FILE

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

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VECTREN ENERGY DELIVERY OF OHIO, INC.'S OBJECTIONS TO STAFF REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

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July 16, 2008

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Pursuant to Section 4909.19, Revised Code, Rule 4901-1-28, O.A.C., and the Attorney Examiner's Entry dated June 17, 2008, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Applicant") hereby files its Objections to the Staff Report of Investigation ("Staff Report") in the above-captioned matter. The Staff Report was filed with the Public Utilities Commission of Ohio ("Commission") on June 16, 2008, setting forth its findings regarding VEDO's application for authority to increase its rates for gas service that was submitted on November 20, 2007. In submitting the Objections listed below,

VEDO specifically reserves the right to contest, through presentation of documentary evidence, testimony or cross-examination, issues on which the Staff's position changes, or which are newly raised, between the issuance of the Staff Report and the closing of the record. Also filed on June 16, 2008, was the Financial Audit Report prepared by Eagle Energy, LLC ("Eagle Report"), the legal status of which is unclear. Included below in Section I(G) is a list of observations or recommendations contained in the Eagle Report with which VEDO does not agree and which were not adopted by Staff in its Staff Report. The items in this list are subject to withdrawal if it is determined that the Eagle Report is not regarded as a part of the Staff Report.

I. OBJECTIONS

Applicant objects to the Staff Report in the following particulars:

A. REVENUE REQUIREMENT

1. Applicant objects to the revenue increase range of $10,713,161 to $12,605,959 recommended at Schedule A-1 (page 51) of the Staff Report. The revenue increase proposed in the Staff Report significantly understates the magnitude of the increase to which Applicant is entitled and that is fully supported by the Standard Filing Requirements initially filed on November 20, 2007. As more specifically described in the objections to follow, the Staff Report's revenue increase is the product of certain unreasonable, unlawful, and erroneous determinations and will result in rates that are insufficient to provide Applicant just compensation and return for the services it provides.

B. RATE BASE

2. Applicant objects to the treatment proposed by Staff for unrecorded retirements. Staff proposes to exclude $27,745 of net plant from plant in service for purposes of determining the appropriate rate base. This finding by Staff was also noted on page 5 of the Staff Report from VEDO's prior rate case, Case No. 04-0571-GA-AIR, after which time the Company made the appropriate adjusting entries to reflect the retirements. The Staff Report is in error; the retirements have been recorded and were reflected appropriately in the Date Certain rate base as originally submitted in the Application. If the objection is sustained, the impact would be to increase the Staff recommended rate base by $27,745.

3. Applicant objects to Staff Report's recommended exclusion of certain items from plant in service which the Staff Report indicates could not be located during Staff's field inspection for Case No. 04-0571-GA-AIR, the Applicant's prior base rate case. The Staff Report is contending that the exclusions are for unrecorded retirements and other miscellaneous items. The six (6) items have a net book value of $724,772 and represent assets that were acquired from The Dayton Power and Light Company (DPL) as part of the asset acquisition completed by VEDO's parent company in 2000 or relate to Choice Program implementation costs. The asset descriptions/identifiers that were carried over from DPL were not sufficient to permit specific identification of the asset. Applicant agrees that the unrecorded retirements should be recorded on its books and records; however, the accounting proposed in the Staff Report is not correct. As specific assets are retired, consistent with utility plant accounting

practice, the net book value is retired against the depreciation reserve, resulting in no impact to net plant in service or rate base. If the objection is sustained, the impact would be to increase the Staff recommended rate base by $724,772.

4. Applicant objects to the Staff Report's adjustments to the accumulated depreciation reserve consistent with the objections above as they relate to plant in service.

5. Applicant objects to the following:

a. The reference in the Staff Report at page 4, line 2, the Date Certain of March 31, 2004. This appears to be a date carried over from the Staff Report in Case No. 04-571-GA-AIR. Applicant believes the date intended by Staff is the Date Certain in the current case of August 31, 2007. In any event, Applicant objects to the use of any date certain other than August 31, 2007.

b. The reference in the Staff Report at page 5, line 6, in the section titled "Depreciation Reserve". It is stated that the reserve levels were based on March 31, 2004 plant balances, which appears to be a carry-over from VEDO's last rate case. Like the preceding item, Applicant believes the date intended by Staff is August 31, 2007. In any event, Applicant objects to the use of any date other than August 31, 2007 for the establishment of the depreciation reserve for this proceeding.

c. The reference in the Staff Report at page 5, line 6, under the section titled "Depreciation Accrual Rates and Depreciation Expense" to Schedule B-3.2a. This appears to be a Schedule number carried over from the Staff Report in Case No. 04-571-GA-AIR. Applicant believes the correct reference for this case is Schedule B-3.2.

