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VIA HAND DELIVERY

Ms. Reneé J. Jenkins
Director of Administration
Docketing Department
The Public Utilities Commission of Ohio
180 East Broad Street, 13th Floor
Columbus, OH 43215

Re: Case No. 08-169-GA-UNC, *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 a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment*, and Case Nos. 07-829-GA-AIR, 07-830-GA-ALT, and 07-831-GA-AAM.

Dear Ms. Jenkins:

On behalf of The East Ohio Gas Company d/b/a Dominion East Ohio, please find enclosed for filing an original and fifteen copies of its Application (for Case 08-__-GA-UNC only), and an original and twenty copies of its Motion to Consolidate (for all of the above-captioned cases). Please contact me if you have any questions.

Sincerely,

Andrew J. Campbell

Enclosure

cc: See attached Service List, w/enclosure, VIA REGULAR U.S. MAIL

COI-1393680v1

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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 a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment	**Case No. 08-169-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 a 25-year Pipeline Infrastructure Replacement ("PIR") program and the assumption of responsibility for and ownership of curb-to-meter service lines; and (2) pursuant to Section 4905.13, Ohio Revised Code, 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 as follows:

GENERAL INFORMATION

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 Section 4905.03(A)(6), Ohio Revised Code, and a "public utility" as defined by Section 4905.02, Ohio Revised Code.

2. This application deals with the recovery of costs associated with: (a) replacement of certain bare-steel, and cast- or wrought-iron lines; (b) the assumption of

responsibility of service lines; and (c) ongoing infrastructure replacements and relocations and system improvements.

3. As stated in a 2006 report to the Ohio Department of Transportation, DEO has over 21,000 miles of distribution, transmission, and gathering pipelines. Sixteen percent of these lines were installed before 1940; another twelve percent are non-cathodically-protected bare-steel pipelines installed after 1940. The Company also has over 110 miles of cast- and wrought-iron pipeline in its distribution system.

4. In order to provide the necessary and adequate service and facilities required by Section 4905.22, Ohio Revised Code, natural gas companies are required to install, maintain and eventually replace pipelines and related infrastructure used to distribute natural gas to customers. While DEO's pipeline system presently provides safe and reliable service, the Company has determined that a prioritized and methodical replacement of bare-steel, cast-iron, wrought-iron, and copper pipelines is necessary to ensure a continuation of safe, reliable and adequate service in the future.

5. DEO has identified 4,122 miles of bare-steel, cast-iron, wrought-iron, and copper pipeline that should be replaced in a prioritized manner over the next 25 years. The vintage of that pipeline is summarized in the table below:

Decade of Installation	**Percent of the Pipeline to be Replaced**
Pre-1909	7%
1910 – 1919	5%
1920 – 1929	17%
1930 – 1939	8%
1940 – 1949	24%
1950 – 1959	39%
1960 – 1969	1%

By the end of the Company's proposed PIR program, 99% of the pipelines to be replaced will be at least 75 years old.

6. Commission Staff has supported a similar program at Duke Energy Ohio ("Duke") in its Accelerated Mains Replacement Program ("AMRP"). In the Staff Report in Duke's pending rate case, Staff indicates that it "supports Duke's ongoing AMRP for the replacement of all cast iron and bare steel pipeline and the resulting improvement it has made to pipeline safety," and notes that "[c]ustomers have realized approximately $8.5 million in O&M savings to date that has been credited back through Rider AMRP." *See* A Report by the Staff of the Public Utilities Commission of Ohio (December 20, 2007), Case No. 07-589-GA-AIR, at p. 39. DEO also anticipates significant benefits from a reduced incidence in leak repair expenses and, like Duke, will credit savings in avoided operations and maintenance ("O&M") costs to customers.

7. In addition to the proposed pipeline infrastructure replacement program, DEO has also determined that it would be appropriate to assume responsibility and ownership of curb-to-meter service lines that the Company installs, replaces, ties in or repairs. As Staff recently pointed in a Columbia Gas of Ohio ("Columbia") case, placing service-line responsibility in the hands of the party best equipped to handle that responsibility increases public safety. *See* Staff Post-Hearing Brief (December 31, 2007) in Case No. 07-478-GA-UNC, at p. 18.

