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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 Service 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 Cost of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

OBJECTIONS TO THE PUCO STAFF'S REPORT
OF INVESTIGATION
AND
SUMMARY OF MAJOR ISSUES
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL

Maureen R. Grady, Counsel of Record
Joseph P. Serio
Michael E. Idzkowski
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800

Columbus, Ohio 43215-3485
614-466-8574 (Telephone)
614-466-9475 (Facsimile)
grady@occ.state.oh.us
serio@occ.state.oh.us
idzkowski@occ.state.oh.us

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OBJECTIONS TO THE PUCO STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

Pursuant to R.C. 4909.19 and Ohio Adm. Code 4901-1-28(B), the Office of the Ohio Consumers' Counsel ("OCC"), an intervenor in this case, hereby submits to the Public Utilities Commission of Ohio ("Commission" or "PUCO") these objections to the PUCO Staff's Report of Investigation ("Staff Report"), as filed on June 16, 2008, in this docket concerning the application of Vectren Energy Delivery of Ohio, Inc. ("Vectren"

"VEDO" or "Company") to increase its rates and charges for gas service in Ohio. OCC is the representative for all of the approximately 293,000 residential customers of Vectren.

OCC submits that these objections meet the specificity requirement of Ohio Adm. Code 4901-1-28. Additionally, OCC's objections will be supplemented and/or supported with OCC filed testimony, including the testimony of Ralph Smith, Hal Novak, David Parcell, Maria Durbin, and Wilson Gonzalez. OCC's objections point to matters in the Staff Report or the Financial Audit Report Prepared by Eagle Energy LLC ("Eagle Report"), where PUCO Staff fails to recommend against or actively supports rates or service terms that contravene what is reasonable and lawful for Vectren's residential consumers.

OCC reserves the right to amend and/or supplement its objections in the event that the PUCO Staff or Eagle Energy LLC changes, modifies, or withdraws its position, at any time prior to the closing of the record, on any issue addressed in the Staff Report. Additionally, where the PUCO Staff has indicated that its position on a particular issue is not known at the date of the Staff Report, OCC reserves the right to later supplement its objections once the PUCO Staff's position is made known. Moreover, OCC's witnesses, including Ralph Smith, Hal Novak, David Parcell, Maria Durbin, and Wilson Gonzalez reserve the right to amend and/or supplement their testimony in the event that the PUCO Staff changes, modifies, or withdraws its position on any issue contained in the Staff Report. OCC also submits that the lack of an objection in this pleading to any aspect of the Staff Report does not preclude OCC from cross-examining or introducing evidence or argument in regard to issues on which the PUCO Staff changes, modifies, or withdraws its position on any issue contained in the Staff Report. OCC also reserves the right to supplement its testimony to incorporate additional outstanding discovery responses.

Pursuant to R.C. 4903.083, OCC submits a "Summary of Major Issues" that outlines the major issues to be determined in this proceeding. OCC respectfully requests that these issues be included in the notices of the local public hearings in accordance with R.C. 4903.083, to satisfy the General Assembly's intent that the local public hearings be transparent processes for the public's participation in the state's regulatory process.

OBJECTIONS TO THE STAFF REPORT

I. RATE BASE AND OPERATING INCOME

A. Rate Base

1. OCC objects to the Staff failing to exclude from rate base a parcel of land located in Centerville, valued at $16,046. This land was purchased to facilitate the relocation of the gas regulator station. At date certain the gas regulator station had not been relocated. The land is therefore not used and useful in rendering the public utility service for which rates are to be fixed and determined, as required under R.C. 4909.15(A)(1), and should be excluded from rate base. Staff's failure to exclude this land results in rate base being overstated to the detriment of Vectren's customers.
2. OCC objects to the Staff failing to recommend that Vectren cease capitalizing meters when they are purchased. Such meters should only be capitalized when they are installed in customers' premises and only then included in rate base.
3. OCC objects to the Staff failing to exclude from rate base 3,331 electronic remote transmission ("ERT") devices that the Company included as an addition to rate base in Account 697. These ERT's were not installed as of date certain and therefore were not used and useful in rendering the public utility service for which rates are to be fixed and determined, as required under R.C. 4909.15(A)(1), and should be excluded from rate base. The uninstalled cost of the 3,331 ERTs included in rate base is $5,588,324. Staff's failure to recommend excluding the uninstalled ERTs from rate base results in rate base being overstated by $5,588,324 to the detriment of Vectren's customers.

4. OCC objects to the Staff's failing to exclude from rate base assets that were not used and useful as of the date certain in this case. This includes a pig receiver and a pig launcher valued at $343,950 that were not used and useful in rendering the public utility service for which rates are to be fixed and determined, as required under R.C. 4909.15(A)(1) and are not expected to be used for another three years. Staff's failure in this regard causes rate base to be overstated by $343,950 to the detriment of Vectren's customers.

5. OCC objects to the Staff failing to exclude an auger valued at $12,816 and placed in service in February 2004. Vectren has failed to prove the value of the auger is reasonable and not overstated as required by R.C. 4909.05(E). Staff's failure to exclude this auger from plant in service results in rate base being overstated to the detriment of Vectren's customers.

