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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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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-AT

In the Matter of the Application of Vectren :
Energy Delivery of Ohio, Inc. for Authority :
to Adjust its Distribution Replacement Rider :
Charges. :

Case No. 10-595 GA-RDR

**COMMENTS
AND
RECOMMENDATIONS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

July 30, 2010

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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 : Case No. 07-1080-GA-AIR
To Amend Its Filed Tariffs to Increase the :
Rates and Charges for Gas Service and :
Related Matters. :

In the Matter of the Application of Vectren :
Energy Delivery of Ohio, Inc. for Authority : Case No. 10-595 GA-RDR
to Adjust its Distribution Replacement Rider :
Charges. :

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THE PUBLIC UTILITIES COMMISSION OF OHIO**

INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (Commission) Opinion and Order adopting the Stipulation and Recommendation filed in Case No. 07-1080-GA-AIR (Rate Case), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned cases for authority to increase its Distribution Replacement Rider (DRR). The purpose of the DRR increase is to allow VEDO to: recover a return of and on certain investments made in 2009 to replace aging natural gas pipeline infrastructure; recover the costs of assuming ownership and repair of previously customer-owned service lines; and, recover the costs of replacing prone-to-fail risers. These comments present a summary of the Public Utilities Commission of

Ohio Staff's (Staff) investigation of VEDO's Application and the Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio Corporation engaged in the business of providing natural gas distribution service to approximately 315,000 customers in west central Ohio, is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code,¹ and, as such, is subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (Stipulation) filed by the parties in that proceeding that, among other things, authorized VEDO to establish the DRR for a period of five years or until new rates are approved pursuant to a base or alternative rate case, whichever is less. The purpose of the DRR was to permit VEDO to seek recovery of: (1) the return of and return on² plant investment, including post-in-service carrying costs (PISCC) and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the Company's riser investigation pursuant to Case No. 05-463-GA-COI³; (3) costs for replacement of prone-to-fail risers; (4) incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and (5) actual annual Operations

¹ Application at 1.

² The pre-tax rate of return is 11.67% as established in Case No. 07-1080-GA-AIR.

³ The initial DRR rate for recovery VEDO's actual deferred costs of its riser investigation as of July 2008 was in effect from March 1, 2009 through February 28, 2010. The DRR was reset to zero effective March 1, 2010.

and Maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

The Stipulation further provided a process for establishing the annual DRR rate. By May 1 of each year beginning in 2010, the Company must file an application detailing the investments and costs delineated above that were incurred during the previous calendar year and a summary of its construction plans for the next year. Under the process, VEDO bares the burden of proof regarding the justness and reasonableness of the DRR rates proposed each year. Further, the process provides that the Staff will perform an investigation of the annual applications and make recommendations on the justness and reasonableness of the applications. Similarly, other parties may file comments on the applications and unresolved issues will be set for hearing by the Commission. The process provides that the parties will use their best efforts to permit new DRR charges to take effect on a service rendered basis on September 1 of each year. Additionally, the process establishes that the initial monthly DRR is capped at \$1.00 for Residential and Group 1 General Service customers and that the cap will increase in \$1.00 increments in each of the succeeding years.⁴

VEDO'S APPLICATION

VEDO filed its Application on April 30, 2010. The Application is primarily supported by the testimony and exhibits of James M. Francis, Director of Engineering and Asset Management, Janice M. Barrett, Director of Regulatory and Plant Accounting,

⁴ Stipulation at 8-14.

and Scott E. Albertson, Director of Regulatory Affairs and by supplemental testimony from Ms. Barrett and Mr. Albertson filed on July 23, 2010. Mr. Francis' testimony and exhibits present the progress made in 2009 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's BS/CI 2010 Replacement Program, the 2009 Riser Replacement Program progress and costs, maintenance costs associated with the 2009 BS/CI Replacement Program, the 2009 incremental costs for maintenance and repair of service lines previously owned by customers, and 2009 capital costs for replacement of previously customer-owned service lines.

