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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of **The East Ohio Gas Company dba Dominion East Ohio** to adjust its Pipe Infrastructure Replacement (PIR) Cost Recovery Charge and Related Matters.	:	Case No. 09-458-GA-UNC PIR Annual Filing for Fiscal Year 2008/2009

COMMENTS AND RECOMMENDATIONS

SUBMITTED BY THE STAFF OF
THE PUBLIC UTILITIES COMMISSION

October 2, 2009

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THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of **The East Ohio Gas Company dba Dominion East Ohio** to adjust its Pipe Infrastructure Replacement (PIR) Cost Recovery Charge and Related Matters.	:	Case No. 09-458-GA-UNC PIR Annual Filing for Fiscal Year 2008/2009

Alan R. Schriber, Chairman
Ronda Hartman Fergus, Commissioner
Valerie A. Lemmie, Commissioner
Paul A. Centolella, Commissioner
Cheryl Roberto, Commissioner

To the Honorable Commission:

In accordance with the Stipulation adopted in *In the Matter of the Application of The East Ohio Gas Company dba Dominion East Ohio for Authority to Increase Rates for Gas Distribution Service*, 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 findings in these Comments to the Commission.

In accordance with the Commission's July 8, 2009 Entry in Case No. 09-458-GA-UNC, the Staff timely submits its Comments.

These Comments contain the results of the Staff's investigation and do not reflect the views of the Commission nor is the Commission bound in any manner by the representation and/or recommendations set forth herein.

Respectfully submitted,

Utilities Department

Jodi G Bair

Jodi J. Bair, Director

Service Monitoring and Enforcement Department

Doris E. McCarter

Doris McCarter, Director

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COMMENTS AND RECOMMENDATIONS

SUBMITTED BY THE STAFF OF
THE PUBLIC UTILITIES COMMISSION

BACKGROUND

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 February 22, 2008, DEO filed an application in Case No. 08-169-GA-ALT requesting approval of an automated adjustment mechanism to recover costs associated with a Pipeline Infrastructure Replacement (PIR) Program. On April 9, 2008, the Commission granted DEO's motion to consolidate the PIR proceeding with their pending rate case and other related cases.

On August 22, 2008, the parties in these consolidated Cases entered into a Stipulation resolving all issues except rate design. As part of that Stipulation, the parties adopted the Staff's modified recommendation with respect to the PIR cost recovery, and a PIR rider rate was established and initially set at $0.00, subject to a subsequent future adjustment to recover the incremental costs associated with the PIR program. The Stipulation and Recommendation was approved by the Commission on October 15, 2008.

On May 29, 2009, DEO filed a notice of intent to file an application in Case No. 09-458-GA-UNC to adjust existing PIR rider rates to recover costs incurred during the period from July 1, 2008 through June 30, 2009, along with schedules 1 through 14 supporting an estimated PIR revenue requirement based on nine months of actual data from the period July 1, 2008, through March 31, 2009, and three months of projected data for the period April 1 through June 30, 2009.

On August 28, 2009, DEO filed its application to adjust the PIR rider rates and provided actual data through June 30, 2009, along with supporting schedules 1 through 16.

The PIR cost recovery rates are established each year for an initial five-year period or until the effective date of new base rates resulting from the filing of an application to increase base rates, whichever comes first. PIR rates are designed to recover incremental, non-duplicative costs associated with the Company's PIR program. Such recovery should include (1) incremental depreciation expense, (2) incremental property taxes, and (3) return on rate base. In addition, any O&M savings relative to the PIR program shall be used to reduce PIR costs. The Staff, by way of an annual filing by DEO to adjust the PIR rider rates, will review the viability of such rates.

As a part of the annual filing, a pre-filing notice is to be issued by May 31 of each year, and will consist of nine months of actual and three months of projected data for a test year ended June 30 and a date certain as of June 30. By August 31 of each year, the Company will update its application 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, the Staff will recommend Commission approval of the Company's requested PIR rider rates. If the Staff or any other party files an objection that is not resolved by DEO, an expedited hearing process will be established to allow the parties to present evidence to the Commission for final resolution.

SCOPE OF STAFF'S INVESTIGATION

The scope of the Staff's investigation was designed to determine if the Company's application and exhibits justify the requested PIR revenue requirement and can be used as a basis for the annual adjustment to the PIR rider rates. Staff 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 reviewed expenses associated with depreciation, amortization of post in-service carrying charges, property taxes, incremental operation and maintenance, 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 PIR assets contained in the Company's plant ledgers and supporting continuing property records represented a reliable source of original cost data. The Staff examined the computation of the Allowance of Funds Used During Construction (AFUDC) and verified the existence and used and useful nature of plant additions through physical inspections. In addition, the Staff verified plant retirement, cost of removal, and depreciation expense. The verification includes selection of transactions for detailed review. Finally, the Staff reviewed deferred taxes on liberalized deprecation and post in-service carrying costs and related deferred income tax effect.