6. OCC objects to the Staff's inclusion of non-cash items in the calculation of cash working capital. Specifically, Staff included depreciation, deferred income tax, and return on common equity, which do not require cash outlay. After correcting for the payment lag for interest on long-term debt Staff's cash working capital calculation should be reduced by approximately $3.3 million to remove non-cash items. Inclusion of non-cash items in the calculation of cash working capital is unreasonable because:

   A. Including non-cash items in cash working capital ignores the plain meaning of the words "cash working capital" under R.C. 4909.15(A)(1);

   B. It is inconsistent with pronouncements of the Accounting Principles Board and its successor, the Financial Accounting Standards Board, which exclude such non-cash items when determining a company's working capital sources and uses;

C. The formula method for calculating cash working capital specifically excludes non-cash items. As the lead lag study is being used in lieu of the formula methodology, it is inconsistent to permit the non-cash items in the lead lag calculation, when such items are not included in the formula method;

D. The purpose of the cash working capital allowance is not to account for regulatory lag and including non-cash items is not necessary in order to permit investors to earn a fair return on their investment;

E. Vectren has failed to meet its burden of proving that these expenditures create an actual cash requirement for it;

F. The source of the non-cash items is not the company's investors' but customers and it would be unreasonable to require customers to provide these sources of funds and then also ask them to pay a return on those funds; and

G. The inclusion of non-cash items in a lead lag study has been rejected by the majority of utility regulatory commissions across the country for the reasons set forth herein.

The Staff's inclusion of non-cash items in the calculation of cash working capital results in the overstatement of cash working capital to the detriment of Vectren's customers. Consequently working capital, of which cash working capital is a component, should be reduced to zero, as opposed to the $990,545 "effective working capital allowance" reflected on Staff Schedule B-5.

7. OCC objects to the Staff's calculation of cash working capital wherein the Staff used 16.21 lag days for interest expense associated with long term debt. Staff's lag day value is based on Staff's erroneous assumption that interest expense is paid monthly. The interest expense relates to pushdown debt corresponding to long-term debt at the holding company. Interest is paid quarterly or semi-annually. Staff's failure to use the appropriate lag days for interest expense results in overstating the cash working capital needs (and rate base) of Vectren to the detriment of Vectren's customers. Staff's cash working capital allowance calculation should be reduced by approximately $640,000. Consequently working capital, of which cash working capital is a component, should be reduced.

8. OCC objects to the Staff's failure to offset rate base by at least $73,008 to account for the actual 13-month average (ending August 31, 2007) for unclaimed funds on the Company's books. Because these funds are non-investor supplied sources of capital, available for investment in materials and supplies, and are constant with reasonable certainty, they should be offset from rate base. Staff's failure to offset rate base by unclaimed funds results in the overstatement of rate base to the detriment of Vectren's customers.

B. Revenues

9. OCC objects to the amount of revenues included in the Staff Report, as "Base, riders, Miscellaneous and Other" as reflected on Staff Report Schedule C-3.1, as

these revenues are understated. The revenues are understated because the Staff used a 10 year weather normalization period, meaning that the test year volumes will be more volatile because they will be more susceptible to any individual weather anomaly during the shorter ten year period. The amount of the understatement for revenues is undetermined at this time based on the fact that there is outstanding discovery on this matter, despite repeated attempts to obtain the information, both formally and informally.

10. OCC objects to the Staff's failure to allocate any of the reported $4.4 million gain on the sale of the Todhunter underground mined LPG storage cavern and related utility assets to Vectren's jurisdictional customers. This gain was obtained when Vectren sold jurisdictional utility assets to the Vectren Utility Holdings Inc., who subsequently sold the assets to TE Products Pipeline Company ("TEPPCO"). Since these assets were dedicated to utility service they have been included in rate base and customers of VEDO, as well as customers of VEDO's predecessor, the Dayton Power & Light Company ("DP&L"), have paid a return on and a return of the depreciable assets. For the assets sold that were non-depreciable property, since the assets were dedicated to utility service, customers of VEDO, and its predecessor, DP&L, have paid a return on their value through rates. VEDO has not allocated to customers any of the gain associated with this sale in its revenue requirement in this case. Vectren's Ohio jurisdictional customers have borne the risks of asset recovery related to the sold utility asset in a number of ways including through payment of depreciation expenses; and through payment in rates of recurring carrying charges, such as taxes, insurance, licensing, and other

expenses. Moreover, customers have born the majority of the burdens associated with the sold property. Customers have shouldered the carrying costs of the sold utility assets as well as costs associated with a return on the investment. In the case of depreciable property customers have, through depreciation expense, shouldered the burden of returning shareholders' investments. Because Vectren's customers have borne most of the risks related to the plant, they should share in the gain from sale of the asset. Additionally, since customers have borne most of the burdens associated with this asset, they should reap some of the benefits associated with the sale of such asset. Staff's failure to allocate any of the gain from the sale of these customer funded assets has caused revenues produced under current rates to be understated, to the detriment of Vectren's customers. Customers are entitled to share in the gain on a 50/50 basis as they have born the burden of paying for this facility over the several decades when it was included in rate base. Thus, revenues in this rate case should have reflected \$2.2 million related to the gain on sale, amortized over a five year period.