8. In this Application, the Company also proposes to recover the revenue requirement associated with ongoing pipeline infrastructure expenditures for other transmission and distribution pipeline replacements and relocations, system improvements, and directly related capital expenditures for main-to-curb connections,

service lines, regulating stations, transmission and distribution pipeline integrity, and environmental compliance. The resulting reduction in regulatory lag will compensate the Company for its infrastructure investments in a more timely fashion and benefit ratepayers by (a) enabling customers to realize the benefit of the resulting O&M expense reductions in a more timely fashion as well, (b) providing more gradualism in rate increases, (c) mitigating the need for increasingly costly rate cases to provide a return of and on those facilities and (d) introducing annual audits by Commission Staff of funds expended and cost savings achieved in those areas prior to recovery being provided.

9. DEO's proposed, comprehensive PIR program will incorporate the replacement of 4,122 miles of aging pipeline infrastructure, the replacement of all bare-steel curb-to-meter service lines and the assumption of responsibility and ownership of new service lines as well as existing service lines on which the Company performs work. While the magnitude of the total costs involved in the program are substantial, the combination of a 25-year replacement time frame and a proposed book depreciation rate of 1.79% on the largest portion of the required investment ensures that customers will not be burdened by substantial annual cost increases. DEO proposes to recover the revenue requirement associated with the PIR through a PIR Cost Recovery Charge. DEO estimates that the program will result in an incremental cost per residential customer of $1.12 per month for the first year of the PIR Cost Recovery Charge, with subsequent increases of less than $0.90 per year in 2007 dollars.[1] The proposed recovery mechanism is essential because DEO's pipeline infrastructure investments – and the corresponding

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[1] The calculation of subsequent increases assumes that, in the absence of the proposed cost recovery mechanism, the Company would file annual rate cases beginning in 2009 to recover the revenue requirements associated with the pipeline infrastructure investments described in Paragraph 8.

need for the equity and debt financing of those investments – will more than double once the PIR program begins.

10. In further support of its Application, DEO provides the following details regarding the facilities to be included in the PIR program, the proposed cost recovery and accounting treatment of the costs involved, and the manner in which the PIR Cost Recovery Charge will be determined for each customer class:

FACILITIES DESCRIPTION AND SCOPE OF PROGRAM

11. To address its infrastructure needs, the Company plans to replace approximately 4,008 miles of bare-steel pipe, 35 miles of cast-iron pipe, 78 miles of wrought-iron pipe and 1 mile of copper pipe. Because DEO's distribution system includes some areas with mainline on both sides of the street that can be replaced with a single mainline, the net mileage estimated for this portion of the PIR program is approximately 3,567 miles. The program will also entail replacement of approximately 515,000 main-to-curb connections to which curb-to-meter service lines are connected. Due to the magnitude of the program, DEO proposes to replace those portions of its system over a 25-year period. In 2007 dollars, DEO estimates that the pipeline replacement portion would cost approximately $1,656,000,000, with the associated main-to-curb replacement expected to cost approximately $490,000,000. The combination of a multi-decade installation and very long book depreciation lives for new pipeline, some in excess of 50 years, will allow the cost of the program to be spread over a long period of time, thus avoiding the "rate shock" that would otherwise occur if the Company were to engage in a comprehensive pipeline replacement program over a shorter time period.

12. DEO is also proposing to assume ownership of curb-to-meter service lines as they are installed, replaced, tied in, or repaired. The Commission's investigation into

the condition and performance of natural gas risers in Case No. 05-463-GA-COI has elevated the issue of customer ownership of service lines as well as the replacement of certain prone-to-fail risers. Having considered the record established in an ongoing case involving Columbia Gas of Ohio, Case No. 07-478-GA-UNC, DEO believes that it is reasonable to assume ownership and responsibility for curb-to-meter service lines as the Company installs, replaces, ties in, and/or repairs service lines (including the riser) that at present are owned by the customer. *See In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of Tariffs to Recover Through an Automatic Adjustment Clause Costs Associated with the Establishment of an Infrastructure Replacement Program and for Approval of Certain Accounting Treatment*, Case No. 07-478-GA-UNC. DEO estimates that the replacement cost of service lines directly associated with the bare-steel and cast- and wrought-iron pipeline infrastructure will be $516,000,000 in 2007 dollars. Added to these figures would be the cost associated with the replacement and repair of existing service lines on other parts of its system as well as the installation of service lines for new construction.[2]