6. The Staff Report's calculation of the cash working capital allowance is generally consistent with the calculation used for the final determination of the cash working capital allowance in Case No. 04-571-GA-AIR. However, the determination in that case for many elements of the case, including the determination of the cash working capital allowance, was the result of a negotiated, comprehensive settlement. As such, the final determination of the specific lead and lag days used in the final calculation was not specifically agreed to by Applicant nor supported by the Applicant's witness in that proceeding. Applicant contends that the revenue lag days of 44.5 that it filed in that case are the most appropriate to be used here, as adjusted by a three day reduction in revenue days as noted by the Staff, thus resulting in 41.5 lag days as the proper revenue lag days to use in this proceeding. Finally, the ultimate determination of cash working capital must be based on final revenue requirement findings in this case.

C. OPERATING INCOME

7. Applicant objects to the Staff Report's failure to accept the test year adjustment to Customer Counts as filed by Applicant on Application Schedule C-

3.3. The Staff Report's use of unadjusted test year budgeted customer counts fails to consider that these adjustments are supported by actual test year experience through May 2008. The recognition of actual results supports the adjustments made in the test year, and Applicant believes is consistent with the general concept of the test year representation of the ongoing operations of the Applicant. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $393,305.

8. Applicant objects to the Staff Report's exclusion of Applicant's adjustment for known customer migration that will occur as a result of the availability of Tariff Rate 360 as shown on Application Schedule C-3.6. Applicant's adjustment for known customer migration captures the shift of customers between rates as a result of the creation of Tariff Rate 360. The Staff Report stated that the adjustment ". . . is based on hypothetical changes that are unknown." Staff Report at page 8. However, the Staff Report supports the creation of Rate 360 and recommends approval – "Qualifying customers have been migrated to this rate class from Rates 330 and 345. Staff recommends approval." Staff Report at page 22. The approval of Rate 360 requires customers that qualify based on the volumetric threshold to move to this new rate. Thus, this migration is mandatory, not hypothetical as the Staff Report contends. As such, Applicant made a migration adjustment to properly reflect the test year results of establishing Rate 360. The Staff Report's failure to include this migration adjustment leads to an error in the level of base rate revenue included in the Staff Report which will, in turn, leave Applicant without a reasonable opportunity to earn the return

otherwise recommended in the Staff Report. Applicant objects to the Staff Report's failure to properly recognize the effects of customer migration to Rate 360. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $287,064. Absent such a migration adjustment, Applicant cannot implement the new Tariff.

9. Applicant objects to the Staff Report's adjustments to revenues on Staff Schedule C-3.1, C-3.2, and C-3.3 consistent with the two preceding objections addressing customer count and customer migration, as they relate to revenues. The affected adjustments on Staff Schedules C-3.1, C-3.2, and C-3.3 are the Uncollectible Revenue and Expense synchronization adjustment, the Percentage of Income Plan (PIPP) Revenue and Expense synchronization adjustment, and MCF Excise Tax Revenue and Expense synchronization adjustment, Gas Cost Recovery (GCR) Revenue and Expense synchronization, and the Gross Receipts Tax revenue and expense synchronization adjustment. If the objection is sustained, there would be no impact to the Staff recommended revenue increase as all of these items are matched in revenue.

10. Applicant objects to the Staff Report's inclusion of consumption from federal tax exempt rates and customers in the calculation of the MCF Excise Tax Revenue and Expense synchronization adjustment on Staff Schedule C-3.1. Specifically, customers under Tariff Rate 330 that are exempted from taxes should not be included as part of the calculation of the MCF Excise Tax for the Applicant, and were originally excluded in the Application. If the objection is

sustained, the impact would be to increase the Staff recommended revenue increase by $25,660.

11. Applicant objects to the Staff Report's adjustment to the Large Customer changes proposed on Application Schedule C-3.7. The Staff Report affirms the volumetric adjustments made by Applicant, yet reduces customers for specific periods. Applicant believes this is an error in the calculation. If the objection is sustained, the impact would be an increase of $1,259 to the Staff recommended revenue increase.