11. OCC objects to the Staff's calculation of Residential and General Service revenues that flow from accepting the Company's budgeted data as a starting point. The budgeted data contains material errors relating to sales levels (including weather normalization) and customer levels that were included as the starting point for the Company's revenue calculation without any supporting data.

C. Expenses

12. OCC objects to the Staff's recommended amount of shared service expense. Neither Staff nor the Company reduced the amount of shared service expense to

account for Accumulated Deferred Income Taxes ("ADIT") related to the VUHI holding plant upon which the expense is based. The amount of shared service expense should also be adjusted to incorporate OCC's recommended rate of return. Shared service expense should be reduced by $665,223. Staff's failure to exclude a portion of the shared service expense causes expenses to be inflated, thereby increasing rates to the detriment of Vectren's customers.

13. OCC objects to the Staff permitting Vectren to recover Incentive Compensation expense. Vectren's incentive compensation expense is largely structured to meet targets reflecting earnings per share ("EPS") as opposed to other factors, related to quality of service, such as safety and customer satisfaction. By its very nature, incentive compensation is not recoverable unless the company demonstrates the direct benefit of incentive pay to customers, because under the Ohio ratemaking formula the Commission must determine "the cost to the utility of rendering the public utility service for the test period." Vectren has offered no proof that the incentive pay is directly related to providing public utility service to customers. Rather the shareholders are the beneficiaries of earnings-based goals, and should therefore bear the cost of incentive compensation based on such goals. Accordingly, labor expense in the Staff Report should be reduced by $774,633 to remove earnings-based incentive compensation.

14. OCC objects to the Staff's failure to reduce depreciation expense for items in Account 311, Liquefied Petroleum Gas Equipment, where the accumulated depreciation balances exceed the plant in service balances and where the cost-of-removal/net salvage component of the depreciation rates is zero. These accounts

appear to be fully depreciated as of August 31, 2007 and should not continue to accrue depreciation expense. Depreciation expense should be reduced by $106,000.

15. OCC objects to the inclusion of labor expense for positions that remained unfilled during the test period. Such positions include but are not limited to, the Economic Development Representative position, a component of customer related expense. The Staff Report did not remove the test year amount for the this expense on the erroneous basis that Vectren filled this position, when according to Company Response to OCC Interrogatory 441,Vectren admits the position has not been filled. Because the expense is related to a potential hiring, outside the test year, it should be excluded from consideration.

16. OCC objects to Staff's recommendation on Schedule C-3.5 to amortize riser investigation expenses over a three-year period. OCC recommends that the amortization period for expenses reflected in the Staff report should be applied consistently unless a compelling reason exists to apply a different amortization period. For instance, Staff uses a five-year period to amortize rate case expense on Schedule C-3.10, while here agreeing to a three-year amortization period for riser investigation expense. At the very least, riser expense should also be amortized over five years. When a five-year amortization period is used, test year operating expenses would be reduced by an additional $244,000 to reflect an annual amortization amount of $366,000.

17. OCC objects to the Staff including any expenses that relate to Governmental Relations, Community Information, Public Affairs and Lobbying because these

expenses are not ordinary and necessary expenses related to the rendering of public utility service for the test period, under R.C. 4909.15(A)(4). Nor do such expenses provide a direct and primary benefit to customers of Vectren. The Company's response to Interrogatory 152 indicates that it has included in its test year the following amounts for Governmental Relations, Community Information, Public Affairs and Lobbying year expenses:

FERC Account No.	Oracle GL Account No.	Description	B521 Cost Center Amount	0502 Cost Center Amount
910	6266300	Misc Customer Service & Info Exp	$ 38,840	-
909	6267000	Info & Instructional Ad Exp	$ 76,444	-
920	6280000	Admin & General Salaries	$ 141,643	$ 81,217
921	6281100	Office Supplies and Expenses	$ 30,565	$120,643[1]
923	6283100	Outside Services Employed	-	$ 4,165
930.2	6290100	Misc. General Expenses	$ 66,549	-
930.2	6290200	Misc. General Expenses	$ 20,583	-
930.2	6290203	Misc. General Expenses	$ 23,015	-
TOTAL:			**$ 397,639**	**$ 206,025**

Note: Expenses are included within the test year represented on Schedule C-2.1.

18. OCC objects to the Staff including any expenses in test year that relate to Investor Relations, because these expenses are not ordinary and necessary expenses related to the rendering of public utility service for the test period, under R.C. 4909.15(A)(4). Nor do such expenses provide a direct and primary benefit to customers of Vectren. The Company response to OCC Interrogatory No. 336 indicates that Vectren has included in the test year investor relations costs of "labor" and "all other" of $140,958.

[1] For cost center 0502, $75,000 of the expense in 6281100 is lobbying expense. This expense is related to a third party vendor.

