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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The  
East Ohio Gas Company d/b/a Dominion  
East Ohio for Approval of Tariffs to  
Recover Certain Costs Associated with  
Automated Meter Reading Deployment  
Through an Automatic Adjustment Clause,  
And for Certain Accounting Treatment

Case No. 06-1453-GA-UNC

APPLICATION

The East Ohio Gas Company d/b/a Dominion East Ohio ("DEO" or "Company") respectfully requests: (1) pursuant to Section 4929.11, Ohio Revised Code, approval of tariffs to recover, through an automatic adjustment mechanism, costs associated with the deployment of automated meter reading ("AMR") equipment throughout DEO's system; and (2) pursuant to Section 4905.13, such accounting authority as may be required to permit the deferral of those costs for subsequent recovery through the automatic adjustment mechanism. In support of its Application, DEO states:

1. DEO is an Ohio corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western and southeast Ohio and, as such, is a natural gas company as defined by R.C. 4905.03(A)(6), and a public utility as defined by R.C. 4905.02.
2. In Case No. 05-602-GA-ORD, the Commission enacted certain minimum gas service standards ("MGSS"), which take effect January 1, 2007. One of these rules, Rule 4901:1-13-04(G)(1), Ohio Administrative Code ("O.A.C."), will require natural gas companies to obtain an actual reading of each customer's

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meter at least once every twelve months, and also make reasonable attempts to obtain actual meter readings every other month. Under the Commission's rule, a meter reading obtained through remote index equipment does not qualify as an "actual" meter read.

3. Presently, 43% of the nearly 1.3 million meters in DEO's system, or approximately 556,000, are located inside customers' premises. In order to read these inside meters, the Company equipped 373,000 of them with remote meter index equipment. As discussed above, however, meter readings obtained through remote index equipment do not qualify as an actual meter read. Consequently, DEO is uniquely challenged to comply with Rule 4901:1-13-04(G)(1).
4. Although meter readings obtained through remote index equipment do not qualify as an actual meter reading, readings obtained through electronic means, such as automated meter reading equipment, "shall be considered actual readings." Rule 4901:1-13-04(G), O.A.C. DEO therefore proposes to replace all of its remote meter index devices with automated meter reading ("AMR") devices and to install AMR equipment on all of its other meters over a five-year period. Such a program would provide the following benefits to DEO's customers:
  - a. AMR provides the most cost-effective way for DEO to comply with the MGSS on a long-term basis. Because the Company's cost of reading meters is ultimately recovered in base rates, a more cost-effective meter reading solution will result in lower rates over time.
  - b. All of DEO's approximately 400,000 Standard Service Offer customers and approximately one-third of its 800,000 Energy Choice customers pay

monthly variable commodity rates that can change substantially from one month to the next. Under the MGSS, the Company is only required to attempt to obtain actual meter readings every other month, meaning that customers will receive at least six estimated bills each year. The monthly meter reading made possible by AMR would enable DEO to apply each month's commodity rate to actual consumption for that month, resulting in a better match between billing and consumption.<sup>1</sup>

- c. Monthly actual meter readings would provide more accurate information for use in transferring service at a premise from one customer to another, eliminate call volume associated with estimated meter reads, improve call center average speed of answering customer calls, and avoid the need for large numbers of customers to schedule appointments to have a meter reader obtain the annual read required under the MGSS.
- d. *Because AMR reads are obtained by employees who drive along a route recording reads through mobile data collectors installed in their vehicles, customers would no longer have to cope with unwanted or inconvenient intrusions onto their property or into their home or business.*

In summary, the installation of AMR equipment system-wide will enable DEO to meet the MGSS meter reading requirements in a very cost-effective manner while also providing the additional customer benefits described above.

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<sup>1</sup> AMR will also eliminate the problem of multiple consecutive estimates that must be used when repeated efforts to obtain an actual meter read fail. Even if an actual read is obtained once every twelve months, the Company does not have the data points needed to develop an accurate estimate for the eleven months between actual reads. As a result, the actual usage for those intervening months may occur in a much different pattern than that reflected on the bills. Given the access issues caused by the large number of inside meters on DEO's system, consecutive estimates pose a considerable problem for the Company and its customers.

5. DEO estimates the cost of system-wide AMR deployment using Itron encoder-receive-transmitter ("ERT") devices to be between \$100 million and \$110 million. Absent timely recovery of the associated depreciation, property taxes and return on rate base investment, DEO would fund the program through its normal capital budgeting process, which would accommodate a fifteen- to twenty-year systemwide deployment.
6. As an alternative to a fifteen- to twenty-year deployment, the instant Application, if approved, would enable DEO to increase its capital spending considerably to accommodate a five-year deployment schedule. Under a five-year schedule, the Company would install 250,000 ERT units per year beginning in January 2008. The pace of deployment for ERT devices in 2007 is discussed below.
7. The Company's existing remote index equipment consists of Hexagram, Badger and American devices. The Company has performed a statistical evaluation of its existing remote meter index equipment and found that, while the Hexagram remote devices installed on nearly 319,000 of its meters perform very well, with a defect rate of only 1.8%, the American and Badger devices installed on approximately 54,000 meters from 1977 to 1984 have much higher defect rates of 9.5% and 21.4%, respectively. As a result, DEO will replace the American and Badger units through its normal capital budgeting process and seek recovery of the associated cost in the context of its next base rate case.<sup>2</sup> The Company will commence replacement of the American and Badger devices in the first quarter of

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<sup>2</sup> DEO will not include the cost associated with any defective meters or remotes that would have been replaced in the normal course of meter exchange activity in amounts to be recovered via the AMR Cost Recovery Charge. As in the case of the American and Badger replacements, the Company will seek recovery of such costs in future rate cases.