12. Applicant objects to the Staff Report's calculation of the Gross Receipts Tax Rider revenue. The Staff Report includes Gas Cost Recovery revenues that are not presented on Staff Schedule C-3.1. As noted in Objection 9, the Gross Receipts Tax Rider revenues and synchronized expense should be calculated based on the final revenue amounts approved in this case. Since the Staff Report matches the revenue with the expense, this has no impact on the revenue increase recommended by the Staff.

13. Applicant objects to the Staff Report's calculation of Late Payment Fees on Staff Schedule C-3.1. These revenues should be calculated based on the final revenue amounts approved in this case.

14. Applicant objects to the Staff Report's exclusion of the assessment fees for the OCC and PUCO and Gross Receipts Tax from the calculation of the gross revenue conversion factor reflected on Staff Schedule A-1.1. The primary driver for the PUCO and OCC assessment is each utility's intrastate gross receipts for

the calendar year. It follows that utilities that experience an increase in base rates in a given calendar year would experience an increase in the allocated costs captured in the OCC and PUCO assessment fees. By excluding these fees from the gross revenue conversion factor, the Staff is assuring that the utility will not be able to recover its costs associated with these fees going forward.

The Gross Receipts Tax is applied in much the same manner. Once approved, the revenue increase will create increased Gross Receipts Tax expenses that need to be captured in the overall revenue requirement. Excluding the increase in Gross Receipts Tax Expense from the calculation of the revenue conversion factor denies Applicant the opportunity to recover the gross receipts tax effect of these expenses. It should be noted that the gross revenue conversion factor contained in the Eagle Report appropriately recognizes the increase to gross receipts tax expense which Applicant advocates. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by approximately $600,000.

15. Applicant objects to the Staff Report's adjustments to the Uncollectible Expense, MCF Excise Tax expense and Gross Receipts Tax expense reflected on Staff Schedules C-3.14, C-3.17, and C-3.18 respectively, and references those objections applicable to the associated Riders in place for each item above. The expense should be synchronized to the appropriate level of revenue collected.

16. Applicant objects to the Staff Report's failure to support alternative regulatory treatment for the expenses associated with Applicant's System Integrity and Reliability Programs. These programs represent appropriate responses to evolving maintenance approaches and requirements and trends in the workforce. The costs of these programs, which are devoted to system reliability and safety, should be borne by Applicant's customers.

17. Applicant objects to the Staff Report's recommendation to reduce expense levels for newly implemented operational programs to actual test year expense levels and to include only incremental labor expense for positions filled as of the date of the field audit as reflected on Staff Schedule's C-3.4 (system integrity and reliability programs). The Staff Report's refusal to include Applicant's proposed expense levels for these items ignores the annualization of expense for certain measurable items that are known to occur or are required to properly administer the programs initiated during the test year. The reduction of Applicant's proposed expense levels for these items and exclusion of these adjustments results in an inappropriate determination of test year operating expense on which to set rates. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $3,127,186.

18. Applicant objects to the Staff Report's recommendation on Staff Schedule C-3.8 concerning the level of corporate shared asset costs to be included in the ongoing level of operating expense. The objection is based on two factors. First, the Staff Report adjusts the calculation to base the expense on 2007 Vectren Utility Holdings ("VUHI") asset base only, removing any adjustment required to

annualize and include the 2008 asset charge based on the 2008 VUHI asset base. Actual experience supports this adjustment, and the annualization of expense to capture the going level of shared asset costs is needed to accurately reflect the revenue requirement. Second, Applicant objects to the rate of return on equity and capital structure proposed by the Staff Report, both of which are used to determine the return on shared assets. See Objections 27 and 28 below for further details concerning Applicant's objections to the rate of return. The equity return and capital structure approved in this case must be used to calculate this expense. If the objection is sustained, the impact would be an increase of $2,320,375 to the Staff recommended revenue increase.

19. Applicant objects to the Staff Report's exclusion of the expense related to the position of a conservation program manager in its recommendation on the appropriate level of customer conservation expense included on Staff Schedule C-3.7. In order to properly administer a program of this magnitude, a conservation program manager is clearly necessary. VEDO included the costs associated with this position in its requested conservation expense, but Staff excludes the costs in Staff Schedule C-3.7. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $117,000.