Ms. Barrett's initial testimony and exhibits provide explanations of the various components of the Company's proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the for the 2009 Mains and Service Line and Riser Replacement Programs as well as a summary revenue requirement calculation supporting the DRR; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with the Mains and Service Line and Riser Replacement Programs; a discussion of the Company's rationale and policies for recording retirements, PISCC⁵, and AFUDC; and a schedule showing the proposed recovery of deferred riser investigation and replacement costs for the period August 1, 2008 through February 28, 2009. Her supplemental testimony makes several adjustments to the proposed revenue requirements for both the mains and service line replacement programs. For the mains,

⁵ The PISCC rate of 7.02% represents the company's long-term cost of debt as established in Case No. 07-1080-GA-AIR.

Ms Barrett's supplemental testimony proposes an overall increase in the revenue requirement of \$1,299. This increase stems from an adjustment to plant retirements to reflect actual 2009 retirements as opposed to the estimate that was originally provided, an adjustment to the property tax expense using the actual 2009 average property tax rate, and addition of an annual PISCC amortization expense that was not included in the original Application. For the service lines, the Ms Barrett's supplemental testimony proposes an overall decrease in the revenue requirement of \$58,752 based on a reduction to the 2009 capital investment, an increase to the accumulated depreciation for the risers, an adjustment to the retirements to provide actual versus estimated figures, adjustments to the property tax expense related to the decrease in rate base resulting from the reduction in 2009 capital investments and to reflect the actual versus and estimated 2009 property tax rate, and addition of an annual PISCC amortization expense that was not included in the original Application.

Mr. Albertson's initial testimony principally provided the derivation of rates from the Company's proposed DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact. His supplemental testimony updates the derivation and allocation of rates and proposed tariff sheet and revises the residential bill impact to reflect the revised DRR revenue requirement provided in Ms. Barrett's supplemental testimony.

In its Application, the Company indicates that in 2009 it replaced 18 miles of bare steel and 6.5 miles of cast iron mains, replaced 1,722 BS/CI service lines (with an additional 58 service lines retired and 74 tied over), replaced 16,003 prone to fail risers,

and moved 1,977 inside meters outside as part of its Replacement Program. In the supplemental testimony, the Company proposes a Mains Replacement Program revenue requirement of \$651,463 and \$2,167,095 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of \$2,818,558, which the Company proposes to be allocated as follows:

<u>Rate Schedule</u>	<u>\$ Per Month</u>	<u>\$ Per Ccf</u>
310, 311, and 315	\$0.65	
320, 321, and 325 (Group 1)	\$0.65	
320, 321, and 325 (Group 2 and 3)		\$0.00448
341	\$3.27	
345		\$0.00120
360		\$0.00117

STAFF INVESTIGATION SUMMARY AND COMMENTS

The Staff reviewed the Company's Application and testimony, issued several information requests seeking additional supporting data, interviewed Company personnel, reviewed the Company's competitive bidding process, and traced sample expenses back to their source data. The Staff's investigation was designed to ensure that the Company's policies and practices comport with sound ratemaking principles and the Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the Application is just and reasonable. The Staff's comments and recommendations, by topic area, are as follows:

A. VEDO's Application

The Company's Application did not include several supporting schedules that are routinely provided by the other Ohio natural gas distribution utilities in their accelerated mains replacement rider applications. Some of the schedules that were not included were monthly breakdowns for plant additions, retirements, cost of removal, depreciation, PISCC, expenses and other detailed schedules customarily provided by other companies in support of summary schedules similar to those that VEDO included in its Application. While the Company was accommodating and cooperative with the Staff's investigation and by-in-large prompt in responding to Staff information requests, the lack of detailed supporting data accompanying the Application required the Staff to request more detailed supporting data. Waiting on the supporting data unnecessarily slowed the Staff's investigation, which could be problematic given the brief investigation window associated with the Company's DRR applications. The Staff recommends that Company modify its future DRR applications to provide supporting schedules similar to those provided by the other natural gas distribution utilities and to more closely emulate the format used by the other companies. Further, concurrent with its Application, the Company should provide the Staff and the Office of the Ohio Consumer's Counsel (OCC) a working electronic model of its revenue requirement calculation such that any adjustment to a supporting schedule would automatically update the revenue requirement and calculation of resulting rates.