2007 with the intent of substantially completing those replacements within two years.

8. In its application seeking Commission approval of tariff changes needed to comply with the MGSS, filed concurrently with this Application, DEO requests approval of a provision requiring customers that have had service terminated for non-access, and those that have engaged in fraudulent practice, tampering or theft of service, to pay for the installation of an AMR device on the meter(s) serving their premise. DEO will treat such payments as a contribution in aid of construction ("CIAC") and will not seek recovery of such dollars either through the charge requested herein or through subsequent rate cases.
9. DEO's objective in its AMR program is to provide more accurate usage data and monthly meter reading at the earliest possible date consistent with an economic deployment of AMR devices. In so doing, the Company will have to evaluate the efficiency of a "shop-by-shop" conversion (that is, a series of conversions moving from one service area to the next as service areas are converted) versus a systemwide conversion with an initial focus on inside meters. DEO will consult with Commission Staff to determine the most appropriate way to deploy AMR across its system. The Company plans to move to monthly meter reading systemwide as soon as enough meters are AMR-equipped to make this possible. Once a sufficient number of meters are so equipped, DEO will manually read the remaining meters until all of its meters are equipped with ERT devices. As an alternative, and pending consultation with Commission Staff, DEO could

transition to monthly meter reading on a shop-by-shop basis as service areas are converted.

10. In order to recover the costs of the AMR program, DEO proposes the following:

- a. The Company will initially record as a regulatory asset the depreciation, incremental property taxes, and post in-service carrying charges associated with its AMR program costs, excluding those costs associated with replacement of American and Badger remote index devices and any CIAC recovered from customers that have had service terminated for non-access or those that have engaged in fraudulent practice, tampering or theft of service.
- b. DEO will compare its annual meter reading operating and maintenance ("O&M") expense to a 2006 base year. Any savings relative to that base year will be used to reduce the year-end regulatory asset in order to provide customers the benefit of any meter reading cost reductions achieved as a result of the AMR deployment.
- c. The regulatory asset amount net of the preceding meter reading O&M savings will be recoverable via an AMR Cost Recovery Charge applicable to all customer class rate schedules on which ERT devices are installed. (DEO's largest transportation accounts already have AMR installed at the customers' expense.) Because the cost of an ERT device installed on a meter is the same regardless of usage, the AMR Cost Recovery Charge is properly applied as a fixed charge per month rather than a volumetric charge. There will be no difference in the charge across customer classes

because the cost of the unit is identical for over 99% of the units to be installed.

- d. In February of each year, DEO will file an application in this docket with schedules supporting the proposed AMR Cost Recovery Charge based on the costs accumulated through December of the prior year, as adjusted for the associated excise tax obligation, and bills rendered over the prior year.<sup>3</sup> DEO will provide Commission Staff with sufficient accounting and billing record details to enable it to analyze and audit the schedules. In order to facilitate a timely review of the application, the Company will file a pre-filing notice containing estimated schedules ninety days prior to the application. The estimated schedules will contain a combination of actual and projected data for the calendar year to be reflected in the February application.
- e. When DEO files its next base rate case, the revenue requirement will reflect updated test year operating expenses and date certain net plant. Once rates approved in the case go into effect, AMR-related capital investments made prior to date certain will be reflected in base rates along with updated test year expenses for meter reading O&M and property taxes. Post rate case, the AMR Cost Recovery Charge will use test year O&M and date certain gross plant as the basis upon which to calculate

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<sup>3</sup> The schedules will include the original costs, accumulated reserve for depreciation and deferred taxes associated with the plant additions, the corresponding annual depreciation and incremental property tax expenses as well as the meter reading O&M savings and any CIAC used to reduce the amount to be recovered by the AMR Cost Recovery Charge. Until such time as DEO files a base rate case, the post in service carrying charges will be accrued at the embedded cost of long-term debt held by DEO's parent company, Consolidated Natural Gas Company, which is in turn a wholly-owned subsidiary of Dominion Resources, Inc.

future AMR Cost Recovery Charges. In its next rate case, DEO will seek approval of an AMR Cost Recovery Charge that will provide more timely recovery of the depreciation, incremental property taxes and associated rate of return of subsequent program expenses along with any amounts unrecovered at the point an updated AMR Cost Recovery Charge goes into effect. The rate of return assigned to the recovery of subsequent net capital expenditures will be set at the rate of return authorized in the proceeding by the Commission.

11. While the initial year's AMR Cost Recovery Charge can only be determined after actual costs and billing determinants are known, it appears that the initial charge will amount to less than \$0.25 per month per customer. Increases to the rate thereafter are not expected to be linear (*i.e.*, the rate increases another \$0.25 each year until the maximum level is reached in year 5) because the number of units installed and the amount of meter reading O&M costs savings and CIAC used to reduce the amount to be recovered will not occur evenly over the five-year deployment.

WHEREFORE, the Company respectfully requests that the Commission, pursuant to R.C. 4905.13 and 4929.11, approve the Company's Application for approval of tariffs to institute an automatic adjustment clause to recover costs associated with AMR deployment; for approval of the accounting treatment discussed herein; and for all other necessary and proper relief.



Respectfully submitted,



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