20. Applicant objects to the Staff Report's recommendation that Applicant's shareholders contribute $1 million for a customer conservation program characterized as a commitment related to Applicant's alternative regulation proposal for an accelerated distribution replacement program "adequate to

comply with 4901:1-19-05(C)(3)." All of Applicant's alternative regulation proposals are consistent with the cost-of-service ratemaking provisions of Section 4909.15, Revised Code. Therefore, no VEDO "commitment" is required. Parenthetically, "commitment" does not mean "shareholder contribution." Applicant objects to the Staff Report's recommendation that shareholders contribute $1 million toward the conservation program as the proposed contribution would certainly result in a denial to Applicant of an opportunity to earn the ROE level recommended by Staff in the case.

21. Applicant objects to Staff Report's recommended amortization schedule for rate case expense on Staff Schedule C-3.10. Applicant agrees that the expenses should be updated to the latest known levels prior to a decision being rendered in this case; however, Applicant continues to maintain that a 3 year amortization period is reasonable and appropriate, and is supported by the time period between VEDO's current case and the prior case. Applicant also objects to Staff's removal of the unamortized portion of rate case expense attributable to the Applicant's prior rate case from the proposed adjustment. The exclusion of these expenses results in an inappropriate determination of test year operating expense on which to set rates and VEDO receiving less than full recovery of the allowed rate case expenses from the prior rate case.

22. Applicant objects to the Staff Report's recommendation for miscellaneous expenses on Staff Schedule C-3.13 as enumerated below except for lobbying expense related to American Gas Association dues reflected on Line 1, Staff Schedule C-3.13.

a. Staff compared the three year average of injury and damage claims expense to the total included in FERC Account 925 expense. FERC Account 925 includes injuries and damages claims expense <u>and</u> risk related insurance premiums; therefore, the Staff's recommended adjustment on Staff Schedule C-3.13, Line 2 erroneously removes the recovery of insurance premiums. Applicant's treatment of the cost of insurance premiums is consistent with the accounting requirements set forth for FERC Account 925 in the FERC Uniform System of Accounts. Applicant objects to the Staff Report's removal of insurance premiums for purposes of calculating the adjustment. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $792,856.

b. The Staff Report recommends a reduction in Applicant's proposed expense for FERC Account 921, office supplies. Applicant's proposed expense level properly annualizes operating expenses at the appropriate level for ratemaking purposes. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $924,127.

c. The Staff Report recommends that the Applicant's contributions to the Dayton Air Show be excluded from miscellaneous expenses on Line 4, Staff Schedule C-3.13. The Staff's adjustment is in error in that these contributions were already excluded by Applicant. The Air Show expenses were charged to Vectren Corporation, VEDO's ultimate parent,

and were excluded from the corporate expense allocation process. Therefore, the expenses associated with the Air Show were properly not charged to VEDO. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $105,000.

d. On Line 5, Schedule C-3.13, the Staff Report recommends the exclusion of all expenses included in FERC Account 930.2, miscellaneous general expense. Staff's exclusion was based on the incorrect assumption that this account includes only charges for industry and business related dues that are not properly chargeable to ratepayers. In fact, this account also contains charges for general corporate expense and share-based compensation expense that is part of a total compensation package necessary to attract and retain qualified employees, which are proper above-the-line expenses for ratemaking purposes. Moreover, Applicant believes that dues expenses which do not relate to political or lobbying activities, for organizations such as the American Gas Association and Midwest Gas Association, are properly charged to ratepayers. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $574,972.

e. The Staff Report includes an adjustment reflected on Line 6, Staff Schedule C-3.13, which removes labor expense associated with vacant incremental positions in the amount of $144,532. However, the Staff Report removes the labor expense for these positions on Staff Schedules C-3.4, C-3.7, and C-3.8; therefore, Staff's adjustment on Schedule C-3.13,

Line 6, is duplicative and not necessary. Applicant objects to the Staff Report's duplication of this labor expense adjustment. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $144,532.

23. Applicant objects to the Staff Report's adjustment to operation and maintenance expenses to reflect the Applicant's corporate budget for the period of January through May 2008, on Schedule C-3.15. Through this adjustment, the Staff removed certain operation and maintenance expenses which are reflected in other expense adjustments included in Staff Schedule C-3.4 through Staff Schedule C-3.13, which have been addressed in the above operating income objections. As a result, the Staff Report understates the test year by removing some expenses twice – first, through adjustment of specific expenses included in Applicant's test year, and second – through this more general reduction to reflect an overall budget amount. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $1,650,578.