B. Level of Investment

The Company in 2009 did not replace the mileage of BS/CI mains or make the capital investment anticipated in the Rate Case Stipulation. And, in 2010, the company plans to replace even fewer miles and spend less on the Replacement Program. In 2009, the Company replaced 24.5 miles of BS/CI mains and spent a total of \$11,250,423 on the Program.⁶ In 2010, the company plans to replace 18 miles of BS/CI mains and plans to spend approximately \$11,000,000. The Stipulation, among other things, addressed the Company's application to create an accelerated mains replacement program (AMRP) and establish the DRR. The Company proposed in its Rate Case Application to accelerate replacement of the BS/CI over a 20 year period (versus 70 years at its historical replacement rate), or approximately 35 miles per year, and an annual capital investment of \$16,875,000.⁷ For the remaining three years of the Program, years 2011, 2012, and 2013, the Company currently has budgeted capital spending levels at the \$16,875,000 per year as proposed in its initial Rate Case Application and as anticipated in the Stipulation.⁸

The Company maintains that the 2009 investment level and planned 2010 investment is below the level specified in the AMRP Application due to the

⁶ Direct testimony of James M. Francis at 5. The total costs also include costs to replace 1,796 service lines and other related Program costs.

⁷ Application in Case No. 07-1080-GA-ALT, at al, Alt. Reg. Exhibit A: Alternative Rate Plan Description, at 7.

⁸ Staff interview with Company personnel, June 9, 2010.

current economic climate and that, in the near term, it (along with its affiliate companies under the Vectren Utility Holdings, Inc.'s umbrella) has constrained its planned capital expenditures in an effort to avoid potential exposure to higher capital costs.⁹

The Staff is concerned that the 2009 and planned 2010 levels of investment are below what was anticipated by the Stipulation. This concern is heightened by the fact that the Company's current 2011 – 2013 budgets only call for capital investments for the Replacement Program at the anticipated levels without any provision to make up for the reduced investment in 2009 and planned for 2010. Concomitantly, Company witness Francis states in his testimony, "On-going assessment of economic impact on the Company's capital spending levels will continue and may impact the annual level of investment in the Replacement program."¹⁰

The whole point of the AMRP programs is to accelerate replacement of aging infrastructure in order to gain system efficiencies from operating at higher pressures, enhance safety by reducing the incidence of system leaks, and reduce implementation costs by passing operation and maintenance savings back to customers. If the Company's current BS/CI mains replacement pace and corresponding investment level continues or is reduced, then customers may not fully receive the anticipated benefits that are supposed to accrue from the

⁹ Direct testimony of James M. Francis at 11.

¹⁰ Direct testimony of James M. Francis at 11.

accelerated Replacement Program during the five years that the Program has been authorized. Furthermore, the Program may have to extend beyond the 20 years stated in the Company's Rate Case Application.

The Staff intends to closely monitor the Company's future Replacement Program plans and levels of investment. If the plans and investment levels are not at or near the annual levels that were anticipated in the Rate Case Stipulation and include provisions for making up for reduced BS/CI replacement and spending in 2009 and 2010, then the Staff may recommend to the Commission in a future DRR proceeding that the Company continue accelerated BS/CI replacement but seek recovery of its costs in a traditional rate base case rather than through the DRR.

C. Recording Meter Move-Out Costs

The Company included \$822,187 plant additions for service lines for costs associated with moving 1,977 meters that were previously located inside customer premises outside.¹¹ The Company states that it moved the meters outside because, as the BS/CI main lines are replaced with new plastic pipe, its distribution system can be operated at higher pressure which improves operational efficiency thereby benefitting both customers and the Company.¹² Moreover, the Company maintains that it is less costly to move meters outside than it is to install regulators

¹¹ Company response to Staff Data Request No. 20, June 11, 2010.