19. OCC objects to Staff's failure to reduce property tax expense related to the Z-51 pipeline by $133,192, to adjust property taxes for date certain property and latest known rates. Such an adjustment would be consistent with the recommendation made in the Eagle report, at pages 50-51.

20. OCC objects to the Staff's failure to reduce PUCO and OCC assessments based on the Eagle Report's recommendation (at page 50) to use the latest known assessment.

21. OCC objects to the Staff failing to adjust depreciation expense to exclude depreciation expenses related to the ERT devices that are not used and useful as of date certain, as discussed in OCC Objection No. 3.

22. OCC objects to the Staff failing to adjust depreciation expense to exclude expense associated with the pig receiver and pig launcher. Since those items are not used and useful as discussed in OCC Objection No. 4, the corresponding depreciation expense should be excluded as well.

23. OCC objects to the Staff failing to adjust depreciation expense to exclude expense associated with the auger. Since the value of the auger appears unreasonable and overstated as discussed in OCC Objection No. 5, the corresponding depreciation expense should be excluded as well.

24. OCC objects to Staff's recommendation that VEDO's 20 year, $335 million Accelerated Distribution System Replacement Program ("ADSP") be approved even though VEDO did not provide specific yearly information regarding the type, location, schedule, and capital budget for the gas mains and connected facilities to be replaced. In addition to all of these shortcomings, the ADSP also

failed to provide a prioritization plan regarding the replacement of bare steel and cast iron mains.

25. OCC objects to Staff's assertion that with the implementation of the ADSP program, VEDO "will drastically reduce the amount of leaks that are discovered through the leak survey along with reducing the amount of leakage found in the system and reducing those costs." Staff made this assertion without citing any supporting analysis or study that would objectively support this claim.

26. OCC objects to Staff's assertion that the ADSP program, through reduced incidence in leak repair expenses and reduction of frequency of leak survey, will contribute to significant savings in VEDO's Operations and Maintenance ("O&M") costs. There are no specific cost figures provided anywhere in the VEDO application and testimonies or in the Staff Report, to support this assumption.

27. OCC objects to Staff's citation of the approximately $8.5 million in O&M savings allegedly achieved through the Duke Energy Ohio ("Duke") Accelerated Main Replacement Program ("AMRP") without mentioning the total investment of $255 million made by Duke on the AMRP up to now. Any O&M savings must be compared with the investment involved in achieving such a saving, and as part of an objective cost/benefit analysis. Moreover, it is inappropriate to assume any level of savings for VEDO based on experiences from the Duke case. The Staff Report cited no analysis or study that would lead to the conclusion that what Duke did or did not experience would also occur in the VEDO service territory.

28. OCC objects to Staff's support of the VEDO's ADSP program in general. Staff's support is not based on any cost-benefit analysis of the ADSP, any finding that VEDO is not currently providing safe and reliable service (VEDO's application specifically states that it is providing safe and reliable service), or any state or federal regulations mandating the replacement of bare-steel, cast-iron, wrought-iron, and copper pipelines within a specific period of time. Moreover, neither Staff nor VEDO identified any reason or explanation as to why the potential safety and reliability concerns that were not identified in VEDO's most recent rate case (three years ago) now warrant such a massive expenditure.

29. OCC objects to the Staff's acceptance of the 20-year schedule for the ADSP program as VEDO has not demonstrated that it can obtain the necessary financing, man-power, permit and support resources to complete the ASDP on time. Furthermore, there is no mechanism in place or proposed to hold VEDO accountable for any unreasonable delay or cost overrun. To the extent that the Duke AMRP program has been relied on for any experience, the Staff has ignored the fact that the Duke AMRP has been extended from 10 to 16 years (as currently projected), and has an estimated nearly $100 million cost overrun after only 4 years.

30. OCC objects to the Staff's acceptance of VEDO's assertion that the inclusion of ongoing pipeline infrastructure investment in to the ASDP program will defer the need for more frequent and expensive base rate proceedings. There is no evidence that such a deferral will happen with the approval of ADSP. VEDO makes no such commitment and VEDO is not prevented from filing a new rate

case whenever it determines it is necessary to do so. There are many other factors besides the ADSP that may affect VEDO's need for revenue. They include the general level of inflation, the cost of debt, labor cost, and new environmental regulations, if any, etc. All these are beyond the control of VEDO. So any talk of deferring rate case filings as a result of the approval of ADSP Cost Recovery Charge is speculative.

31. OCC objects to the Staff's recommendation to approve the ADSP program for an initial eight year or the filing of a subsequent base rate case, whichever comes first. If approval is granted, the initial approval period should be no more than 4 years, after which the program will have been implemented for a reasonable period of time and the results can be reasonably evaluated. Furthermore, the PIR program should be considered terminated unless it is expressly approved by the Commission after the initial approval period. Gas mains replacement is a continuing process and any investment made in a specific time and location is mostly independent of investments made at another time and location. In most instances, there is no so-called "stranded investment" for the ASDP program and thus it can be terminated at any year.