24. Applicant objects to the Staff Report's adjustment to Depreciation Expense reflected on Staff Schedule C-3.16. The Staff Report adjustment contained two changes. The first captured the reduction in asset base as a result of unrecorded retirements from Case No. 04-571-GA-AIR. As noted in Objection 2, the Staff erroneously reduced the gross plant balance for these retirements that were already captured within Applicant's date certain rate base, and thus were not part of the gross plant basis used for calculating annual depreciation expense. The second Staff Report change reduced the asset base for those

items that could not be found during the field inspection in Case No. 04-571-GA-AIR. Applicant does agree to these retirements, as reflected in Objection 3, and the resulting impact on depreciation expense. As a result, Applicant agrees that depreciation expense should be reduced by $67,900 to reflect the removal of those assets per Case No. 04-571-GA-AIR that have not been recorded on the books and records as of the date certain in this case. If the objection is sustained, the impact would be to increase the Staff recommended revenue increase by $4,158.

25. Applicant objects to the Staff's adjusted Federal Income Tax Expense calculation on Staff Schedules C-3.21 and C-4. Income Tax Expense should be based on the final income, before taxes, approved in this case.

26. Applicant objects to the Staff Report's use of two different expected gas cost (EGC) rates to synchronize gas cost recovery revenue and expense. The Staff Report at page 10, line 2, states that the Staff synchronized the gas cost recovery revenue and expense to the October 2007 EGC rate of $0.92356, which is the rate reflected in Applicant's filing. However, on Staff Schedules C-3.2 and C-3.3, Staff utilized an EGC rate of $1.14709, rather than the rate stated in the Staff Report text. Applicant asserts that a single EGC rate should be used to synchronize gas cost recovery and expense

D. RATE OF RETURN

27. Applicant objects to the hypothetical capital structure used in the Staff Report's cost of capital analysis. The use of a hypothetical capital structure is

unreasonable and unlawful. *General Telephone Co. v. Public Utilities Commission of Ohio, 174 Ohio St. 575* (May 31, 1963). Applicant notes that Vectren Corporation's capital structure is an appropriate and reasonable capital structure for a natural gas distribution company.

28. Applicant objects to the cost of equity in the Staff Report's cost of capital analysis because Staff fails to apply generally accepted methods for accurately estimating the cost of equity as follows:

a. The Staff Report does not reflect proper consideration of the information submitted by the Applicant in support of its proposed cost of equity. This includes the Staff Report's imposition of criteria for the selection of comparable group companies that differs from the proxy group companies contained in the Applicant's direct case of its cost of equity, without explaining the reason for ignoring Applicant's criteria. In particular, the Staff Report contains a company, i.e. National Fuel Gas Company ("NFG"), which is wholly incomparable to VEDO.

b. The Staff Report fails to consider methods/models other than DCF and CAPM in the determination of the cost of equity, such as those methods/models contained in the Applicant's prepared testimony of Witness Moul, related to Risk Premium Analysis found on pages 29-34 and Comparable Earnings Approach on pages 38-41.

c. The Staff Report's calculation of the cost of equity using the non-constant DCF is understated because it improperly uses an average stock

price that consists of twelve-months of data, which is too long to reflect the prospective nature of public utility ratesetting.

d. The Staff Report's calculation of the cost of equity using the non-constant DCF understates the cost of equity capital because two of the inputs used to calculate the growth rate are inapplicable for measuring investors' growth expectations.

e. The Staff Report's calculation of the cost of equity using the non-constant DCF understates the cost of equity capital because it is not adjusted for application to a book value capital structure used to calculate the weighted average cost of capital.

f. The Staff Report's calculation of the cost of equity using the CAPM understates the cost of equity capital because it fails to consider the forecasted yields on Treasury Bonds that are used as the risk-free rate of return. More specifically, the Staff Report's calculation uses yields reaching back to March 26, 2007 which are too far removed from current market fundamentals to provide a reasonable and reliable input for measuring Applicant's cost of equity capital and a reasonable rate of return.

g. The Staff Report's calculation of the cost of equity using the CAPM understates the cost of equity capital because it is not adjusted for application to a book value capital structure used to calculate the weighted average cost of capital.

h. The Staff Report's calculation of the cost of equity using the CAPM understates the cost of equity capital because the relative size of the four companies that comprise the Staff's proxy group, after removal of NFG, has not been considered, resulting in an unreasonably biased reduction in the otherwise indicated and reasonable cost of equity capital.

