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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	Case No. 09-38-GA-UNC
The East Ohio Gas Company d/b/a	)	AMR Annual Filing For
Dominion East Ohio to adjust its	)	Calendar Year 2008
Automated Meter Reading Cost	)	
Recovery Charge and related Matters.	)	

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COMMENTS
AND
RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION

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COMMENTS AND RECOMMENDATIONS

INTRODUCTION

In accordance with the stipulation adopted in Case Nos., 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT, and 06-1453-GA-UNC the Commission's Staff has conducted its investigation in the above-referenced matter and hereby submits its Comments to the Commission.

These Staff's Comments were prepared by the Commission's Utilities Department and Service Monitoring and Enforcement Department.

The East Ohio Gas Company d/b/a Dominion East Ohio (DEO or Company) is an Ohio corporation engaged in the business of providing natural gas service to approximately 1.2 million customers in northeast, western and southeast Ohio communities.

On December 13, 2006, DEO filed an application to establish an Automated Meter Reading (AMR) cost recovery charge in Case No. 06-1453-GA-UNC. On September 20, 2007, DEO filed a motion to consolidate its AMR application with the rate case and other related cases nos. 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, and 08-169-GA-ALT. On April 9, 2008, the Commission approved the motion to consolidate.

On August 22, 2008, the parties in the consolidated rate Case Nos. 07-829-GA-AIR, et al entered into a stipulation resolving all issues except rate design. As part of the stipulation, the parties adopted the Staff's recommendation with respect to the AMR cost recovery charge and an AMR rider was set at $0.00. The Stipulation and Recommendation was approved by the Commission on October 15, 2008.

On December 19, 2008, DEO filed in Case Nos. 07-829-GA-AIR and 06-1453-GA-UNC a notice of intent to file an application supporting an AMR cost recovery charge for costs incurred during calendar year 2008, along with preliminary schedules 1 through 11 demonstrating the justness and reasonableness of the estimated revenue requirement associated with the AMR cost recovery charge. On January 20, 2009, The Commission opened Case No. 09-38-GA-UNC and transferred the documents, specifically the prefiling notice identified on December 19, 2008 filing to Case No. 09-38-GA-UNC.

On February 27, 2009, DEO filed schedules 1 through 12 to update its application to a full year of actual data for the AMR cost recovery charge in Case No. 09-38-GA-UNC. DEO seeks the Commission approval of an AMR cost recovery charge of $0.46 per month per customer.

The establishment of the AMR rider, where rates are established each year, will continue until the effective date of the rates set in the Company's next base rate case. The rider is designed to recover expenditures associated with the Company's AMR program, which covers the five-year installation of AMR equipment on each of the nearly 1.3 million meters in its system. This is accomplished by attaching an AMR device to the customer's existing meter. DEO intends to substantially complete its AMR installations by 2011. The Staff, by way of an annual filing by DEO to adjust the AMR rates, will review the viability of such rates.

As a part of the annual filing, a pre-filing notice is to be issued in November of each year, and will consist of nine months of actual and three months of projected data for the calendar year with a date certain December 31. By February 28 of the following year, the Company will file an application updating to a full year of actual data.
Unless the Staff finds DEO's filing to be unjust or unreasonable, or if any other party files an objection that is not resolved by DEO, the Staff will recommend Commission approval of the Company's application, with the increase in the AMR rider taking effect with the first billing cycle following the Commission order.

SCOPE OF STAFF'S INVESTIGATION

The scope of the Staff's investigation was designed to determine if the Company's filed exhibits justify the reasonableness of the revenue requirement used as a basis for the annual adjustment to the AMR rider. The Staff's Comments summarize exceptions to the

Company's rate filing, generally explain the basis or bases for each exception, and provide recommendations to correct those exceptions.