COMPANY'S PROPOSED RECOVERY

The Company's proposed PIR revenue requirement of $16,063,471 is allocated to customer rate classes based on the cost of service used in DEO's last rate case. The Company requests that the Commission adjust its PIR rider rates as follows:

GSS/ECTS	$0.93 per month.
LVGSS/LVECTS	$11.14 per month.
GGTS/TSS	$41.88 per month.
DTS	$0.0232 per Mcf, capped at $1000 per month.

Additionally, the Company requests that the adjusted PIR rider rates become effective in November 2009.

CONTRACTOR SELECTION REVIEW

The East Ohio Gas Company d/b/a Dominion East Ohio (DEO) Pipeline Infrastructure Replacement (PIR) program facilitates the accelerated replacement, maintenance and repair of aging pipelines and related infrastructure. DEO seeks, through the PIR Cost Recovery Charge, incremental costs and a return associated with: (1.) replacement of 4,122 miles of aging bare steel, cast iron, wrought-iron and copper mainlines and ineffectively-coated bare steel as well as certain segments of plastic pipeline; (2.) replacement of 515,000 main-to-curb connections, which connect curb-to-meter service lines with a mainline; (3.) installation of new curb-to-meter service lines and the costs associated with maintenance, repair and/or replacement of existing curb-to-meter service lines that are separated from the mainline and must be pressure tested, or those that are unsafe or leaky; and (4.) certain on-going pipeline infrastructure improvements, including pipeline relocations and system improvements (including those associated with up-rating low-pressure systems to higher pressure systems if inside meters are relocated outside), along with associated capital expenditures for main-to-curb connections, service lines, and transmission and distribution pipeline integrity.

In evaluation of the contractor selection process in this case, Staff reviewed the Company's construction organization, contractor selection processes, and bid selection procedure. Staff also reviewed the Dominion Supply Chain Policies and Procedures Manual (Project No. 1595) effective June, 2009.

Staff selected Project PIR-004 for specific review in this proceeding. Project PIR-004 includes replacement of 44,485 feet of 10-inch bare steel transmission mainline of DEO's Warren #2 Transmission Line in Mahoning and Trumbull Counties. The estimated cost was $6,573,145 and the actual cost included in the 2008-2009 PIR recovery is $6,037,170.

The Company sent Requests for Proposal (RFP) to eight pipeline contractors for pipeline construction activities for this project. Pipeline contractors who could not meet the deadline as set forth in the RFP for Phase 2 of the construction bid were not considered. The Company's RFP language included a calendar day deadline based on the Dominion Gas Supply Planning requirement to have the line back in service within 40 calendar days. For the PIR project selected by the Staff for review, the Company chose the lowest bidder that not only met all of the requirements, but that provided the lowest bid.

The Company's response to Staff Data Requests indicates that other facets of the project were completed by contractors utilizing previously bid blanket contracts. The Company selected contractors from an approved and qualified contractor list to perform services that could not be readily performed in house due to resource allocation and/or expertise. For this project, the Company chose contractors for weld inspection; line locating and marking; environmental field review, wetland delineation and agency correspondence; environmental mandate interpretation; and environmental inspection.

Based upon a review of DEO's PIR job determination, bidding and contracting procedures, job monitoring, and contracting controls in this proceeding; the Staff finds that the current management operation and bidder selection and contractor oversight of the PIR program are reasonable.

STAFF'S EXCEPTIONS AND RECOMMENDATIONS

The Staff has determined that the Company's calculation of the PIR revenue requirement, as reflected in the updated filing, is supported by adequate financial data and it is properly allocated to the various customer classes. Nevertheless, Staff disagrees with some of the Company's inputs to its calculation. The Staff recommends the following adjustments to ensure that the PIR rates are just and reasonable:

1. The Company has recorded as regulatory assets in Account 182.3 (Other Regulatory Assets) the incremental depreciation expense, the incremental property taxes and the post-in-service carrying costs associated with its PIR program costs in its June 30, 2009 balance sheet.

   The Company requests to recover the PIR annualized depreciation expense and the PIR annualized property taxes plus an amortization of the PIR regulatory assets. The Company requests to amortize the regulatory assets associated with post in-service carrying costs over the useful life of the PIR. However, the Company requested one-year amortization of the regulatory assets associated with the incremental depreciation expense and the incremental property taxes.