32. OCC objects to the Staff Report conclusion that many of the system integrity and reliability programs that would be part of the ASDP are "generally prudent activities and Staff has no issue with these proposals." It is inappropriate for the Staff to presuppose that any activity is prudent prior to the Company establishing that fact by requiring the Company to bear the burden of proving the prudence of its ASDP in an evidentiary hearing.

33. OCC objects to the Staff's acceptance of the 20-year schedule for the ADSP program as this schedule is not supported by any cost or revenue requirement associated with other different schedules (shorter or longer periods) for gas mains replacement. This is especially troublesome in light of the fact that the ADSP has appeared suddenly and was not an issue as recently as VEDO last rate case, less than 3 years ago.

II. RATE OF RETURN

34. OCC objects to the Staff Report's recommendation for a cost of capital in the range of 8.45% to 8.98%,[2] which is unreasonably high. The OCC objects to the Staff Report's calculated capital structure, common equity cost rate, and overall rate of return on the following bases:

35. Group of Comparable Utilities.

OCC objects to the Staff Report's use of a group of only five companies in its group of "comparable utilities" that served as a basis of its capital structure and cost of capital analysis. There exist additional natural gas distribution companies that should have been included in the "comparable group" of companies. Furthermore, this group of five companies includes National Fuel Gas Corporation (NFG), a company which is considered to be an integrated natural gas company and not a natural gas distribution company like Vectren.

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[2] Staff Report at 15.

36. Capital Structure and Debt Cost Rate

OCC objects to the Staff Report's use of a hypothetical capital structure which is the average book value capital structure of the five companies in the Staff's comparable group. The actual capital structure in fact is required under R.C. 4909.15(D)(2)(a) in order to produce the "actual cost of debt." Additionally, it is more appropriate to use the actual capital structure of the entity that provides the capital to VEDO. This is not the capitalization used by the Company to attract and raise capital. This error in the selection of a capital structure is further exacerbated by the Staff's adoption of the Company's proposed long-term debt cost rate of 7.02 percent which reflects only two debt issues from among several debt issues of VUHI and Vectren. There must be synchronization between the adopted capital structure and the cost of debt capital. By using the capital structure for the proxy companies and VEDO's debt cost rate, the Staff's capital structure and debt cost rate are not synchronized.

37. Capital Asset Pricing Model ("CAPM")

OCC objects to the Staff Report's inappropriate risk free rate and risk premium of 6.5% in the CAPM.[3] The Staff Report uses 10-year and 30-year U.S. Treasury bonds over the past year. This is an exclusive time period, which ignores the decline in interest rates over the past year. The risk premium stated in the Staff Report was based on the spread of the arithmetic mean of historical total returns between large stocks for large companies and long-term government bonds between 1926 and 2007. This approach is subject to a myriad of empirical errors

[3] Staff Report, at 16.

which make these historical returns poor measures of expected returns. The use of historical return to estimate an expected risk premium can be erroneous because (1) ex post returns are not the same as ex ante expectations, (2) market risk premiums can change over time, increasing when investors become more risk-averse, and decreasing when investors become less risk-averse, and (3) market conditions can change such that ex post historical returns are poor estimates of ex ante expectations. This approach is outdated, ignores twenty years of academic and professional research on the equity risk premium, and is out of touch with the real world of finance.

38. Discounted Cash Flow ("DCF") Analysis

OCC objects to the Staff Report's use of a multi-stage DCF model which includes a growth rate that is a combination (1) the average of projected EPS growth from Wall Street analysts (as collected and compiled by Reuters, Yahoo!, and MSN) and *Value Line* and (2) a long-term growth rate equal to the projected GNP growth rate. It is well known that the EPS growth rate projections of Wall Street analysts are upwardly biased and produce an overstated DCF equity cost rate. It is more appropriate to consider alternative measures of expected growth, as investors consider multiple factors in making their investment decisions. Furthermore, the Staff had provided no theoretical or empirical support to justify using the projected GNP growth rate as the expected long-term DCF growth rate. In addition, the 6.77 percent projected GNP growth rate is excessive, as it relies exclusively on historic growth. There exist several credible projections of long-term GNP growth, both governmental and private organizations that predict growth in the range of 4 1/2 percent.

39. Flotation Costs

OCC objects to the Staff incorporating an excessive flotation cost adjustment to the cost of equity.[4] This adjustment is erroneous for several reasons. The Staff has not identified any actual flotation costs for the Company, the Company has not demonstrated that it incurred any flotation costs, and the Company has not requested a flotation cost adjustment. The Staff is recommending that the Company receive annual revenues in the form of a higher return on equity for flotation costs that have not been identified by either the Staff or the Company.

40. Rate of Return Adjustment for Alternative Regulation

OCC objects to the Staff's failure to make an adjustment to reduce the recommended rate for common equity in recognition of the reduced risks that the Company will face with respect to revenues and cost recovery if the Commission approves any of the risk-reducing mechanisms proposed by the Company. Although the Staff Report acknowledged that these mechanisms would reduce the risks faced by the Company, the Staff failed to make any corresponding reductions to the rate of return to reflect these reduced risks.