¹² Application at 6.

outside of customer premises and that it is unsafe to bring higher pressure service inside customer premises.¹³

The Staff does not object to the Company's practice of moving meters outside in order to foster operational efficiencies and enhance safety; and, the Staff agrees that the meter move out should be capitalized. However, the Staff believes that the Company has recorded the meter move out costs in the wrong capital account. The Company recorded the meter move out costs in Account 680¹⁴, which is equivalent to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) Account 380 – *Services*.¹⁵ The Staff believes that these costs should more properly be recorded in the Company accounts equivalent to USOA 381–*Meters* or 382–*Meter Installations*, whichever is consistent with the Company's customary practices for recording meter installation costs. Paragraph B of the USOA instructions for the 380 – *Services* Account states that, "A complete service begins with the connection on the main and *extends to but does not include the connection with the customer's meter.*"¹⁶ (Emphasis supplied.) The Staff believes that the equipment and labor associated with the meter move outs are part of the meter set that should be recorded in USOA Account 381 or 382. The Staff recommends that the Company reclassify the meter move out costs

¹³ Company response to Staff Data Request No. 20, June 16, 2010.

¹⁴ Ibid.

¹⁵ 18 CFR part 201

¹⁶ Ibid.

and update its Application to reflect the reclassification prior instituting the new DRR rate. The Staff believes that the update is necessary to account for differences in the accounts such as depreciation.

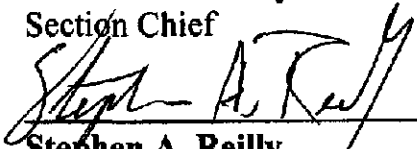
STAFF CONCLUSIONS AND RECOMMENDATIONS

The Staff performed a comprehensive investigation of VEDO's DRR Application. Based on that investigation and with adoption of the Staff recommendation concerning reclassification of meter move out cost delineated in paragraph C above, the Staff concludes that the Company's Application will result in a just and reasonable DRR rate and recommends approval by the Commission. In addition, the Staff recommends that the Commission direct the Company to work with the Staff prior to filing its next DRR application in order to include more detailed schedules as described paragraph A above.

Respectfully submitted,

Richard Corday
Ohio Attorney General

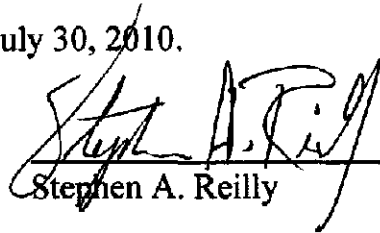
Duane W. Luckey
Section Chief


Stephen A. Reilly
Assistant Attorney General
Public Utilities Section
180 East Broad Street
Columbus, OH 43215-3793
614.466.4396 (telephone)
614.644.8764 (fax)
stephen.reilly@puc.state.oh.us

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

CERTIFICATE OF SERVICE

I certify a copy of the foregoing was served upon the parties of record by electronic mail and regular U.S. mail, postage prepaid, on July 30, 2010.



Stephen A. Reilly

PARTIES OF RECORD:

Gretchen J. Hummel
Lisa G. McAlister
Joseph M. Clark
McNees, Wallace & Nurick LLC
Fifth Third Center
21 East State Street, 17th Floor
Columbus, Ohio 43215
ghummel@mwncmh.com
lmcalister@mwncmh.com
jclark@mwncmh.com

Attorneys for Vectren Energy
Delivery of Ohio, Inc.

Joseph P. Serio
Larry S. Sauer
Assistant Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, Ohio 43215
serio@occ.state.oh.us
sauer@occ.state.oh.us

Attorneys for the Office of the
Ohio Consumers' Counsel

David Rinebolt
Colleen Mooney
Ohio Partners for Affordable Energy
231 West Lima Street

P.O. Box 1793
Findlay, Ohio 45839-1793
drinebolt@aol.com
cmooney@rr.com

Attorneys for Ohio Partners
for Affordable Energy

John Bentine
Mark Yurick
Chester, Wilcox & Saxbe, LLP
65 East State Street, Suite 1000
Columbus, Ohio 43215-4213
jbentine@cwslaw.com
myurick@cwslaw.com

Attorneys for Interstate Gas Supply, Inc.

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

Attorney for Stand Energy Corporation

Trent Dougherty
Ohio Environmental Council
1207 Grandview Ave.
Columbus, Ohio 43212-3449
trent@theoec.org

Attorney for Ohio Environmental Council

W. Jonathan Airey
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street, PO Box 1008
Columbus, Ohio 43216-1008
airey@vssp.com

Attorney for Honda America Mfg. Inc.