

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren	)	
Energy Delivery of Ohio, Inc., for Approval	)	Case No. 18-0049-GA-ALT
of an Alternative Rate Plan	)	
 In the Matter of the Application of Vectren	 )	
Energy Delivery of Ohio, Inc. for Approval	)	Case No. 18-0298-GA-AIR
of an Increase in Gas Rates	)	
 In the Matter of the Application of Vectren	 )	
Energy Delivery of Ohio, Inc., for Approval	)	Case No. 18-0299-GA-ALT
of an Alternative Rate Plan	)	

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**SECOND SUPPLEMENTAL DIRECT TESTIMONY OF  
MICHAEL J. VILBERT  
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION  
ON BEHALF OF  
VECTREN ENERGY DELIVERY OF OHIO, INC.**

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

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**Second Supplemental Direct Testimony of  
Michael J. Vilbert  
in Support of the Stipulation and Recommendation**

**I. BACKGROUND AND QUALIFICATIONS**

**Q1. Please state your name and business address.**

A. My name is Michael J. Vilbert. My business address is The Brattle Group, 201 Mission Street, Suite 2800, San Francisco, CA 94105.

**Q2. Are you the same Michael J. Vilbert who submitted Direct Testimony on behalf of Vectren Energy Delivery of Ohio, Inc. (VEDO or the Company) in this proceeding on April 13, 2018, and Supplemental Direct Testimony on November 7, 2018?**

A. Yes.

**Q3. What was the purpose of the prior testimony that you submitted in this proceeding?**

A. My Direct Testimony estimated the cost of capital for the Company. I provided return on equity (ROE) estimates derived from a sample of comparable risk, regulated gas local distribution utility companies (gas LDCs). I also considered VEDO's financial risk and the volatility in the capital markets. My Supplemental Direct Testimony responded to the estimate of cost of capital provided by the Staff of the Public Utilities Commission of Ohio (PUCO or Commission).

**Q4. What is the purpose of this testimony?**

A. My Second Supplemental Testimony supports the Rate of Return (ROR) identified in the Joint Exhibit 1.0 Stipulation and Recommendation (Stipulation) filed on January 4, 2019 in this proceeding.

**II. RATE OF RETURN IN THE STIPULATION AND RECOMMENDATION**

**Q5. Have you reviewed the Stipulation?**

A. Yes.

**Q6. Does the Stipulation state a recommended Rate of Return?**

A. Yes. Paragraph 3 (p. 3) of the Stipulation states that “[t]he revenue requirement reflects 7.48% as a reasonable return on rate base, as reflected in Joint Exhibit 2.0, and includes the revenue requirement adjustments to the Staff Report set forth in Joint Exhibit 2.0.”

**Q7. Is it your understanding that the Rate of Return identified in the Stipulation is the result of settlement discussions among VEDO, Staff, and other parties to this proceeding?**

A. Yes. Schedule A-1 identifies the 7.48% rate of return as the “Company Settlement.” Schedule A-1 also shows that the rate of return reflected in the Company’s Application is 7.97%. In addition, Schedule A-1 identifies the lower bound (6.97%) and upper bound (7.49%) of the rate of return recommended in the Staff Report.

**Q8. Did other parties to the proceeding also file Rate of Return recommendations?**

A. Yes. The Federal Executive Agencies (FEA), who also is a party to the Stipulation, proposed a rate of return of 7.23% in the Direct Testimony of Michael P. Gorman (Exhibit MPG-1). In addition, the Ohio Consumers’ Counsel (OCC), who is not a party of the Stipulation, proposed a rate of return range of 6.47% to 6.98% in the Direct Testimony of Jeffrey P. Hecker (Table 4).

**Q9. Has VEDO filed other testimony in support of the Stipulation describing the parties’ settlement discussions?**

A. Yes. I have reviewed the Second Supplemental Direct Testimony of J. Cas Swiz, VEDO Exhibit No. 11.2, which describes the settlement discussions among VEDO, Staff, and other parties to the proceeding, which culminated in the Stipulation. It is my understanding that rate of return was one of many revenue issues that the parties discussed in the negotiations towards a stipulated revenue requirement. The Second Supplemental Direct Testimony of Mr. Swiz and the Stipulation also makes clear that there were other non-revenue issues that the parties discussed in their negotiations.

1 **Q10. Is it your understanding also that the Commission must determine a reasonable rate**  
2 **of return when approving new rates in connection with the Company's Application?**

3 A. Yes. Although I am not an attorney, it is my understanding that the Ohio Revised Code  
4 Section 4909.15(A)(2) (Fixation of reasonable rate) requires the Commission to  
5 determine a "fair and reasonable rate of return to the utility on the valuation" of the  
6 property used and useful as of the date certain for the natural gas company. This  
7 determination is consistent with the U.S. Supreme Court's opinions in *Bluefield Water*  
8 *Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679  
9 (1923), and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944),  
10 which I cited in my Direct Testimony.

11 **Q11. In your opinion, do you believe that the 7.48% Rate of Return recommended by the**  
12 **Stipulation as part of a larger compromise is a reasonable rate of return for the**  
13 **Commission to authorize in this instance?**

14 A. Yes. As mentioned above, the Company's Application, which included my Direct  
15 Testimony, supported a higher rate of return. The Second Supplemental Direct Testimony  
16 of Mr. Swiz and the Stipulation, however, demonstrate that the rate of return agreed to by  
17 VEDO, Staff, and other parties to the Stipulation, including FEA, was part of a larger  
18 compromise that the parties to the Stipulation reached by making concessions on all  
19 sides. If the Company's Application were fully litigated, I would continue to support my  
20 original recommendation. Nevertheless, given that the rate of return in the Stipulation is  
21 at the upper bound of the Staff Report recommendations, and given that there were other  
22 parties to the proceeding who made rate of return recommendations, it is reasonable for  
23 the parties to agree in the context of the settlement, and for the Commission to determine,  
24 that 7.48% would be a reasonable rate of return, when setting new rates for VEDO in this  
25 proceeding.

1     **III.   CONCLUSION**

2     **Q12.   Does this conclude your Second Supplemental Direct Testimony in support of the**  
3           **Stipulation?**

4     A.     Yes, it does.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing document was served by electronic mail to the following persons on this 17<sup>th</sup> day of January, 2019:

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One of the Attorneys for Vectren Energy  
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Summary: Testimony Exhibit 5.2 Second Supplemental Direct Testimony of Michael J. Vilbert in Support of the Stipulation electronically filed by Mr. Andrew J Campbell on behalf of Vectren Energy Delivery of Ohio