E. DISTRIBUTION REPLACEMENT PROGRAM

29. Applicant objects to the Staff Report's recommendation that Applicant replace prone-to-fail risers over an approximate three year time frame. Applicant submits that, due to anticipated competition for contract labor resources in Ohio to perform riser replacement work, as well as main and service line replacement work contemplated by Applicant and other utilities, replacement of prone-to-fail risers should occur over a period of not less than five years beginning 60 days following a final order in this case. Applicant believes that extending the replacement time frame to a five year period will: (a) result in completion of the riser replacement program at a relatively lower total cost, and (b) enable the program to be managed more efficiently and effectively.

F. RATES AND TARIFFS

30. Applicant objects to the Staff Report's recommendation of revenue distribution to rate classes because: (1) the Staff Report fails to explain the reason for not accepting Applicant's proposed revenue distribution or the basis for the Staff Report's recommended revenue distribution; (2) the Staff Report's proposed revenue distribution increases the dollar amount of rate class subsidy

to each rate class, thus causing the revenue distribution to be further away from alignment with the indicated cost of service results; and (3) the Staff Report's proposed revenue distribution results in inappropriate rate class impacts, such as the subsidized rate classes receiving below-average increases and the subsidizing rate classes receiving above-average increases.

31. Applicant objects to the Staff Report's recommendation to deny Applicant's proposed "Avoided Customer Charge" provision of its Reconnection Charge on the basis that: (1) the Staff Report does not explain the reason for its recommendation of denial, thus denying Applicant the ability to respond to Staff's position; (2) denial of this provision, if sustained, will ultimately inappropriately shift costs to other customers who pay their fair share of Applicant's annualized fixed costs by remaining connected year-round; and (3) Staff's proposal to increase the Stage 2 May-October Customer Charge to $11.96 from Applicant's proposal of $10.00, to which Applicant does not object, further increases the space heating-only customers' incentive to shut off during the summer which would exacerbate the shifting of costs to other ratepayers.

32. Applicant objects to the Staff Report's failure to recommend approval of Applicant's proposed Sales Reconciliation Rider – B (SRR-B). The Staff Report states that "Staff is recommending that the SRR-B not be implemented in favor of a more direct implementation of a full SFV rate design in this case." However, the Staff Report does not recommend a more direct implementation of a full straight fixed variable (SFV) rate design in this case. Rather, the Staff Report has proposed only a partial movement to full Fixed Variable rate design, leaving

a significant amount of fixed costs to be recovered in the remaining Volumetric Charges of the residential and general service rate classes which, absent approval of Applicant's SRR-B, will deny Applicant a reasonable opportunity to recover the revenue requirement approved in this case.

33. In view of the Staff Report's recommended rejection of the SRR-B, Applicant objects to the Staff Report's failure to recommend the use of a full SFV rate design. SFV rate design would require the complete elimination of Volumetric Charges for the residential and general service rate classes and in the case of the general service customers, potentially the introduction of Demand Charges based on individual customer usage characteristics. The recommended rejection of the SRR-B in the face of the expiration of the deferral and recovery authority for the Sales Reconciliation Rider (SRR-A) approved in Case No. 05-1444-GA-UNC, without the imposition of full SFV rate design, denies Applicant a reasonable opportunity to recover the revenue requirement approved in this case.

34. Applicant objects to Staff Report's proposed Schedule E-5, pages 127-133, only to the extent it contains several calculation and rates errors that could potentially be misleading.

35. Applicant agrees with the Staff Report's recommended changes to certain tariff language, except as follows:

a. Sheet No. 62 – Termination of Service at Customer's Request. Applicant objects to the language recommended by the Staff Report that

any Customer who wishes to discontinue Gas Service because Customer is vacating the Premises, or for any other reason, shall notify Company at least 72 hours prior to the date of the requested service termination. Applicant suggests that the language be modified to read "...at least three (3) business days prior to the date of the requested service termination."

b. Sheet No. 63 – Disconnection-Reconnection of Service at Customer's Request. For reasons stated herein in Objection 31 - Avoided Customer Charge Provision, Applicant objects to the Staff Report's denial of this proposed new charge.

