BEFORE
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. 19-1011-GA-RDR

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

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On behalf of the Staff of
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INTRODUCTION

On May 1, 2019, Vectren Energy Delivery of Ohio, Inc. (VEDO or Company) filed an application (Application) in the above captioned case seeking authority to increase its Distribution Replacement Rider (DRR). On June 26, 2019, the Company filed various corrections in a Supplemental Application. The purpose of the DRR increase is to allow VEDO to: (1) recover a return of and on certain investments made in 2018 to replace aging natural gas pipeline infrastructure and (2) recover the costs of assuming ownership and repair of previously customer-owned service lines. These comments present a summary of the Commission Staff's (Staff) investigation of VEDO's Application and Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 320,000 customers in west central Ohio.[1] It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code and subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (*2007 Rate Case Stipulation*) and authorized VEDO to establish the DRR for a period of five years or until new rates are approved pursuant to a base or alternative rate case. The Commission's Opinion and Order in Case No. 13-1571-GA-ALT approved a Stipulation and Recommendation (*2013 DRR Extension Case Stipulation*) that authorized VEDO to continue the DRR Program for investments beginning in 2013 through 2017 and to expand the Program's scope. On March 30, 2018, in conjunction with its base rate case filed in Case No. 18-0298-GA-AIR, VEDO filed an alternative regulation case in Case No. 18-0299-GA-ALT (collectively, *2018 Rate Case Proceedings*) seeking authorization to continue and complete the DRR Program for investments made in 2018 through 2023. The Stipulation and Recommendation (*2018 Stipulation*) was filed on January 4, 2019, and is currently pending before the Commission. Consequently, VEDO does not have authority to recover 2018 investment through the DRR. Absent Commission action, the DRR will end on August 31, 2019.

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[1] In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges, Case No. 19-1011-GA-RDR, Application at 1, (May 1, 2019).

The purpose of the DRR is to permit VEDO to seek recovery of: (1) the return of and return on plant investment, including post-in-service carrying costs (PISCC), and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the Company's riser investigation pursuant to Case No. 05-0463-GA-COI;[2] (3) costs for replacement of prone-to-fail risers; (4) incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and (5) actual annual Operations and Maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

The *2007 Rate Case Stipulation* and *2013 DRR Extension Case Stipulation* provided a process for establishing the annual DRR rate, which the *2018 Rate Case Proceedings* seek to continue. By May 1 of each year, the Company must file an application detailing the investments and costs that were incurred during the previous calendar year and a summary of its construction plans for the next year. VEDO bears the burden of proof regarding the justness and reasonableness of the DRR rates proposed each year. Further, Staff will perform an investigation of the annual applications and make recommendations on the justness and reasonableness of the applications. Other parties may file comments on the applications and unresolved issues will be set for

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

hearing by the Commission. Parties will use their best efforts to permit new DRR charges to take effect on a service rendered basis on September 1 of each year.

Pursuant to the Stipulation in the *2018 Rate Case Proceedings*, the DRR is capped annually for the Residential and Group 1 General Service customers, as follows:[3]

DRR Investment Year	Recovery Period	Applicable Cap
2018	9/1/19 – 8/31/20	$2.50
2019	9/1/20 – 8/31/21	$5.00
2020	9/1/21 – 8/31/22	$7.50
2021	9/1/22 – 8/31/23	$10.00
2022	9/1/23 – 8/31/24	$12.00
2023	9/1/24 – 8/31/25	$13.75

VEDO'S APPLICATION

VEDO filed its Application on May 1, 2019. The Application is supported by the testimony and exhibits of Steven A. Hoover, Regional Director of Gas Engineering, and J. Cas Swiz, Director of Rates and Regulatory Portfolio Management. Mr. Hoover's testimony and exhibits present the progress made in 2018 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's 2019 BS/CI replacement plans, maintenance costs associated with the 2018 BS/CI Replacement Program, the 2018 incremental costs for maintenance and repair of service lines previously owned by customers, 2018 capital costs for replacement of previously customer-owned service lines, and the operation and maintenance cost savings realized in 2018.

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3 *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates*, Stipulation and Recommendation at 7 (Jan. 4, 2019) (*2018 Rate Case Proceedings*).

Mr. Swiz's testimony and exhibits provide explanations of the various components of the Company's proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the 2018 Mains and Service Line and Riser Replacement Programs; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with the Mains and Service Line and Riser Replacement Programs; a discussion of the Company's rationale and policies for recording retirements, PISCC,[4] and AFUDC; and a schedule showing the true-up for and the over-or-under-recovery of the revenue requirement adopted in last year's DRR application, Case No. 18-0762-GA-RDR. In addition, Mr. Swiz's testimony also provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

In its Application, VEDO indicates that in 2018 it replaced 52.81 miles of bare steel and 3.68 miles of cast iron mains, replaced 6,142 BS/CI service lines (with an additional 493 service lines retired), and moved 4,226 inside meters outside as part of its Replacement Program. VEDO proposed a Mains Replacement Program revenue requirement of $4,607,571 and $5,969,408 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of $10,576,979.

