

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

FINDING AND ORDER

Entered in the Journal on August 28, 2019

I. SUMMARY

{¶ 1} The Commission approves the application of Vectren Energy Delivery of Ohio, Inc. to adjust its distribution replacement rider, as supplemented and modified by its July 26, 2019 statement.

II. DISCUSSION

{¶ 2} Vectren Energy Delivery of Ohio, Inc. (VEDO or Company) is a natural gas company and a public utility as defined in R.C. 4905.03 and R.C. 4905.02, respectively. As such, VEDO is subject to the jurisdiction of this Commission.

{¶ 3} On January 7, 2009, the Commission authorized VEDO to establish the distribution replacement rider (DRR) to recover the costs and receive a return on investments made by the Company to accelerate implementation of a bare-steel and cast-iron pipeline replacement program (Replacement Program). *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 07-1080-GA-AIR, et al. (2007 Rate Case), Opinion and Order (Jan. 7, 2009).

{¶ 4} The DRR was originally approved for a five-year period ending February 2014. *2007 Rate Case*, Opinion and Order (Jan. 7, 2009). Subsequently, however, the Commission approved a stipulation that authorized VEDO to expand the scope of the Replacement Program and to continue the DRR to recover associated costs through the end of calendar year 2017. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1571-GA-ALT (2013 DRR Extension), Opinion and Order (Feb. 19, 2014). Pursuant to the 2013 DRR Extension, VEDO agreed that any additional request to extend the DRR would be made as

part of an application for an increase in distribution rates under R.C. 4909.18 and 4909.19. *2013 DRR Extension* at 8.

{¶ 5} On March 30, 2018, in Case No. 18-298-GA-AIR, et al., the Company filed an application to increase its rates for gas distribution service and for approval of an alternative rate plan; as part of that application, VEDO seeks an extension of the Replacement Program and the DRR to recover investment through December 31, 2023. Additionally, the application reflects in its proposed rate base all Replacement Program investments through December 31, 2017. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 18-298-GA-AIR, et al. (*2018 Rate Case*).

{¶ 6} On August 22, 2018, the Commission approved VEDO's application that established the current charges—for the time period spanning from September 1, 2018, through August 31, 2019—to recover DRR costs incurred in 2017. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 18-762-GA-RDR (*2018 DRR Case*), Finding and Order (Aug. 22, 2018).

{¶ 7} On January 4, 2019, a stipulation and recommendation (Stipulation) signed by a majority of the parties to the *2018 Rate Case* was filed. As proposed by the application in the *2018 Rate Case*, the Stipulation states that the DRR balance as of December 31, 2017, is included in stipulated base rates and extends the program through December 31, 2023. Further, the Stipulation states that, at the time the Company files its compliance tariffs implementing Commission-approved base rates as a result of the *2018 Rate Case*, VEDO shall file an updated DRR reflecting the removal of DRR investments through December 31, 2017. This adjustment would leave only the unrecovered DRR over- or under-recovery variance in the DRR rate.

{¶ 8} On May 1, 2019, VEDO filed its application in this case to adjust its DRR for the recovery period September 1, 2019, through August 31, 2020. With its application, VEDO submits the testimony of Steven A. Hoover, Regional Director of Gas Engineering,

and J. Cas Swiz, Director of Rates and Regulatory Portfolio Management, as well as exhibits and schedules supporting the various costs and calculations necessary to support the revised DRR charges. Subsequently, on June 26, 2019, VEDO filed a supplemental application to correct an inadvertent error in the calculation of the proposed adjustments to the DRR. The Company also provides corrected versions of certain direct testimony and exhibits filed with its original application. Based on the original and supplemental applications, testimony, and supporting evidence, the Company proposes that the DRR revenue requirement be allocated to customers as follows:

Rate Schedule	\$ Per Month	\$ Per Billing Ccf
310, 311, and 315 (Residential Service)	\$1.75	
320, 321, and 325 (Group 1 - Small General Service)	\$2.27	
320, 321, and 325 (Group 2 and 3 - Large General Service)		\$0.00261
345 (Large General Transportation)		\$0.00331
360 (Large Volume Transportation)		\$0.00146

Mr. Swiz states in his corrected testimony that the Company has prepared its filing consistent with the terms of the Stipulation in the *2018 Rate Case*. Mr. Swiz further states that VEDO proposes in this proceeding to recover only program investments made in 2018, along with reconciling any recovery variances and additional deferred amounts from the prior adjustment case.