36. Distribution Replacement Rider (DRR).

a. Applicant objects to the Staff Report's characterization of the impact of the DRR to residential and Group 1 general service customers inasmuch as Staff avers that Applicant "has estimated that the program will result in an average annual cost of $7.05 per residential customer and for Group 1 customers on rate schedules 320 and 325." The average annual cost to these customers, as illustrated by VEDO, over the 20-year period is $79.84, inclusive of the impact of gross receipts excise tax. The Staff Report also asserts that an average annual cost of $7.05 "translates to a monthly charge of $0.73 per month including the gross receipts excise tax." The average monthly cost to these customers over the 20-year replacement program period proposed by Applicant is $6.65 (as illustrated by Applicant).

b. Applicant objects to the amount of the cap proposed by the Staff Report associated with the monthly DRR increase applicable to residential and general service customers, inasmuch at it is insufficient to give Applicant an opportunity to fully recover its costs given the Staff Report's recommendation that Applicant replace prone-to-fail risers.

c. With respect to the amount of the cap associated with the monthly DRR increase applicable to residential and general service customers, Applicant objects to the aspect of Staff Report's recommendation that Applicant be authorized to capture Post-in-Service Carrying Charges (PISCC), only to the extent that it is unclear whether the Staff Report intends that Applicant will continue to capture, beyond the next effective date of the DRR, PISCC for investments recoverable from this group of customers but not includable in the DRR due to the cap.

37. Applicant objects to the Staff Report's treatment of riser investigation costs, in that it appears to Applicant that the Staff Report has included such costs in base rates while also proposing recovery via the DRR. To the extent the Staff is proposing that these riser investigation costs be recovered in the DRR rather than in base rates, Applicant agrees with that proposal.

G. ISSUES WITH THE REPORT OF EAGLE ENERGY, LLC

In this proceeding, Eagle Energy, LLC was retained by the Commission to conduct an investigation of the facts and exhibits presented by Applicant, verify and attest to Applicant's financial information, and to file a report representing its

findings. The Eagle Report was docketed in this case on June 16, 2008, and contains a number of observations and recommendations, the status of which is unclear. In the event the observations/recommendations in the Eagle Report have any formal significance in these proceedings, Applicant objects as follows:

38. The Eagle Report (page 21) recommends that Applicant give additional effort to timely closing out work orders. Applicant objects to the Eagle Report's suggestion that Applicant's closing of work orders is untimely. The information presented in the Eagle Report represents work orders, which have been placed in service and reside in Completed Construction Not Classified. It is customary in the utility industry for unitization to be performed on a lag due to the significant amount of detailed property units in each project and the longevity of these assets (20-year to 40-year lives). Applicant currently follows procedures that timely close work orders consistent with industry practice.

39. The Eagle Report (page 20) indicates that certain regulator stations need additional safety protection. The Applicant evaluates each aboveground pipeline facility for susceptibility to damage and provides appropriate protection when necessary in accordance with federal pipeline safety regulations. The referenced regulator stations adhere to these standards.

40. The Eagle Report (pages 19-20) questions if the pig receiver and pig launcher assets were used and useful as of the date certain in the case, whether the original cost of an auger was properly recorded, and whether a gas regulator station had been re-located to a parcel of land in Centerville. These assets are in

place, properly located, and available for service as intended. The assets are properly reflected as utility plant-in-service in accordance with the Uniform System of Accounts. Further, given the nature of the assets, i.e. portable, Applicant sees no relevance to Eagle's comment about location of the asset.

41. The Eagle Report (page 53) recommends that Applicant's late payment revenue be increased as a result of the rate increase. Applicant objects to the comment as no explanation is offered by Eagle to support the recommended change.

42. The Eagle Report (page 23) recommends that Applicant should consider ownership and maintenance of all service lines at least for residential and small commercial customers. This Eagle Report recommendation appears to be based on an incorrect understanding of Applicant's proposal. Eagle believed that Applicant's proposal was that where mains were not replaced or where the main replacement program did not extend, customers would continue to be responsible for ownership and maintenance. Eagle's understanding is not consistent with Applicant's proposal. Applicant proposed that it would own service lines upon installation or replacement and, further, that prospectively it would maintain all service lines (regardless of ownership). The Staff Report (page 41) recommends acceptance of Applicant's plan.

43. The Eagle Report (pages 32-33) recommends that additional documentation concerning the revenue budget be developed and included as part of the budgeting documentation, and suggested that Applicant consider

refining and enhancing its budgeting processes. Applicant believes that its budgeting process is adequate and consistent with common practice.

