



Public Utilities Commission

Mike DeWine, Governor
Sam Randazzo, Chairman

Commissioners

M. Beth Trombold
Lawrence K. Friedeman
Dennis P. Deters
Daniel R. Conway

June 30, 2020

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust Its Capital Expenditure Plan Rider Charges, Case No. 20-99-GA-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in regard to Vectren Energy Delivery of Ohio, Inc.'s application in Case No. 20-99-GA-RDR for approval of its capital expenditure program rider rate adjustment.

Sincerely,

A handwritten signature in black ink that reads "Tamara Turkenton". The signature is fluid and cursive.

Tamara Turkenton
Director, Rates and Analysis Department
Rates and Analysis, Dept.
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

**Vectren Energy Delivery of Ohio, Inc.
Capital Expenditure Program Rider
Case No. 20-99-GA-RDR**

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (PUCO or Commission) Opinion and Order in Case Nos. 18-49-GA-ALT, 18-298-GA-AIR *et al* (Order),¹ on February 28, 2020, Vectren Energy Delivery of Ohio, Inc. (Vectren or Company) filed an application to adjust its Capital Expenditure Program (CEP) Rider rate in Case No. 20-99-GA-RDR.

On February 26, 2020, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge or Auditor) as the auditor to assist the staff of the PUCO (Staff) in performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Vectren's CEP Rider.

On June 17, 2020, Blue Ridge submitted its Audit of the Capital Expenditure Program For the 2020 Annual Adjustment to the CEP Rider Rate for Vectren Energy of Ohio, Inc. (Blue Ridge Report).

This report by Staff provides Staff's conclusion and recommendations to the Commission in regard to Vectren's application to adjust its CEP Rider as filed in Case No. 20-99-GA-RDR.

BACKGROUND

Under R.C. 4929.111, a natural gas company may file an application to implement a capital expenditure program (CEP) for infrastructure expansion, improvement, or replacement; to install, upgrade, or replace information technology systems; or to comply with rules, regulation, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the Company's obligation to furnish necessary and adequate services and facilities, and finds those services and facilities to be just and reasonable, the Commission shall approve the application and authorize deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on the portion of assets of the CEP placed in service but not reflected in rates as plant in service, and a regulatory asset for the incremental depreciation and the property tax expense directly attributable to the CEP but not reflected in rates.

In 2012, the Company filed an application to implement a capital expenditure program and modify its accounting procedures in Case Nos. 12-530-GA-UNC and 12-531-GA-AAM. The Commission limited the CEP deferral authority from October 1, 2011, through December 31, 2012. The Commission authorized the Company to accrue CEP Deferral expense until the rates to

¹ *In the Matter of the Application of Vectren Energy of Ohio, Inc. for Approval of an Alternative of an Alternative Rate Plan*, Case Nos. 18-298-GA-AIR, 18-49-GA-ALT *et al*, Opinion and Order (Aug. 28, 2019).

recover the deferrals for the Residential and General Service, Group 1 class reach \$1.50 per month.²

In 2013, in Case Nos. 13-1890-GA-UNC and 13-1891-GA-AAM, the Commission authorized the Company to continue its CEP Deferral beyond December 31, 2012, up and to the time where the accrued deferral would generate rates that result in an increased monthly charge of more than \$1.50 per month for the Residential and General Service, Group 1 class.³

In 2019, in Case Nos. 18-298-GA-AIR, 18-49-GA-ALT *et al*, the Commission authorized the Company to implement a new alternative rate plan and create the CEP Rider to recover CEP deferrals. The rates for recovery CEP Deferral were capped at \$1.50 for Residential and General Service, Group 1 class.⁴

VECTREN'S APPLICATION FOR CEP RIDER

Vectren filed its Application to adjust the CEP Rider rate for Residential and General Service, Group 1 class to \$0.14 beginning September 2020.⁵ The CEP Rider's revenue requirement for CEP investment through Dec. 31, 2019 is \$694,871. The rate includes CEP Deferrals only and is a result of CEP investment from January 1, 2018 through Dec. 31, 2019. CEP Investments include plant additions of \$115,957,078 and retirements of \$5,373,609 for total plant in service of \$110,583,470; and total deferred expenses and total deferred taxes on expenses (depreciation, PISCC, and property tax) of \$6,404,430. Annualized operating expenses include depreciation, deferred depreciation amortization, PISCC amortization, property tax expense, and deferred property tax expense amortization.

