to VEDO's rate case expense that VEDO is seeking to charge to customers that parties have the opportunity to object to the Company's most recent updated information prior to the Commission entering a Final Order.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing Objections was served by electronic transmission upon the parties below this 31st day of October 2018.

/s/ William J. Michael

Williams J. Michael

Assistant Consumers' Counsel

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Summary: Objection Consumer Protection Objections to the PUCO Staff Report by The Office of the Ohio Consumers' Counsel electronically filed by Ms. Jamie Williams on behalf of Michael, William Mr.