The Staff reviewed and analyzed all of the documentation filed by the Company and traced it to supporting work papers and to source data. As part of its review, the Staff issued data requests, conducted investigative interviews, and performed independent analyses when necessary. When investigating the Company's operating income, the Staff limited its review to expenses associated with depreciation, amortization of post in-service carrying charges, property taxes, and operation and maintenance savings.

For rate base, the Staff reviewed and tested the Company's plant accounting system to ascertain if the information on AMR assets contained in the Company's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The computation of the Allowance of Funds Used During Construction (AFUDC) was examined. The testing included the selection of transactions for detailed review. Finally, the Staff reviewed post in-service carrying costs and related deferred income tax effect, and deferred taxes on liberalized deprecation.

COMPANY'S PROPOSED RECOVERY

The Company proposes a revenue requirement calculation to support its AMR cost recovery charge. The AMR rider is based on an annualized revenue requirement and number of bills issued to customers on applicable rate schedules between December 31, 2007 and December 31, 2008. The Company requests that the Commission adjust its

AMR cost recovery charge to $0.46 per month per customer and the effective date of such rate is the first billing cycle in May 2009.

The Company's calculation is supported on the basis of what was agreed upon in the Stipulation and Recommendation discussed above and includes the following:

- Original Cost and Accumulated Reserve for post 3/31/07 (date certain, Case No. 07-829-GA-AIR) AMR property
  - Used and Useful on December 31, 2008
  - Capital expenditures for new equipment (limited to new AMR devices and related equipment)
  - Adjustments for the retirement of existing assets

- Calculation of Post In-Service Carrying Costs (PISCC) on net plant additions and related deferred taxes
  - Recorded in unique sub-accounts of Account 182.3, Other Regulatory Assets
  - Calculated from the date that the applicable assets are used and useful (post-3/31/07) until the next effective date of AMR rider
  - Based on Company's embedded interest cost and recorded at the gross rate for recovery on deferred taxes that lessens amount for recovery

- Calculation of deferred taxes on liberalized depreciation

- Proper annual depreciation expense

- Gross-up of 8.49% rate of return assigned to the recovery of AMR net capital expenditures

- Operation and maintenance expenses savings resulting from the AMR

- Incremental property taxes associated with net plant additions

- An AMR revenue requirement that was allocated to each class based on the respective class' actual number of bills.

The Company's AMR revenue requirement of $14,769,345 for AMR net plant additions capitalized from the program's inception through date certain of December 31,

2008, is allocated to the rate classes using number of customer bills for the twelve months ended December, 2008. A monthly charge of $0.46 will be applicable to all customers receiving service under the following rate schedules:

General sales service
Large volume general sales service
Energy choice transportation service
Large volume energy choice transportation service
General transportation service
Transportation service for schools

PROCEDURAL BACKGROUND

On December 19, 2008, DEO docketed its pre-filing notice to recover, through its AMR cost recovery charge, the cost of installing automated meter-reading (AMR) devices on customer meters during the period April 1, 2007 through December 31, 2008. Because this filing contained "provisional estimated schedules", the Staff informed DEO that it needed some actual data from which to select an audit sample to verify that the AMR costs were incurred and were consistent with the approved stipulation in Case No. 07-829-GA-AIR. On February 9, 2009 DEO provided the Staff a summary of actual costs with the exception of: (1) costs that needed to be excluded because they related to AMR devices installed to replace Badger and American mechanical remote devices; and (2) costs that needed to be added (for most months) relating to AMR installations completed in conjunction with other work performed on the same visit. DEO asserted that these adjustments would be included in its application to be filed on February 27, 2009 and added that DEO would provide the Staff an explanation of the adjustments.

AMR ADDITIONS

Using the data that DEO provided on February 9, 2009 the Staff selected for audit various AMR accounts based on the amount of costs incurred, then selected the months with the highest dollar costs, and requested documentation supporting those high-cost amounts. After reviewing this documentation, the Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. The Staff also examined the adjustments (and supporting documentation) DEO made for AMRs installed to replace Badger and American remote devices and for AMR installations made on the same visit when other work was performed.