44. The Eagle Report (page 43) recommends that the gross receipts tax revenue and expense synchronization be based on a tax rate of 4.721%, which was calculated as the statutory tax rate minus an adjustment for Federal exempt revenue (4.75% - 0.029%). Consistent with customary ratemaking practices, the appropriate tax rate proposed by Applicant and adopted in the Staff Report is 4.8767%.

45. The Eagle Report (pages 40-41) observes that Applicant used a 10-year weather normalized forecast for revenues rather than the 30-year forecast used in Applicant's load forecast and its budget. Eagle suggests that the most appropriate forum to implement a change to a 10-year period for weather normalization is in a load forecast proceeding. The 10-year weather normalization proposed by Applicant in this proceeding is for the purpose of approximating test year sales volumes assuming normal weather and is appropriately included in this proceeding. Furthermore, there is precedent for the use of 10-year weather normalization for ratemaking purposes at the Commission.

46. The Eagle Report (page 73) incorrectly states that the revenue requirement of Applicant's Distribution Replacement Program over the next twenty years is $54 million. In fact, as illustrated in Applicant's filing, the revenue requirement in year twenty of the program is $54 million.

47. The Eagle Report (page 74) incorrectly states that impact of Applicant's proposed DRR to the residential class will be an increase from the current service charge of $15.00 per month to almost $100.00 at the conclusion of the program. In fact, Applicant's current monthly customer charge is $7.00, rather than $15.00, and Applicant's filing illustrates that the monthly DRR charge to residential customers would be $11.75 in year twenty of the Distribution Replacement Program proposed by Applicant.

48. The Eagle Report (page 74) suggests that the depreciation rate for bare steel and cast iron mains designated for replacement in Applicant's proposed twenty year program be changed to 5 percent (20-year life). Applicant believes that this recommendation has no relevance to its proposed Distribution Replacement Program in that most of the bare steel and cast iron designated for replacement is fully depreciated.

II. SUMMARY OF MAJOR ISSUES

Applicant has identified below the major issues it has currently identified to exist, for the limited purpose of assisting the Commission in preparing the public notice required pursuant to Section 4903.083, Revised Code. Although the Entry requests that the issues be listed in order of importance, this is not possible because some of the issues do not have readily identifiable dollar values and some involve public policy principles, rather than economic issues. Applicant reserves the right to pursue all of the issues raised in its Application, the Staff Report of Investigation, and Applicant's Objections to the Staff Report of

Investigation. Subject to the foregoing, Applicant submits the following list of major issues:

1. The fair amount of revenue increase to which the Applicant is entitled.

2. The value of used and useful assets providing natural gas service, including working capital.

3. The appropriate test year customer consumption levels and revenues used to calculate operating income for ratemaking purposes.

4. The appropriate level of operating expenses allowable for ratemaking purposes.

5. The establishment of a program to systematically replace cast iron and bare steel mains, associated customer service lines, and risers which are prone to failure and the recovery of the associated costs.

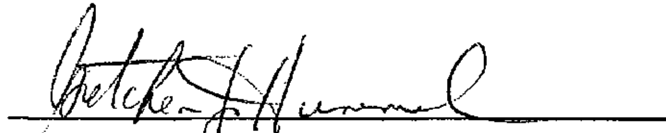
6. The establishment of System Reliability and Integrity Programs designed to address evolving maintenance approaches and requirements and trends in the workforce, and recovery of the associated costs.

7. The allowable rate of return the Company should be allowed, including the appropriate cost of long term debt and return on equity employed in its determination.

8. The appropriate distribution of revenue increases among customer classes.

9. The appropriate rate design, including decoupling mechanisms and the level of Customer and Volumetric charges.

Respectfully submitted,



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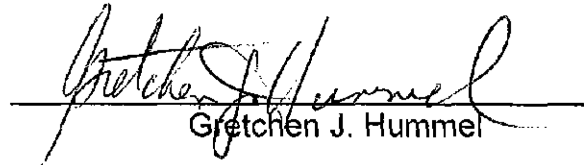
CERTIFICATE OF SERVICE

I hereby certify that a copy of *Vectren Energy Delivery of Ohio, Inc.'s Objections to Staff Report of Investigation and List of Major Issues* was served upon the following parties of record this 16th day of July 2008, *via* electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.



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