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

On June 26, 2019, VEDO filed a Supplemental Application to correct an inadvertent error in the DRR revenue requirement calculation. The amounts originally noted as allowed Revenue Requirement recoveries on Exhibit No. JCS-4 incorrectly included the amount over the rate cap defined for the DRR in Case No. 18-0762-GA-RDR. In that case, VEDO excluded the amount that exceeded the residential rate cap from the filing and, therefore, should have excluded it from the allowed Revenue Requirement recoveries starting in September 2018. VEDO corrected the originally filed $161,011 of over recoveries for the period of September through December 2018 and revised it to $435,054. The correction results in changes to the proposed rates and charges. VEDO's original Application proposed the following DRR rates and charges:

Rate Schedule	**Proposed $ Per Month**	**$ Per Ccf**
310, 311, and 315	$1.81	
320, 321, and 325 (Group 1)	$2.35	
320, 321, and 325 (Group 2 and 3)		$0.00270
345		$0.00339
360		$0.00149

With the corrections, the Company's Supplemental Application proposes the DRR revenue requirement be allocated to customers as follows:

Rate Schedule	**Proposed $ Per Month**	**$ Per Ccf**
310, 311, and 315	$1.75	
320, 321, and 325 (Group 1)	$2.27	
320, 321, and 325 (Group 2 and 3)		$0.00261
345		$0.00331
360		$0.00146

STAFF'S INVESTIGATION SUMMARY AND COMMENTS

While the Commission has not yet ruled on the *2018 Stipulation*, Staff conducted its investigation of the Application assuming the stipulated terms. This may preserve the DRR process and enable new DRR charges to take effect on a service rendered basis on September 1, 2019. However, if the Commission does not adopt the *2018 Stipulation* or otherwise authorize the extension of the DRR program, Staff acknowledges that the DRR will end on August 31, 2019. Staff may also seek to file additional comments if the Commission modifies the terms of the Stipulation.

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

A. VEDO's Competitive Bidding Process

VEDO employs a competitive bidding process for the majority of the capital work associated with DRR projects. The Company issues for bid individual bid packages (which are multiple projects grouped together) to contractors that VEDO has determined are qualified and capable of performing the scope of work detailed in the bid packages. The contractors, in turn, submit unitized bid prices based on the expected number of units (*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) per project as well as identifying any capacity limitations and preferred bid packages. In Comments filed in Case No. 18-0762-GA-RDR, Staff stated that it believed that this process has served to effectively control DRR project labor costs. Staff also reported that five contractors had submitted bids for 2017 project packages and that forty-six percent of available contract packages covering approximately forty-nine percent of the total contracted dollars had been awarded to Miller Pipeline Company, which is affiliated with VEDO. Staff stated that it would continue to annually monitor VEDO's contractor bidding and selection process to ensure that the Company does not provide any preferential treatment to Miller, establish unreasonable qualification standards, or impose any other unreasonable barriers that would prevent contractors from participating in the DRR bidding process.[5]

In this case, Staff found that six contractors submitted bids, with two new contractors invited to bid in order to replace a prior contractor removed from the bidding process due to performance issues. All six invited contractors submitted bids. However, the two new contractors were not awarded any projects due to VEDO's capacity restraints on new contractors; the new contractors were awarded projects for VEDO's affiliate in Indiana. Miller was awarded approximately fifty-three percent of available bid

[5] 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, Staff Comments at 7-9 (July 20, 2018).

packages, which represented approximately fifty-six percent of the total contracted dollars. The next two contractors with the largest percentage shares of the available bid packages had twenty-three percent and twenty percent, respectively. Combined, the bid packages awarded to these contractors totaled approximately thirty-eight percent of the total contracted dollars. In Staff's opinion, the number of contractors submitting and winning bids along with the facts that awarded bid packages contract dollars were spread out over the eligible contractors and that no contractor was awarded a disproportionate share suggests that VEDO's contractor bidding and selection process in 2018 was fair and effective in controlling DRR costs. Staff will continue to annually review VEDO's contractor bidding and selection process.

B. VEDO'S PENDING STIPULATION

The Stipulation filed in the 2018 Rate Case Proceedings seeks to continue the DRR Program while modifying the rate of return, post-in-service carrying cost rate, and depreciation rates applicable to the DRR investments from January 1, 2018 through December 31, 2023. In this DRR proceeding, VEDO is proposing recovery of program investments made in 2018 only, along with reconciling any recovery variances and additional deferred amounts from the 2017 DRR proceeding. VEDO, in accordance with the stipulated terms applied the pre-tax rate of return of 8.81% in calculating the annual revenue requirement applicable to DRR-recoverable investments.

However, the Company did not apply the modified post-in-service carrying cost rate or depreciation rates applicable to DRR Program investments beginning in 2018.

Because the terms of the DRR Program for 2018 investment are provided by the *2018 Stipulation*, this filing should be consistent with the terms of that stipulation. Therefore, Staff recommends that the modified post-in-service carrying cost rate and depreciation rates be used, in accordance with the terms of the *2018 Stipulation*, on applicable DRR Program investments beginning in 2018. This should decrease the revenue requirement by $55,642 from $10,576,979 to $10,521,336. The modified revenue requirement has an insignificant effect on the proposed rates and charges:

Rate Schedule	**Proposed $ Per Month**	**$ Per Ccf**	**Decrease Over Filed Rate**
310, 311, and 315	$1.75		$0.00
320, 321, and 325 (Group 1)	$2.26		$0.01
320, 321, and 325 (Group 2 and 3)		$0.00259	$0.00002
345		$0.00329	$0.00002
360		$0.00145	$0.00001

STAFF'S CONCLUSIONS AND RECOMMENDATIONS

Based on its investigation and findings, Staff concludes that VEDO's Application and Supplemental Application complies with the Commission's Opinions and Orders in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT and will result in just and reasonable DRR rates. Nevertheless, Staff notes that the *2018 Stipulation* is still pending before the Commission and therefore reserves the right to recommend subsequent adjustments to VEDO's DRR rates proposed to take effect in September of 2019, including potential refunds to customers. Therefore, with adoption of the recommendations made herein, Staff recommends that the Commission approve the Company's Application.

Respectfully submitted,

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

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following parties of record, this 17th day of July, 2019.

/s/Robert Eubanks
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