{¶ 9} By Entry dated May 8, 2019, the attorney examiner issued a procedural schedule governing the process for review of VEDO's application. Pursuant to that schedule, interested stakeholders were to file motions to intervene by June 19, 2019; Staff and intervenors were to file comments on the application by July 17, 2019; and VEDO was to file a statement by July 26, 2019, informing the Commission whether the issues raised in comments had been resolved. And, in the event that all issues raised in the comments were not resolved or if the Commission regards the application as possibly unfair or unreasonable, the May 8, 2019 Entry scheduled a hearing date of August 1, 2019.

{¶ 10} On June 11, 2019, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this proceeding on behalf of VEDO's residential customers. No party opposed this motion, and the Commission finds that the motion to intervene is reasonable and should be granted.

{¶ 11} On July 17, 2019, OCC and Staff filed comments regarding VEDO's application.

{¶ 12} Staff prefaces its comments with an explanation that it conducted its application assuming the Stipulation in the *2018 Rate Case* is adopted without modification. Staff further explains that, in this proceeding, VEDO is proposing recovery of program investments made in 2018 only, along with reconciling any recovery variances and additional deferred amounts from the *2018 DRR Case*. Staff states that the Company applied the pre-tax rate of return of 8.81 percent in calculating the annual revenue requirement applicable to DRR-recoverable investments in accordance with the Stipulation's terms, but did not apply the modified post-in-service carrying cost (PISCC) rate or depreciation rates applicable to DRR program investments beginning in 2018. Staff asserts that, because the terms of the DRR for 2018 investment are provided by the Stipulation, the filing should be consistent with its terms and, therefore, recommends that the Stipulation's modified PISCC rate and depreciation rates be applicable on all DRR investments beginning in 2018. According to Staff, this would decrease the revenue requirement by \$55,642, which results in an insignificant effect on the proposed rates and charges.

{¶ 13} Staff also reviewed VEDO's competitive bidding process used for procuring the capital work associated with DRR projects. This review was performed pursuant to Staff's finding in previous DRR proceedings that, although the process has served to effectively control DRR project labor costs, a noted portion of the contracts bid out was awarded to Miller Pipeline Company (Miller Pipeline), which is affiliated with VEDO. As such, Staff stated that it would continue to annually review VEDO's contractor bidding and selection process. *2018 DRR Case*, Finding and Order (Aug. 22, 2018) at ¶ 17. In this case,

Staff's review found that Miller Pipeline was awarded approximately 53 percent of available bid packages, which represented approximately 56 percent of the total contracted dollars, with the next two contractors with the largest percentage shares of available bid packages coming in at 23 percent and 21 percent, respectively. Staff concluded that the relevant information and findings suggest that VEDO's contractor bidding and selection process in 2018 was fair and effective in controlling DRR costs; Staff maintains that it will continue to annually review the Company's contractor bidding and selection process.

{¶ 14} Altogether, Staff concludes that VEDO's application complies with the Commission's Orders in the *2007 Rate Case* and *2013 DRR Extension* and will result in just and reasonable rates. Nonetheless, Staff recommends that the modified PISCC and depreciation rates from the Stipulation in the *2018 Rate Case* be applied as noted above and reserves the right to recommend subsequent adjustments pending the Commission's Opinion and Order in the *2018 Rate Case*.

{¶ 15} In its comments, OCC presses that VEDO should not be permitted to recover through the DRR certain costs from two governmental relocation projects in which replacement of plastic pipe exceeded 25 percent of the total footage. OCC states that the stipulation adopted in the *2013 DRR Extension* specified that VEDO may recover through the DRR specified costs due to governmental relocation projects "only if" any plastic pipe associated with each relocation is less than or equal to 25 percent of the total footage of that project. *2013 DRR Extension*, Opinion and Order (Feb. 19, 2014) at 5. Citing to Mr. Hoover's testimony in support of the application, OCC asserts that two of the 24 governmental relocation projects, namely V-1252 and V-952, involved the replacement of 45 percent and 29 percent plastic pipe, respectively. OCC further asserts that the costs associated with overage that VEDO seeks to recover through the DRR totals \$133,900. OCC argues that recovery of this amount is clearly and strictly forbidden by the *2013 DRR Extension* and should not be permitted.