Based on its audit, the Staff recommends the following adjustments:

1- DEO should adjust its AMR capital additions requested in its February 27, 2009 application to reflect the following items as described below and to makes all necessary corrective journal entries to reduce AMR plant additions.

- DEO over-stated by $13,394 the amount of its Service Company IT Labor allocation to the AMR project.
- DEO incorrectly charged to the AMR project $5,147 in outside meter services not applicable to the AMR program.
- DEO incorrectly charged to the AMR project $3,988 in freight charges for a truck load of meters, which are not part of the AMR program.

The impact of these three items listed above is immaterial. The Staff recommends that future calculation of AMR rider should reflect the reduction recommended by the Staff.

2- DEO had included in its application the cost of 237,058 AMRs that had been purchased but not yet installed as of December 31, 2008. Based on the number of AMRs that DEO subsequently installed during the first quarter of 2009, the Staff believes it would have been more reasonable to have only 100,000 of these devices in inventory at year-end 2008. The Staff therefore recommends a $5,117,844 adjustment to exclude the

cost of the 137,058 excess AMRs that were on DEO's inventory at that time. This adjustment would reduce DEO's total additions to a level of $32,891,588.

OPERATING EXPENSE SAVINGS CALCULATION

Paragraph P of the approved Stipulation in Case No. 07-829-GA-AIR includes a commitment that "within three months of the Commission's approval of the stipulation, DEO shall work with the Commission Staff and the Office of the Ohio Consumers' Counsel (OCC) to develop an appropriate baseline from which meter reading and call center savings will be determined and such quantifiable savings shall be credited to amounts that would otherwise be recovered through the AMR cost recovery charge." Accordingly on December 12, 2008, DEO, Staff, and OCC began such discussions using DEO's meter reading costs for 2007 and 2008 along with actual employee counts for those years and the planned counts for 2009. As a result of these discussions, the parties agreed to use 2007 as a baseline year for calculating any call center savings.

In discussing the meter-reading costs for 2007 and 2008, the Staff learned that some of the meter reading costs involved contractors hired to perform inspections on inside meters. The Staff suggested that it would be more appropriate to charge such inspection costs to a non-meter reading account. DEO then adjusted the historical meter reading cost data to reflect the exclusion of these contractor inspection costs, and argued for using the adjusted 2007 data as the baseline for calculating meter reading expense. The Staff believes such a procedure is consistent with its Staff Report position and recommends the year 2007 for use as a baseline for calculating both meter reading and call center savings, subject to the following conditions:

- That the cost of contractor-performed inside-meter inspections will not be charged to meter reading expense;

- That the cost of inside-meter inspections performed by meter readers (other than in conjunction with a regular meter reading visit) will not be charged to meter reading expense;

- That call center expense will not be netted against meter reading expense in calculating Operating Expense savings for the AMR Cost Recovery Charge; and

- That if the savings calculation results in a cost increase (either for meter reading or call center expense), such increase will have no effect on the calculation of the AMR cost recovery charge.

Although using this methodology yields no 2008 Call Center Expense savings, it does yield a 2008 Meter Reading Expense savings of $275,928 which is reflected in DEO's application. The Staff recommends approval of these savings amounts.

STAFF'S EXCEPTIONS AND RECOMMENDATIONS

The Staff has completed its investigation of the Company's proposed AMR rider. As a result of its investigation, the Staff has determined that the Company's calculation of the AMR revenue requirement as reflected in the updated filing is supported by adequate data and information and the revenue requirement is properly allocated to the various customer classes in accordance with the terms and conditions of the Stipulation and Recommendation except for the following recommended adjustments:

1. The Company has recorded as regulatory assets the depreciation expense, the incremental property taxes and the post-in-service carrying costs associated with its AMR program costs in its December 31, 2008 balance sheet. The Company proposes to amortize post in-service carrying costs over the useful life of the AMR equipments. However, for the deferred depreciation expense and the deferred incremental property tax, the Company proposes a one year amortization. The Staff recommends that the deferred depreciation expense and the deferred incremental property taxes should also be amortized over the useful life of the AMR equipments. The Staff also recommends that the rate base should include the

unamortized balances of deferred depreciation expense and deferred incremental property taxes.