THE CEP RIDER INVESTIGATION

Staff divided its review into two parts: 1) investigating the application and supporting schedules to determine if Vectren's filed exhibits justify the reasonableness of the revenue requirement proposed by the Company that is used as a basis for the adjustment; and 2) plant investigation performing the review of the necessity, prudence and reasonableness of capital expenditures and deferrals related to Vectren's CEP Rider. The Commission selected Blue Ridge as the auditor to assist Staff in conducting the plant investigation.

Staff reviewed the Company's Application and supporting testimony, analyzed documentation associated with expenses and deferrals for depreciation, property tax, and PISCC. Staff also reviewed proposed tariffs, bill impacts, and revenue requirement calculations. As part of its review, Staff issued data requests, contacted Company representatives to obtain clarifying and follow-up data, and performed independent analysis when necessary. Finally, Staff reviewed the Order and

² *In the Matter of the Application Vectren Energy of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 12-530-GA-UNC, *et al.*, Finding and Order at 9-10 (Dec. 12, 2012).

³ *In the Matter of the Application of Vectren Energy of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case No. 13-1890-GA-UNC, *et al.*, Finding and Order at 7 (Dec. 4, 2013).

⁴ *Id.* at 51.

⁵ Application, Exhibit No. JCS-1, Schedule 11 (Feb. 28, 2020).

stipulation from Case Nos. 18-298-GA-AIR, 18-49-GA-ALT *et al*, to ensure the Company was in compliance with all recommendations and requirements.

Blue Ridge conducted an audit of Vectren's CEP capital expenditures and deferrals. The audit reviewed the accounting accuracy and used and useful nature of Vectren's non-IRP capital expenditures and related assets and corresponding depreciation reserve for investments and deferrals from January 1, 2018 through December 31, 2019. The audit also assessed their necessity, prudence, lawfulness, and reasonableness. Blue Ridge reviewed information required by the RFP and provided in response to data requests, conducted interviews, performed field inspections and desk top reviews, reviewed the Company's processes and procedures, and performed various analyses as detailed in the Blue Ridge Report.

STAFF'S RESPONSE AND RECOMMENDATIONS

Staff has completed its investigation of Vectren's proposed CEP Rider application. Regarding the recommendation pertaining to the reclassification of retirements, Blue Ridge has indicated that this issue was adequately addressed after the auditor filed the report and therefore is no longer an issue. In all other aspects, Staff fully adopts the Blue Ridge Report. Based on auditor recommendations, the new rate is \$0.12 for residential customers. While Staff agrees with and adopts the recommendations in the Blue Ridge Report, Staff specifically highlights that the Company should:

1. Adjust various plant related to various work orders outlined in the report.
2. Adjust and apply the PISCC rate of 5.07 percent to reflect the rate approved in the stipulation in Case No. 18-298-GA-AIR.
3. In future filings, adjust property tax to actual data in a true-up during the course of the annual audit.
4. Review policies to ensure projects placed in-service have appropriate approvals for costs incurred.
5. Ensure the Company is applying proper in-service dates to avoid a delay in retirements and the commensurate accrual of depreciation.
6. Ensure that work orders are unitized on a timely basis.

Based upon the investigation described above, Staff believes that the Company has supported its filing with adequate data and information to ensure that the CEP Rider revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve Vectren's Application for the CEP Rider as modified by these comments.

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

6/30/2020 2:10:04 PM

in

Case No(s). 20-0099-GA-RDR

Summary: Staff Review and Recommendation in the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust Its Capital Expenditure Plan Rider Charges, Case No. 20-99-GA-RDR. electronically filed by Ms. Nicci Crocker on behalf of PUCO Staff