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[4] Staff Report at 17.

III. RATES AND TARIFFS

A. Rate Design

41. OCC objects to the Staff supporting recovery of the Accelerated Distribution Replacement Program ("Program") via a Distribution Replacement Rider ("DRR"). The Staff failed to demonstrate that this extraordinary ratemaking mechanism, for the recovery of approximately $337.5 million[5] over a 20-year period, is necessary, just and reasonable, and prudent. Nor does Staff find that the rider is permissible under R.C. 4929.11 or 4929.05, as an alternative rate plan. It is not. The costs associated with this program are not costs that "fluctuate automatically in accordance with changes in specified cost or costs" and thus are not permissible to recover through a rider under R.C. 4929.11. Staff has not explained how the rider is permissible under R.C. 4929.05, nor has Vectren sustained its burden of proof in this regard. Nor does the Staff conclude these costs are characteristic of costs permitted to be recovered through riders under past Commission decisions. These costs are neither extremely volatile nor are they beyond the Company's control. Additionally, automatic recovery of such costs will diminish the incentives of the company to keep the costs of the program down and may lead to customer confusion and misunderstanding. Finally, Staff fails to follow the Eagle Report recommendation (at pages 73-75) that these costs be recovered through some alternative means, rather than an automatic increase through VEDO's proposed DRR Rider.

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[5] Benkert Testimony at page 8.

42. Notwithstanding OCC's previous objection, the OCC objects to the Staff recommending that the DRR be continued for an additional 8 years. The OCC recommends that the DRR be continued only for, at most, 4 years or until the Company's next rate case – whichever comes first.

43. OCC objects to the Staff recommending approval of Rider SRR-A and the initial rates as proposed by VEDO. Specifically, OCC objects to the Staff recommending that customers be charged $5,152, 213 in deferrals authorized in Case No. 05-1444-GA-UNC. OCC's objection is based on the principle that the deferrals authorized were unreasonable and unlawful, and that the alternative regulation plan approved was also unlawful and unreasonable. These arguments were addressed in detail in OCC's Application for Rehearing of the Supplemental Opinion and Order in Case No. 05-1444-GA-UNC, and are incorporated herein by reference.

44. OCC objects to the Staff approving through Rider SRR-A the collection of two years of deferrals over a one year period of time. Notwithstanding OCC's objection stated above, if the Commission is to allow the SRR-A rider, the time period for collecting deferrals from customers should be equivalent to the time period over which the deferrals were created. Hence, if the Commission is to allow the collection of deferrals from customers, the two years of deferrals should be collected from customers over two years.

45. OCC objects to the Staff's recommendation of Straight Fixed Variable rate design for the Residential and General Service customer classes without any corroborating evidence as to why this rate design is necessary or is just and

reasonable. Switching to a straight fixed variable rate design is a break from Commission policy and precedent and is not justified in this case. Although the PUCO Staff relied upon the Company's budgeted weather normalization to support their recommendation, the data relied on by Staff contains errors that overstate the need to switch to the SFV rate design in order to address the alleged loss of weather normalized average usage per customers. The correct data indicates that there has been very little loss of weather normalized average usage per customer, thus negating the need to switch to a rate design that would address a need that does not exist.

46. OCC objects to the Staff's recommendation that the SRR only be discontinued upon the adoption of the SFV rate design. As mentioned previously, the OCC objects to SFV rate design in this case, and objects to the continuation of SRR-A. There has been no corroborating evidence presented in this case proving that weather normalized average usage per customer has declined. In fact, weather normalized usage per customer has actually increased. Therefore, any recommendation from the Staff for adoption of SFV based on declining average use per customer is in error and as a result, SFV should not be adopted.

47. OCC objects to the Staff's failure to recommend that if SFV rate design is implemented, nothwithstanding OCC's objections to the contrary, modifications are needed in VEDO's proposed SFV rate design to provide relief to low income low usage customers.

48. OCC objects to Staff's support for recovering all the cost, through the Distribution Replacement Rider ("DRR") associated with assuming responsibility

for the installation of all customer service lines and the maintenance, repair and replacement of all unsafe or leaking customer owned service lines.

49. OCC objects to the Staff's support of VEDO's proposed rate design for the ADSP Cost Recovery Charge. As proposed by VEDO, the DRR will be recovered from customers on rate schedules 310, 315, 341 and Group 1 customers on rate schedules 320 and 325 as a fixed monthly charge. This SFV-type rate design is not economically efficient, discourages energy conservation, and puts an unfair burden on low-use residential customers.

50. OCC objects to the Staff's recommendation to permit VEDO to create the necessary regulatory assets to capture the Post-in-Service Carrying Charges ("PISCC") associated with the PIR program for inclusion in the subsequent year's DRR rider. At the very least, any carrying charges for PISCC should be limited to VEDO's cost of long-term debt as applied in this rate case.