2. The Company utilized an estimated tax rate to annualize property tax expense. The Staff recalculates the property tax expense utilizing the latest known tax rate.

3. The Staff recalculates the annual amortization of the deferred post in-service carrying costs to reflect the proper amortization rate for the AMR installation cost.

4. The Staff recommends that DEO's total AMR Plant Additions and associated depreciation, post in-service carrying costs, property taxes, and related deferred taxes be reduced to reflect the exclusion of the costs of the 137,058 excess AMR devices.

With the adoption of the above recommendations, the Staff recommends the approval of a monthly charge of $0.34 for all applicable customers. The Staff also recommends that the adjusted AMR rider of $0.34 be implemented in the first billing cycle of the month following the Commission's decision.

Respectfully submitted,

Richard Cordray
Ohio Attorney General

Duane W, Luckey
Section Chief

Stephen A. Reilly
Assistant Attorneys General
180 East Broad Street
Columbus, Ohio 43215
(614) 466-4396
FAX: (614) 644-8764
Stephen.reilly@puc.state.oh.us

On behalf of the Staff of the
Public Utilities Commission of Ohio

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Staff Comments of Ibrahim Soliman and Peter Baker was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 10th day of April, 2009.

Stephen A. Reilly
Assistant Attorney General

David A. Kutik
Jones Day
North Point, 901 Lakeside Avenue
Cleveland, OH 44114
dakutik@jonesday.com

Grant W. Garber
Jones Day
325 John H. McConnell Blvd., Suite 600
P.O. Box 165017
Columbus, OH 43216-5017
gwgarber@jonesday.com

Interstate Gas Supply, Inc.
Chester, Willcox & Saxbe LLP
John W. Bentine/Mark Yurick
65 E. State Street
Suite 1000
Columbus, OH 43215-4216
jbentine@cwslaw.com
myurick@cwslaw.com

The Neighborhood Environmental Coalition, The Empowerment Center of Greater Cleveland, The Cleveland Housing Network, and The Consumers for Fair Utility Rates
Joseph Meissner, Esq.
The Legal Aid Society of Cleveland
1223 West 6th Street
Cleveland, OH 44113
jpmeissner@lasclev.org

Office of the Ohio Consumers' Counsel
Joseph Serio, Esq.
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
serio@occ.state.oh.us

Dominion Retail
Barth Royer
33 South Grant Avenue
Columbus, OH 43215-3927
barthroyer@aol.com

Ohio Partners for Affordable Energy
David Rinebolt, Esq.
P.O. Box 1793
Findlay, OH 45839-1793
drinebolt@aol.com

Stand Energy Corporation
John M. Dosker, Esq.
General Counsel
1077 Celestial Street, Suite 110
Cincinnati, OH 45202-1629
jdosker@stand-energy.com

UWUA Local G555
Todd M. Smith, Esq.
Schwarzwald & McNair LLP
616 Penton Media Building
1300 East Ninth Street
Cleveland, OH 44114
tsmith@smcnlaw.com

Integrys Energy Services, Inc.
M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
mhpetricoff@vorys.com
smhoward@vorys.com

The Ohio Oil & Gas Association
W. Jonathan Airey
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
wjairey@vorys.com

Robert Triozzi
City of Cleveland
Cleveland City Hall
601 Lakeside Avenue, Room 206
Cleveland, OH 44114-1077
RTriozzi@city.cleveland.oh.us
SBeeler@city.cleveland.oh.us