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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, for Approval of an Alternative Rate Plan For a Distribution Replacement Rider To Recover the Costs of a Program for The Replacement of Cast Iron Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual and Approved Revenues, and Inclusion on Operating Expenses of the Cost of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

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OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION OF OHIO PARTNERS FOR AFFORDABLE ENERGY AND SUMMARY OF MAJOR ISSUES

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OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION
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OHIO PARTNERS FOR AFFORDABLE ENERGY
AND SUMMARY OF MAJOR ISSUES

INTRODUCTION

On September 28, 2007, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") filed a Notice of Intent to file an application for an increase in rates. Subsequently, on November 20, 2007, VEDO filed the instant application for an increase in distribution rates, an alternative rate plan, and related accounting authority in Case Nos. 07-1080-GA-AIR and 07-1081-GA-ALT. Pursuant to R.C. 4909.19 and Ohio Adm. Code 4901-1-28(B), OPAE, a party to the above-captioned cases, hereby submits these objections to the Staff Report of

Investigation ("Staff Report") filed on June 16, 2008, and a summary of major issues.

OBJECTIONS

I. OPAE objects to the Staff Report recommendation that the rate of return be set in the range of 8.45% to 8.98% because it provides an excessive return when compared to the risk faced by VEDO, and other factors.

Staff acknowledges the need to adjust rate of return to recognize the reduction in risk of earning the revenue requirement because of the proposed modified straight fixed variable rate, the sales reconciliation rider ("SRR-B"), and the proposed distribution replacement rider. The Standard Service Offer bidding process approved in Case No. 07-1285 also eliminates the risk of refunds under traditional gas cost recovery audits. The Staff Report fails to quantify the level of reduction of the rate of return that is appropriate given the reduced risk. The comparable companies utilized by Staff do not, in large part, have decoupling or a modified straight fixed variable rate and SRR-B, or a distribution replacement rider. The Staff Report errs in not reducing the rate of return sufficiently to reflect the minimal risk faced by the Company for purposes of a return on its investment.

II. OPAE objects to the failure of the Staff Report to forbid charging deposits or late fees to customers participating in the Percentage Income Payment Plan.

When a customer enrolls in the Percentage of Income Payment Plan ("PIPP"), an Ohio natural gas utility is authorized to collect the delta revenue associated with the payment plan through a separate rider that is periodically adjusted to reflect costs. As a result, it is inappropriate to require such customers to pay deposits or be subjected to late fees because natural gas utilities are not at risk for recovery. Thus, it is fitting that PIPP customers be exempt from the tariff requirements regarding deposits or late fees. The exemptions will reduce the cost of PIPP to ratepayers. The Staff Report errs by failing to require these exemptions.

III. OPAE objects to the failure of the Staff Report to require that VEDO offer affordable payment plans based on the customer's energy burden and income.

Existing Commission rules provide for two payment plans, and authorize utilities to negotiate customized payment programs with customers. Customers are not well served by 'one size fits all' payment plans which are often unaffordable and ultimately put customers in danger of disconnection once again. Data clearly indicates that the number of disconnections is increasing. Payment plans should be customized based on a customer's income and the resulting energy burden – the percentage of income spent on utility bills. The Staff Report erred by failing to require VEDO to offer affordable payment plans based on the customer's energy burden and income.

IV. OPAE objects to acceptance by the Staff Report of the peak and average method of allocating cost to the various classes because the procedure fails to represent the utility system's characteristics.

The allocation of costs to the residential class is excessive and not supported by sound regulatory and public policies. Basing the rate design on the difference between average deliveries and the difference between that average and peak demand unreasonably allocates excessive system costs to customers with primarily heating loads. Moreover, because the Staff is advocating for a high customer charge and SRR-B to capture 'fixed' costs of the distribution system, there is no justification for allocating costs based on peak usage; rather, costs should be allocated based on usage alone. The Staff erred by accepting the rate design based on the cost of service study proposed by VEDO.

V. OPAE objects to the failure of the Staff Report to require conditions related to the collection of revenue under rate decoupling or the modified straight fixed variable rate ("SFV") proposed by the Company.

