

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Authority to)
Modify Accounting Procedures to Provide for)
the Deferral of Expenses Related to the) Case No. Case No. 07-294-GA-AAM
Commission's Investigation of the Installation,)
Use and Performance of Natural Gas)
Service Risers.)

FINDING AND ORDER

The Commission finds:

- (1) On April 13, 2005, in Case No. 05-463-GA-COI, the Commission issued an Entry ordering an investigation into the type of gas service risers being installed, the conditions of installation, and the overall performance of natural gas service risers in Ohio. The Commission indicated in that Entry that the investigation would be followed by a Staff report and a determination by the Commission of any additional steps to be taken. In subsequent entries, the Commission directed Ohio's four largest local distribution companies ("LDCs"), including Vectren Energy Delivery of Ohio, Inc. ("Applicant"), to identify a sample number of installed risers and to remove a number of risers for submission to a testing laboratory selected by the Commission.
- (2) On August 3, 2005, the Commission issued an Entry in Case No. 05-463-GA-COI in which it found that the measures taken in that case were necessary for the protection of public safety and directed that the costs of the investigation were to be born by the LDCs. In recognition of these findings, the Commission indicated it would entertain applications for accounting deferrals for the cost of this investigation and review such applications on a case-by-case basis.
- (3) On November 24, 2006, the Commission Staff filed its Staff Report of Investigation in Case No. 05-463-GA-COI, in which it concluded that certain types of field-assembled, or "Design A" risers, were more prone to failure if not assembled and installed properly. This report further included a recommendation that distribution system operators conduct a riser inventory of their

system for determination of the types and locations of risers in their system.

- (4) The Commission permitted parties to file comments on the Staff Report. By letter dated January 2, 2007, the Chairman requested that parties address in their comments the additional question of whether LDCs should now assume responsibility for customer-owned service lines. Comments were filed by numerous parties in early February 2007. The Commission currently has the Staff recommendations, and comments thereon, under consideration.
- (5) Applicant filed comments on February 5, 2007. As part of those comments, Applicant agreed with Staff, indicated that it intended to file a proposal for a comprehensive System Safety Initiative and informed the Commission that Applicant was actively engaged in an inventory of its 217,000 outdoor meters to find and address customer safety issues and to document the types of facilities within Applicant's system. Applicant contracted with Utility Technologies International Corporation ("UTI") to complete the riser inventory and to complete the initial random riser inventory. Applicant also contracted with Miller Pipeline to perform the removal of the risers sent to University of Akron and Akron Rubber and Development Laboratory ("ARDL") for testing as the process was very specific and unique compared to how a service riser would typically be replaced. In response to Staff's recommendation and to a letter dated January 2, 2007 sent to Applicant by Chairman Schriber, Applicant again contracted with UTI to begin the system-wide inventory and replacement of faulty risers.
- (6) On March 19, 2007, pursuant to Section 4905.13, Revised Code, Applicant filed an Application for authority to modify accounting procedures to provide for the deferral of expenses related to the investigation of the installation, use and performance of natural gas service risers.
- (7) Applicant identified the following types of costs that it has incurred and will continue to incur:
 - (a) contractor services, labor and related costs for the removal and replacement of the risers selected for the initial testing and ongoing investigation of leaking risers;

- (b) labor and non-labor expenses related to the submission of monthly riser failure reports, the riser inventory, replacement of defective risers identified during the course of the inventory process, testing fees, and project and data management;
- (c) the PUCO assessment to cover the costs of statistical analysis, testing, laboratory and other expenses incurred by consultants to analyze riser samples and estimate riser population; and
- (d) carrying charges on the deferred balance.

Applicant indicated that it has incurred at least \$201,869 in the above expense categories as of its March 19, 2007 Application and expects to incur additional costs in those categories in the future. Applicant further has estimated that it will take a minimum of 9 months to complete its riser inventory and necessary replacements at an estimated cost of \$1.6 to \$2.0 million.

- (8) Applicant, in this proceeding (Case No. 07-294-GA-AAM), has requested accounting authority for the deferral of costs already incurred, retroactive to the date the expenses were incurred, and for all future expenses resulting from Applicant's compliance with the Commission's directives in Case No. 05-463-GA-COI, with recovery of the deferred costs to be addressed in Applicant's next base rate case. Applicant has also requested Commission approval to recover carrying charges on the deferred balance.
- (9) On March 19, 2007, Applicant filed Motions for Admission *Pro Hac Vice* of Robert E. Heidorn and Mary-James Young.
- (10) On April 3, 2007, the Ohio Partners for Affordable Energy ("OPAE") filed a Motion to Intervene and Motion for Admission *Pro Hac Vice* of David Rinebolt.
- (11) On April 4, 2007, the Ohio Consumers' Counsel ("OCC") filed a Motion to Intervene and Comments. In its comments, OCC argued that customers have already paid in base rates for the expenses that Applicant sought to recover through the deferrals on the basis that LDCs have always had the responsibility to investigate failures, check for leaks and prevent failures of customer-owned facilities under the federal gas pipeline safety regulations and, thus, the costs associated with these

responsibilities must already be in base rates. OCC also argued that Applicant's requested deferrals based on expenses incurred in the past are not permissible because they constitute single issue, retroactive ratemaking; and that Applicant requested blanket deferrals of all future expenses, which is contrary to Commission precedent.