{¶ 16} As instructed in the May 8, 2019 procedural entry, VEDO filed a statement regarding the resolution of issues on July 26, 2019. Therein, VEDO informs the Commission that the issues raised by Staff and OCC in comments have been resolved. As to Staff's recommendation that the modified PISCC and depreciation rates from the Stipulation in the *2018 Rate Case* should be applied, VEDO believes that the rates in place in 2018, which reflect those approved in the *2007 Rate Case* (depreciation) or continued under the *2013 DRR Extension* (PISCC) should be used until the Commission approves updated rates in the *2018 Rate Case*. VEDO represents that, in the interest of resolving all issues raised in comments and for this proceeding only, Staff has agreed to withdraw its recommendation. Similarly, although VEDO maintains that it was prudent and less costly to replace plastic main beyond the 25 percent threshold in the two governmental relocation projects cited by OCC—and therefore permissible to seek recovery of the full costs—VEDO agrees to accept OCC's proposed adjustment in the interest of resolving all issues and for this proceeding only. Accordingly, VEDO includes with its July 26, 2019 statement an Attachment A, which contains revised revenue requirement schedules reflecting OCC's proposal and a revised tariff sheet showing the following revised DRR rates:

Rate Schedule	\$ Per Month	\$ Per Billing Ccf
310, 311, and 315 (Residential Service)	\$1.75	
320, 321, and 325 (Group 1 - Small General Service)	\$2.27	
320, 321, and 325 (Group 2 and 3 - Large General Service)		\$0.00260
345 (Large General Transportation)		\$0.00329
360 (Large Volume Transportation)		\$0.00145

{¶ 17} Pursuant to the May 8, 2019 Entry, and in light of the fact that VEDO indicated in its July 26, 2019 statement that all issues in the case have been resolved, the hearing tentatively scheduled for August 1, 2019 was cancelled.

{¶ 18} The Commission has reviewed the Company's original and supplemental applications, comments filed by Staff and OCC, and concessions contained in VEDO's July

26, 2019 statement, as well as the Stipulation in the *2018 Rate Case*. We note that our Opinion and Order adopting the Stipulation in the *2018 Rate Case* is being issued simultaneously with this Finding and Order. The Commission finds that VEDO's application to adjust its DRR rate, as supplemented and modified pursuant to VEDO's acceptance of OCC's comments, is reasonable and consistent with the Stipulation and should, therefore, be approved.

{¶ 19} As a separate matter, the Commission notes that, in the *2013 DRR Extension*, VEDO was authorized to continue the DRR through the end of calendar year 2017. Despite the fact that the Company continued in January 2018 and beyond to implement its Replacement Program and to recover costs through the DRR, VEDO did not seek to extend the DRR and Replacement Program until the filing of its application on March 30, 2018, in the *2018 Rate Case*. With respect to any future application to continue the DRR and Replacement Program,¹ or any other program or rider, VEDO is directed to seek the Commission's approval well in advance of the expiration of the current authorization period, as the Company did in the *2013 DRR Extension*.

III. ORDER

{¶ 20} It is, therefore,

{¶ 21} ORDERED, That OCC's motion to intervene be granted. It is, further,

{¶ 22} ORDERED, That VEDO's application, as supplemented and modified as shown in Attachment A to VEDO's July 26, 2019 statement, be approved. It is, further,

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

¹ The Commission acknowledges that the Stipulation in the *2018 Rate Case* provides that VEDO will endeavor to complete the Replacement Program by December 31, 2023.

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

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

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

{¶ 27} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

PAS/hac

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8/28/2019 3:21:07 PM

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Case No(s). 19-1011-GA-RDR

Summary: Finding & Order that the Commission approves the application of Vectren Energy Delivery of Ohio, Inc. to adjust its distribution replacement rider, as supplemented and modified by its July 26, 2019 statement. electronically filed by Docketing Staff on behalf of Docketing