B. SFV Rate Design

51. OCC objects to the PUCO Staff's recommendation of a rate structure primarily based on a fixed distribution service charge, or Straight Fixed Variable ("SFV") rate design. The Staff unreasonably strayed from the traditional, and more appropriate, rate structure of a minimal customer charge (presently $7.00 per month, or alternatively reduced for purposes of conservation) and a volumetric rate or blocks of rates. Moreover, the Staff Report recommendation for the SFV rate design is contrary to the principles of gradualism that have long guided the

Staff and PUCO in rate design matters and the significant increases in the customer charge violates the principle of guarding against rate shock.

52. The Staff's SFV design sends an improper price signal to the consumer, fails to encourage customer initiated conservation, and adversely affects the Company's and its customers' energy efficiency efforts. In addition, PUCO Staff recognizes that the biggest negative impact being that the change from a primarily volume based rate to a primarily fixed charge rate often results in larger price increases to low use customers (or, if the fixed charge is "blocked," to the lower use customers in the block). A secondary disadvantage is that the fixed charge structure reduces the incentive on the part of the customer to reduce its usage. Finally, Staff admits that the current rate schedules are designed as "general sales service" (primarily residential) and "large volume general sales service."

53. The Staff's recommendation also ignores the option of a decoupling mechanism in favor of the SFV rate design. A decoupling mechanism would more fairly address the issue of potential loss of weather normalized average usage per customer because a decoupling mechanism would annually true-up any variances from the weather normalized average usage per customer. Because the annual true-up could result in either an additional charge or a credit for customers it provides a more fair alternative to the SFV rate design that only operates in favor of the utility and thus shifts the risk from the Company to customers. OCC objects that the SFV as recommended by the Staff has no mechanism to review or refund to customers any over collections by the Company.

C. Decoupling Mechanism

54. OCC objects to the Staff's recommendation of Straight Fixed Variable rate design for the Residential and General Service customer classes without any corroborating evidence as to why this rate design is necessary or is just and reasonable. Switching to a straight fixed variable rate design is a break from Commission policy and precedent and is not justified in this case. Although the PUCO Staff relied upon the Company's budgeted weather normalization to support their recommendation, the data relied on by Staff contains errors that overstate the need to switch to the SFV rate design in order to address the alleged loss of weather normalized average usage per customers. The correct data indicates that there has been very little loss of weather normalized average usage per customer, thus negating the need to switch to a rate design that would address a need that does not exist.

55. OCC objects to the Staff's move toward a rate design for residential customers that is primarily based on a fixed customer charge with little emphasis upon a variable commodity rate. The PUCO Staff's proposal is contrary to the State policy of conservation as noted in R.C.4929.02 and R.C. 4905.70. OCC objects to the Staff's recommendation to reject the Company's SRR-B. In the alternative to the present rate design, the Staff should consider the Company's proposed SRR-B, but only if it is implemented with a customer charge at its present level (or further reduced for purposes of conservation), with sufficient consumer safeguards, significant DSM investment, and with an accurate weather normalization calculation.

IV. SERVICE MONITORING AND ENFORCEMENT

56. OCC objects to the Staff failing to assess the impact that billing a security deposit in a single payment, instead of installments, has on residential customers' ability to secure service.

57. OCC objects to the Staff's failure to recommend that the Company offer additional extended payment plans for customers so that they may continue to maintain natural gas service.

58. OCC objects to the Staff's failure to address situations where customers have billing periods that are longer than one month and that may result in unaffordable utility service.

59. OCC objects to the Staff's failure to deny the Company's request for a "payment at the door" collection charge, whereby the Company could assess the charge when an employee was sent to disconnect the customer's service for non-payment of the bill but accepts the payment from the customer before disconnect occurs.

60. OCC objects to the Staff's failure to consider the impact of additional charges and fees on customers' ability to pay their gas utility bill.

61. OCC objects to the Staff's failure to address why the company is not offering the option of obtaining a guarantor to reestablish creditworthiness to customers that are disconnected for non-payment.

V. CONSERVATION

62. OCC objects that the Staff failed to recommend that ratepayer funding of administrative expenses and advertising/educational expenses associated with comprehensive energy efficiency programs should be determined in the DSM stakeholder process.

63. OCC objects that the Staff failed to recommend that administrative expenses and advertising/educational expenses should not exceed, in total, 20% of the program cost, unless otherwise modified for a specific program by the DSM stakeholder group. This condition was implemented in the recent Columbia Gas of Ohio DSM filing.[6]

VI. MISCELLANEOUS

64. OCC objects to the Staff's failure to identify defects in Vectren's statutorily required written notice to municipalities. Vectren's notice to municipalities, required under R.C. 4909.43 (B), was deficient in the following respects:

    A. Vectren noticed Rate 310 Residential Sales Service, Stage 2, which it is seeking approval of, at a rate lower than the rate contained in its Rate Case Application.

    B. Vectren noticed Rate 315 Residential Transportation Service, Stage 2, which it is seeking approval of, at a rate lower than the rate contained in its Rate Case Application.

[6] Application of COH to establish DSM programs for residential and commercial customers, Case No. 08-0833-GA-UNC page 10

C. Vectren failed to explain , under the proposed distribution replacement rider, that customers will be assessed costs enabling the Company to recover individual riser replacement costs, and incremental costs attributable to assuming ownership of service lines and costs of assuming maintenance responsibility for service lines, all of which Vectren seeks approval of in its Rate Case Application.