- (12) On April 18, 2007, Applicant filed a Memorandum Contra OCC's and OPAE's Comments. Applicant argued that the costs to respond to the Commission's riser investigation, which was initiated in April 2005, are not duplicative of costs included in base rates that went into effect in April 2005. While Applicant acknowledged that it has obligations to conduct periodic surveys for leaks, Applicant asserted that the federal gas pipeline safety standards cited by OCC do not require LDCs to have the investigatory and corrective responsibilities asserted by OCC. Applicant argued that the costs associated with the Commission-ordered investigation are extraordinary compared to those associated with compliance with existing federal gas pipeline safety regulation requirements. Finally, Applicant noted that the Supreme Court has rejected the argument that granting deferral authority amounts to retroactive ratemaking and held that deferrals do not constitute ratemaking at all. Applicant asserted that it only requested to defer expenses in carefully delineated categories that relate specifically to Applicant's compliance with the Commission's directives issued in Case No. 05-463-GA-COI.
- (13) On April 30, 2007, OCC filed a Reply to Applicant's Memorandum Contra. OCC argued that Applicant was responsible for, but neglected, activities under the pipeline safety rules that could have prevented the riser safety issue and therefore should be required to bear the costs of the investigation. OCC further argued that as Applicant and other Ohio LDCs have been responsible for the Commission-ordered activities to address gas riser leaks and that the costs of such activities are not out-of-the-ordinary expenditures. OCC concluded that, in order for the deferrals to be appropriate, Applicant must not include expenses previously incurred and must specifically identify the expenses it intends to defer.
- (14) On November 20, 2007, Applicant filed a base rate case application in Case No. 07-1080-GA-AIR (AIR Case) and an application for approval of an alternative rate plan in Case No.

07-1081-GA-ALT (ALT Case). (The AIR Case and the ALT Case will hereinafter collectively be called the "Pending Base Rate Proceedings").

In the ALT Case, Applicant has proposed to complete an accelerated replacement of infrastructure over a 20-year period ("Program"). The Program activities also include, among other things, the replacement of natural gas service risers arising from Applicant's investigation of the installation, use and performance of risers, consistent with the Commission's directives issued in Case No. 05-463-GA-COI.

- (15) The Commission finds that Applicant's request for authority to modify its accounting procedures to defer costs related to the investigation of the installation, use and performance of natural gas service risers is an accounting procedure that does not result in an increase in any rate or charge. Additionally, as the Commission and the Supreme Court have previously held, deferrals do not constitute ratemaking. *See River Gas Co. v. Pub. Util. Comm.*, 69 Ohio St.2d 509, 512 (1982) and *Office of Consumers' Counsel v. Pub. Util. Comm.*, 6 Ohio St. 3d 377, 379 (1983). Further, the issues regarding whether federal gas pipeline safety regulation requirements made Applicant responsible for customer-owned facilities and whether costs associated with the riser investigation exceeded those costs for which the Applicant had already received rate recognition are issues that we may address at such time as we consider recovery of the deferred costs.
- (16) The Commission finds that the costs for which Applicant seeks deferral authority appear related to the activities directed by the Commission in Case No. 05-463-GA-COI. The Commission further finds that Applicant should separately identify all costs to be deferred in a sub-account of Account 182, Other Regulatory Assets. The recovery of such deferred costs, and the appropriateness of related carrying charges thereon, should be addressed in Applicant's Pending Base Rate Proceedings.
- (17) The Commission finds that Applicant's request to modify its accounting procedures and to defer costs related to the investigation of the installation, use and performance of natural gas service risers should be granted, subject to the conditions stated in Finding 16.

It is, therefore,

ORDERED, That Applicant Vectren Energy Delivery of Ohio, Inc. is authorized to modify its accounting procedures and to defer costs related to the installation and replacement of natural gas service risers, subject to the conditions stated in Finding 16. It is, further,


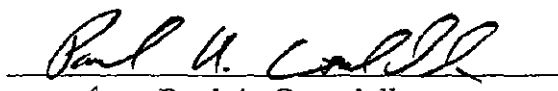
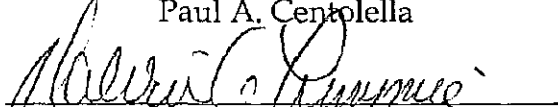
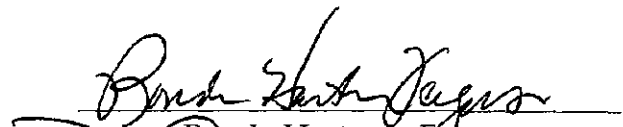
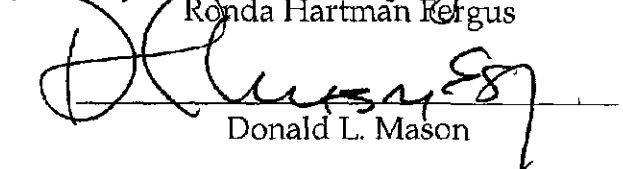
ORDERED, That the motions for admission *Pro Hac Vice* of David Rinebolt, Robert Heidorn and Mary-James Young be granted. It is, further,

ORDERED, That the motions to intervene filed in this proceeding by the Ohio Consumers' Counsel and OPAE be granted. It is, further,

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

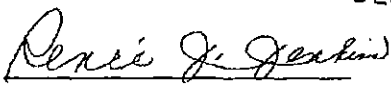
ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schriber, Chairman
Paul A. Centolella

Valerie A. Lemmie
Ronda Hartman Fergus

Donald L. Mason

SUM:djb

Entered in the Journal DEC 19 2007


Renee J. Jenkins
Secretary