13. DEO will work closely with Commission Staff to ensure that the program reflects the Commission's pipeline safety priorities and objectives. DEO has shared, and will continue to share, considerable data with Staff in order to give Staff the information it needs to provide input into the nature, timing and magnitude of capital expenditures in the PIR program. Due to the significant impact of the projects discussed above on other pipeline infrastructure work, the program will be administered in conjunction with ongoing infrastructure investments in pipeline replacements (including ineffectively

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[2] Due to the unknown magnitude of those costs and the fact that customers will bear such costs if the Company does not assume ownership and responsibility for curb-to-meter services, DEO has not included the associated expenses in the estimated rider figures included in this Application.

coated pipeline), pipeline relocations and system improvements (including those associated with uprating low-pressure systems to higher pressure systems if inside meters are relocated outside), as well as the associated capital expenditures for main-to-curb connections, service lines, regulating stations, transmission and distribution pipeline integrity and environmental compliance.

14. Given the highly interconnected nature of the foregoing projects, DEO proposes to include all such investments in the PIR program. The PIR program will provide substantial customer benefits in the areas of pipeline safety and reliability as the Company replaces aging pipeline infrastructure and related assets on a prioritized basis, in consultation with Commission Staff and the affected communities and customers.

15. DEO will, as part of the PIR program, assess the costs and benefits of moving inside meters to outside locations as the distribution mainlines to which those meters are connected are replaced and/or upgraded to allow for regulated pressure operation. Relocating meters to outside locations would enable the Company to eliminate the periodic Department of Transportation inspections of inside meters, and also allow for medium pressure operation of DEO's distribution system. Operating the distribution system at medium pressure would eliminate operating problems, such as water infiltration, which are associated with operating a low pressure system. DEO will provide its assessment and a meter relocation plan ("MRP") for the upcoming fiscal year to Staff at the time the Company files its annual application to update the PIR Cost Recovery Charge. If any MRP issues remain unresolved, DEO will request that the Commission hold an expedited hearing regarding the reasonableness of the MRP. An

expedited hearing would accommodate implementation of an MRP authorized by the Commission for the upcoming fiscal year.

16. In order to ensure the prudence of PIR program expenditures before they are made, DEO will also submit an annual PIR plan to Staff. The plan will include a detailed description of the projects to be undertaken in the upcoming fiscal year, as well as an estimate of the associated capital and O&M expenditures. As indicated above, the plan will be developed in conjunction with Commission Staff to ensure that the PIR program addresses the Commission's pipeline safety priorities and objectives. The annual PIR plan to be submitted will include a comparison of planned to actual expenditures on projects completed the prior year.

ACCOUNTING AND COST RECOVERY PROVISIONS

17. The Company shall record as a regulatory asset in account 182.3, Other Regulatory Assets: (1) incremental depreciation expense, (2) incremental property taxes, (3) incremental O&M expenses, and (4) return on rate base for the expenditures associated with its PIR program.

a. <u>Incremental Depreciation Expense:</u> Incremental depreciation expense shall be calculated based on DEO's cumulative PIR gross plant additions net of associated retirements recorded on the Company's books. The depreciation rates to be utilized shall be those authorized by the Commission for the plant accounts in which the PIR plant additions and associated retirements are booked. The resulting incremental depreciation expense recorded for each month shall be deferred for subsequent recovery through the PIR Cost Recovery Charge.

b. Incremental Property Taxes: Incremental property taxes shall be calculated based on DEO's cumulative PIR capital expenditures, net of associated retirements, through the December 31 lien date of each year. The PIR capital expenditures and any associated retirements shall be recorded by property tax jurisdiction. The incremental property taxes to be deferred shall be based on the property tax rates applicable to each jurisdiction and the valuation of the incremental property placed into service in that jurisdiction. The resulting incremental property taxes accrued for each month shall be deferred for subsequent recovery through the PIR Cost Recovery Charge.

c. Incremental O&M Expenses: Incremental O&M expenses associated with the PIR program shall be calculated based on incremental and non-duplicative costs that, but for the existence of the PIR program and assumption of ownership of service lines, would not be incurred by DEO. Such incremental O&M includes increased corporate service company and shared service expenses allocated to DEO that are not charged to the capital project. The Company shall separately identify the incremental costs on its books and records and maintain documentation of the costs sufficient to demonstrate their incremental and non-duplicative nature. The resulting incremental O&M expense recorded for each month shall be deferred without carrying costs for subsequent recovery through the PIR Cost Recovery Charge. Due to the potential magnitude of incremental O&M expenses associated with relocating inside meters pursuant to an approved meter relocation plan, DEO requests recovery of carrying costs on such expenditures using the Company's weighted cost of debt over the fiscal year from the point of cost incurrence to the date recovery commences through an updated PIR Cost Recovery Charge.