65. OCC objects to the Staff failing to recommend that the Company cure the defects in its notice by refiling the entire application and providing notice as required under R.C. 4909.43(B).

66. OCC objects to the Staff's failure to identify defects in Vectren's required notice for newspaper publication. Vectren's published notice, required under R.C. 4909.18(E), and 4909.19 was deficient in the following respects:

A. Vectren failed to notice Rate 310 Residential Sales Service, Stage 2 rates, which it is seeking approval of in its application.

B. Vectren failed to notice Rate 320 General Sales Service, Stage 2 rates, which it is seeking approval of in its application.

C. Vectren noticed Rate 360 Large Volume Transportation service rate for volumes over 150,000 Ccf, which it is seeking approval of, at a rate lower than the rate contained in its application.

D. Vectren failed to provide notice of the rate proposed for Rate 360 Large Volume Transportation Service for usage over 200,000 Ccf.

67. OCC objects to the Staff failing to recommend that the Company cure the defects in its notice by refiling the entire application and providing notice as required under R.C. 4909.18 and 4909.19.

68. OCC objects to the Staff's failure to recommend that Vectren improve its practices with respect to timely closing out its work orders. Vectren has failed to close out $26 million in work orders completed, and in service but not transferred to specific plant accounts. Such balances should not remain in the Account 106, completed construction not classified, for more than a few months.

69. OCC objects to the Staff's calculation of jurisdictional rate base, as shown on Schedule B-1, to the extent that other objections have an impact on this calculation.

70. OCC objects to the Staff's calculation of operating revenues, as shown on Schedule C-2, to the extent that other objections have an impact on this calculation.

71. OCC objects to the Staff's calculation of operating expenses, as shown on Schedule C-2, to the extent that other objections have an impact on this calculation.

72. OCC objects to the Staff's calculation of taxes other than income, as shown on Schedule C-3, to the extent that other objections have an impact on this calculation.

73. OCC objects to the Staff's calculation of federal income taxes, as shown on Schedule C-4, to the extent that other objections have an impact on this calculation.

SUMMARY OF MAJOR ISSUES

R.C. 4903.083 requires that, with regard to the scheduling of local public hearings, the Commission must list in the notice to customers "a brief summary of the then known major issues in contention..." by the parties. For this notice the Commission should include the major issues in a form that is understandable and accurate for customers. To accomplish the General Assembly's objective to notify customers of their opportunity to participate in hearings, the Commission should include the following in the notice, with reference as well to the differing positions of parties:

1. What is the amount of the monthly customer charge (a charge that is independent of how much gas is used or treated) that residential consumers will have to pay?
2. How much of an increase will Vectren's residential customers have to pay for gas service?
3. What is the amount of profit that the PUCO will give Vectren an opportunity to earn for providing gas service to residents in Ohio?
4. Which expenses that Vectren incurred from June 1, 2007 until May 31, 2008 will be recoverable from Vectren's customers?
5. The rate design that DEP will be authorized to implement, including that the rate design should recognize the basic rate design criteria of fairness and equity and to be appropriately structured such that it sends consumers the proper price signal, encourages conservation, and removes any disincentive for the Company to undertake energy efficiency programs;

6. The gradual rate of any increase to the fixed portion of the customer charge if a SFV rate design is implemented;

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL

Maureen R. Grady

Maureen R. Grady, Counsel of Record
Joseph P. Serio
Michael E. Idzkowski
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
614-466-8574 (Telephone)
614-466-9475 (Facsimile)
grady@occ.state.oh.us
serio@occ.state.oh.us
idzkowski@occ.state.oh.us

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Office of the Ohio Consumers' Counsel's *Objections to the PUCO Staff's Report of Investigation and Summary of Major Issues* was provided to the persons listed below via first class U.S. Mail, postage prepaid, this 16th day of July, 2008.

Maureen R. Grady
Maureen R. Grady
Assistant Consumers' Counsel

PARTIES OF RECORD

Werner Margard
Attorney General's Office
Public Utilities Section
180 East Broad Street, 9th Floor
Columbus, OH 43215

John Dosker
General Counsel
Stand Energy Corp.
1077 Celestial Street Suite 110
Cincinnati, OH 45202-1629

Ronald E. Christian
Executive Vice President, General Counsel & Corporate Secretary
Vectren Corporation
P.O. Box 209
Evansville, IN 47702-0209

John W. Bentine
Counsel for Interstate Gas Supply
Chester, Wilcox & Saxbe, LLP
65 East State Street, Ste. 1000
Columbus, OH 43215-4259

Samuel C. Randazzo
Gretchen J. Hummel
Lisa G. McAlister
McNees Wallace & Nurick LLC
Fifth Third Center
21 East State Street, 17th Floor
Columbus, OH 43215

David C. Rinebolt
Ohio Partners for Affordable Energy
231 West Lime Street
P.O. Box 1793
Findlay, OH 45839-1793