State regulators have begun to analyze the appropriateness of rate decoupling mechanisms or an SFV. The VEDO application includes both. Several states have implemented these approaches. These states have developed a series of criteria that are applied to decoupling or SFV including: 1) not exempting any customer classes; 2) linking decoupling to significant DSM investments with targeted reductions in system throughput; 3) limiting recovery to the percentage of the reduction goals; 4) limiting recovery to 90% of the lost revenue authorized for collection; and, 5) requiring regular base rate cases to ensure that revenue reflects the utility's actual costs. The Staff Report erred by failing to establish conditions as compliments to the SFV or the SRR-B.

VI. OPAE objects to the proposal by VEDO and in the Staff Report to establish a high fixed customer charge and low volumetric rates.

The Staff Report recommends a "significant change" in rate structure through the establishment of a rate based primarily on a high fixed distribution charge. This would harm customers with low usage and reduce incentives for large users to conserve natural gas through greater energy efficiency. Finally, the SFV rate proposed by Staff does not fall within the definition of rate decoupling. The Staff Report erred by proposing a rate design based on a high fixed customer charge and low volumetric rate.

VII. OPAE objects to the conclusion reached in the Staff Report that an SFV is justified based on the reduction in system throughput caused by large increases in natural gas costs.

Staff concludes that an SFV or rate decoupling is justified by declining customer usage citing data back to 1990. This conclusion is flawed. Throughput since rates were established in 2004 has varied by less than 3.65 Mcf which is 4.4% of throughput. It may well be that the reduction in throughput has reached a plateau; the Staff Report ignores this possibility. In addition, declines in customer population may be a cause for the reduction in sales as well. VEDO is utilizing the traditional method for dealing with revenue erosion – filing a rate case. There is no justification for proposing significant changes in current rate design practices because the Staff Report presents no evidence to support the position that throughput will continue to decline.

VIII. OPAE objects to the failure of the Staff Report to require VEDO to undertake educational efforts so customers understand the difference between authorized and non-authorized payment stations.

Many merchants hold themselves out as utility payment stations though not all stores taking utility payments are authorized payment centers. To ensure customer payments are promptly credited to accounts to prevent the issuance of disconnection notices or actual disconnections, VEDO should be required to undertake an education program designed to alert customers to the need to use only authorized payment stations. The Staff Report errs by failing to require an education effort designed to ensure customers use authorized payment centers.

IX. OPAE objects to the failure of the Staff Report to require adequate funding for TEEM I and TEEM II.

The Staff Report provides level funding for the continuation of the existing TEEM I and TEEM II. Current funding for low-income assistance from VEDO, a combination of ratepayer and shareholder funds, is inadequate to meet the needs in the service territory. The number of eligible customers has increased significantly since program funding was set at $1.1 million per year in 2004. Testimony filed by Staff in Case No. 04-571-GA-AIR indicates that during the 12 months ending in September 2004, Vectren spent $3.69 per customer for low-income weatherization compared to $3.95 by Columbia Gas of Ohio and $5.93 by Cincinnati Gas and Electric (now Duke). Subsequent to that analysis, Duke has added an additional $1 million per year of ratepayer funding for low-income weatherization and Columbia Gas of Ohio has proposed a minimum of $7.1 million per year for low-income programs. Dominion East Ohio has also requested an increase in funding for DSM programs, which it defines to include low-income programs. Funding provided for low-income weatherization should be comparable to other utilities. In addition, the Commission, through a collaborative, endorsed the creation of the TEEM II program which provides weatherization services to customers with incomes between 201—300% of the federal poverty line. The Staff Report erred by failing to recommend a minimum level of ratepayer funds be specifically programmed through the TEEM I and TEEM II of $2.21 per year and $2 million per year, respectively.

MAJOR ISSUES

Pursuant to R.C. 4903.083, OPAE proposes the following summary of major issues:

1. The lack of adequate funding for low- and moderate-income weatherization programs.

2. The appropriateness of residential and commercial tariffs which over-allocate costs to these customer classes because of a cost of service approach which does not accurately reflect the utility system;

3. The appropriateness of decoupling for VEDO.

4. The appropriate rate design for residential customers.

5. The appropriate rate of return for ratemaking purposes

6. The appropriate level of test-year revenues;

7. The appropriate level of operating and maintenance expenses;

8. The appropriate level of rate base;

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On Behalf of Ohio Partners for Affordable Energy

CERTIFICATE OF SERVICE

I hereby certify that a copy of these Objections and Major Issues was served by regular U.S. Mail, postage prepaid, upon the parties of record identified below on this 14th day of July, 2008.

David C. Rinebolt, Esq.
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