d. Rate of Return: The rate of return on the rate base equivalent of the capital expenditures associated with the PIR program shall be calculated using the capital structure and cost of capital authorized by the Commission in Case No. 07-829-GA-AIR and the related cases. The rate of return shall be calculated on a pre-tax basis by adjusting the equity portion of the cost of capital for marginal federal income taxes. The pre-tax rate of return shall be applied to the cumulative gross plant additions less the associated accumulated depreciation reserve and deferred taxes resulting from the use of liberalized tax depreciation. The rate base equivalent shall also reflect the impact of asset retirements, including cost of removal. The resulting rate base equivalent of the capital expenditures associated with the PIR program shall be calculated each month and multiplied by the pre-tax rate of return divided by twelve to determine the monthly amount to be subsequently recovered through the PIR Cost Recovery Charge.

18. DEO shall compare its fiscal year O&M expense associated with leak repairs and corrosion monitoring activities to the corresponding test year expense level determined in Case No. 07-829-GA-AIR and the related cases. The PIR program will result in the elimination of leaks that may exist on the sections of pipeline to be replaced and reduce the occurrence of future leaks on the distribution system. Accordingly, this will reduce future O&M expenses associated with leak pinpointing, excavating, and the installation of leak repair clamps, shrink sleeves and other gas leak repair processes.

Further, as certain steel pipeline installed before 1971 is found to be ineffectively coated and prioritized for replacement with plastic piping, the Company will experience O&M savings by eliminating future corrosion monitoring activity and the need to install anodes for the cathodic protection of those pipelines. Any savings relative to the test year expense level, including savings associated with Department of Transportation inspections on inside meters that may no longer be necessary if the meters are relocated outside, shall be used to reduce the fiscal year-end regulatory asset in order to provide customers the benefit of the cost reductions achieved as a result of the PIR program. Reductions in system-wide lost-and-unaccounted-for gas that may occur as a result of the program shall be reflected in the annual updates of DEO's fuel retention rate and in the quarterly updates of Transportation Migration Rider – Part B.

19. Beginning in August 2009, and in August of each year thereafter, DEO shall file an application in this docket with schedules supporting the proposed PIR Cost Recovery Charge based on the costs accumulated and bills rendered for the fiscal year ending June 30 of the same year. DEO shall provide Commission Staff with sufficient accounting and billing record details to enable Staff to analyze and audit the schedules. In order to facilitate a timely review of the application, the Company shall file a pre-filing notice containing estimated schedules ninety days prior to the application (on or about May 31). The estimated schedules shall contain a combination of actual and projected data for the fiscal year to be reflected in the August application.

20. When DEO files its next base rate case, the revenue requirement will reflect updated test year expenses, date certain rate base and authorized rate of return. Once the rates authorized by the Commission in the case go into effect, PIR-related capital

expenditures made prior to the date certain will be reflected in base rates. As a result, the incremental depreciation, property taxes, O&M and return on rate base calculations described above shall subsequently be based on post-date-certain PIR capital expenditures, the rate of return authorized by the Commission and, in the case of incremental O&M impacts, the corresponding test year O&M expense levels. In its next rate case, DEO may seek approval of a PIR Cost Recovery Charge that would provide for more contemporaneous recovery of the incremental depreciation, property taxes, O&M, and return on rate base for the expenditures associated with its PIR program.