The Staff agrees with the Company's request to recover the PIR annualized deprecation expense, the PIR annualized property taxes, and the amortization of post in-service carrying costs. However, for the regulatory assets associated with the incremental depreciation expense and the incremental property taxes, the Staff recommends that the regulatory assets should be amortized over the useful life of the PIR assets.

2. The Company reduced plant additions by plant retirements in the calculation of the accumulated provision for depreciation expense amount in Schedule 5. The Staff recommends that plant additions should not be reduced because accumulated depreciation on Schedule 1 already includes the provision for depreciation associated with retirements.

3. The Staff recommends that DEO's total PIR Capital Additions of $90,332,394 be reduced by a total $3,323,208 based upon the following:

A. $452,195 to remove costs associated with projects that were placed into service after the date certain of June 30, 2009.

B. $2,510,364 to remove costs associated with projects that are still in construction or in the preliminary design phase; and

C. $360,649 to remove costs associated with projects for curb-to-meter installations for service line extensions to new customers since the associated revenues are not reflected in the determination of the PIR rates.

The Staff further recommends that depreciation expense, property taxes, and deferred taxes on liberalized depreciation be adjusted to reflect the exclusion of the $3,323,208.

4. The Company proposed in its August 28, 2009 filing, a new adjustment that was not included in the May 29, 2009 pre-filing notice. The new adjustment is the incremental operation and maintenance (O&M) costs.

The Staff recommends that the incremental O&M amount of $1,128,670 be eliminated from the revenue requirement calculation. The Company maintains that these expenses (primarily for internal labor, contractor labor, vehicles, and software) are incremental costs incurred during the test-year period that would not exist but for implementation of the PIR program.

The Company also states that these expenses are not included in the capital recovery portion of its Application. The Staff believes that recovery of these types of expenses was never contemplated by the Stipulation and Recommendation approved by the Commission in Case No. 07-829-GA-AIR ("Stipulation") that resolved the Company's original PIR Application (Case No. 08-169-GA-ALT). In fact, except for seven modifications (none dealing with incremental O&M), the Stipulation adopted all PIR-related Staff recommendations in the Staff Report for the original PIR case. In that report, the Staff expressly rejected inclusion of all of the incremental O&M expenses specifically identified in the Company's Application except those related to relocating inside customer meters (where the Staff withheld a recommendation until the Company submitted a meter relocation plan). Furthermore, the Staff also enumerated items that are proper for PIR recovery in addition to recovery of investments for pipeline replacement and replacing and assuming ownership of customer service lines. These items included "(1) incremental depreciation expense, (2) incremental property taxes, and (3) return on rate base." Recovery of incremental O&M expenses is not included in this list and, in the Staff's opinion, was not intended for recovery in the PIR rider. As a result, the Staff believes that incremental O&M expenses should not be included for recovery in this case.

5. The Staff recommends that the O&M Baseline Savings amount of $85,022 be increased to $554,300 to reflect the actual savings resulting from the implementation of the PIR program that should be passed on to the customers.

The Company's methodology for calculating the O&M savings of $85,022 involves comparing the PIR test year (July 1, 2008 – June 30, 2009) expenses for four O&M accounts related to leak repair, leak surveillance, corrosion monitoring, and corrosion remediation against the expenses for the same four accounts in a baseline year (July 1, 2007 – June 30, 2008). The differences between the PIR test year expenses and the baseline expenses, whether an increase or a decrease in costs, are netted to arrive to the net O&M Savings. The Company's approach allows cost increases in any one or more of the four O&M accounts to reduce or totally eliminate O&M Savings. Thus, it runs counter to a fundamental premise underlying both the Company's annual PIR applications and the Commission's approval of PIR recovery (i.e., that the accelerated replacement of aging infrastructure would reduce leaks and corrosion problems thereby generating O&M savings that would benefit customers and partially offset the costs of the program).

The Staff recommends that a better approach to calculating the O&M Savings is to use the Company's methodology except only the accounts with cost savings should be included in the calculation of the net O&M savings. The remaining accounts with cost increases should be set at zero. This approach ensures that customers receive the full benefit of the original promise of savings resulting from implementation of the PIR program. The Staff's approach for calculating the O&M savings results in O&M savings of $554,300.

With the adoption of the above recommendations, the Staff recommends that the Commission adjust the PIR ride rates as follow:

GSS/ECTS	$0.73 per month.
LVGSS/LVECTS	$9.07 per month.
GGTS/TSS	$34.14 per month.
DTS	$0.0190 per Mcf, capped at $1000 per month.

The Staff also recommends that the adjusted PIR rider rates be implemented in the first billing cycle of the month following the Commission's decision.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing *Comments and Recommendations* submitted by the Staff of the Public Utilities Commission of Ohio was sent by electronic mail to the parties on October 2, 2009.

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