RATE DESIGN

21. In developing the PIR Cost Recovery Charge, DEO shall distribute the PIR program revenue requirement to individual customer classes based on cost incurrence. For each investment type, the revenue requirement shall be allocated as reflected below:

Account	Investment Type	Allocator	Type of Allocation
367	Transmission Mains	Total Transmission Plant	Average-Excess Capacity/Commodity
376	Distribution Mains – High Pressure	Total Non-Customer Related Distribution Plant	Average-Excess Capacity/Commodity
376	Distribution Mains – Low Pressure	Total Services	Number of Customers
380	Distribution Services – Main-to-Curb, Service Lines	Total Services	Number of Customers

The percentage allocation of the revenue requirement to individual customer classes shall be derived from the Schedule E-3.2 Class Cost of Service Study ("CCOS Study") prepared to reflect rates approved by the Commission in Case No. 07-829-GA-AIR and the related cases. The Company shall revise the percentage allocations as rates are approved in subsequent rate cases based on the CCOS Studies prepared to reflect the rates approved in those cases. Functionalized O&M impacts shall be distributed to individual customer classes in the same proportion as the functionalized plant-related revenue requirements. Capital and O&M expense impacts from the movement of inside meters to outside locations pursuant to an approved meter reading plan will be allocated to individual customer classes using the CCOS Study plant allocation of low-pressure services because such meters are predominantly located on low-pressure distribution systems.

22. The rate design of the PIR Cost Recovery Charge shall be determined as follows:

Customer Classes	**Rate Design**	**Denominator**
General Sales/Energy Choice Transportation Service	Fixed Monthly Charge	Number of Bills in Preceding 12 Months
Large Volume General Sales/Energy Choice Transportation Service	Fixed Monthly Charge	Number of Bills in Preceding 12 Months
General Transportation Service/ Transportation Service for Schools	Fixed Monthly Charge	Number of Bills in Preceding 12 Months
Daily Transportation Service	Volumetric with a $1,000/month cap	Mcf Billed for the Preceding 12 Months

The PIR Cost Recovery Charge will initially be set at zero for all rate schedules. The first application seeking to adjust those rates will be filed in August 2009 for rates to become effective in November 2009. The fiscal year data used to establish those rates shall be the twelve months ended June 2009. Subsequent applications to adjust the rates will be filed annually thereafter on the same schedule.

WHEREFORE, the Company respectfully requests that the Commission, pursuant to Sections 4905.13 and 4929.11, Ohio Revised Code, approve the Company's Application for approval of tariffs to institute an automatic adjustment clause to recover costs associated with the pipeline infrastructure replacement program described herein; for approval of the proposed accounting treatment; and for all other necessary and proper relief.

Respectfully submitted,

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ATTORNEYS FOR THE EAST OHIO
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EAST OHIO

PIPELINE INFRASTRUCTURE REPLACEMENT (PIR) COST RECOVERY CHARGE

APPLICABILITY

Applicable to all customers receiving service under East Ohio's sales and transportation rate schedules.

PIR COST RECOVERY CHARGE

In addition to any otherwise applicable monthly service charge, all customers receiving service under the following rate schedules shall be assessed a monthly charge, regardless of gas consumed, to recover the revenue requirement net of Gross Receipts Tax associated with East Ohio's pipeline infrastructure replacement program:

General Sales Service ("GSS")
Energy Choice Transportation Service ("ECTS")
Large Volume General Sales Service ("LVGSS")
Large Volumes Energy Choice Transportation Service ("LVECTS")
General Transportation Service ("GTS")
Transportation Service for Schools ("TSS")

Customers receiving service under the Daily Transportation Service ("DTS") rate schedule shall be assessed a volumetric charge in addition to their volumetric delivery charge for that purpose. The maximum monthly PIR Cost Recovery Charge for any DTS customer shall be $1,000.00 per account.

The PIR Cost Recovery Charge shall be updated annually to reflect the variation in East Ohio's revenue requirements associated with pipeline infrastructure replacement expenditures as offset by corresponding operations and maintenance expense reductions during the most recent twelve months ended June 30. East Ohio shall file a notice no later than May 31 of each year based on nine months of actual data and three months of estimated data for the fiscal year. The filing shall be updated by no later than August 31 of the same year to reflect the use of actual fiscal year data. Such adjustments to the PIR Cost Recovery Charge shall become effective with bills rendered on and after November 1 of each year.

The charges for the respective gas service schedules are:

Rate Schedules GSS and ECTS	$0.00/month
Rate Schedules LVGSS and LVECTS	$0.00/month
Rate Schedules GTS and TSS	$0.00/month
Rate Schedule DTS:	$0.000/Mcf

Note: The rate schedules authorized by the Commission in Case No. 07-829-GA-AIR will be modified to include a reference to the PIR Cost Recovery Charge.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was sent by ordinary U.S. mail to the following persons on this 22nd day of February, 2008.

Andrew J. Campbell

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