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September 24, 2010

Ms. Renee J. Jenkins
Director, Office of Administration
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: *In re The East Ohio Gas Company, d/b/a/ Dominion East Ohio,* Case No. 10-733-GA-RDR.

Dear Ms. Jenkins:

Please include the accompanying *Staff Comments and Recommendations* in the above referenced docket regarding Dominion East Ohio's PIR Annual Filing For Fiscal Year 2009/2010, Case No. 10-733-GA-RDR.

Please call me if you have any questions.

Very truly yours,

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	Case No. 10-733-GA-RDR
The East Ohio Gas Company d/b/a	)	PIR Annual Filing For
Dominion East Ohio to Adjust its	)	Fiscal Year 2009/2010
Pipeline Infrastructure Replacement (PIR) Cost	)	
Recovery Charge and Related Matters.	)	

STAFF COMMENTS
AND
RECOMMENDATIONS
SUBMITTED TO
THE PUBLIC UTILITIES COMMISSION

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Dominion East Ohio to Adjust its	)	Fiscal Year 2009/2010
Pipeline Infrastructure Replacement (PIR) Cost	)	
Recovery Charge and Related Matters.	)	

To The Honorable Commission:

In accordance with the Commission Orders adopted in Case Numbers 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.

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

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 representations and/or recommendations set forth herein.

Respectfully submitted,

Utilities Department

Jodi Bair
Director

Jodi Bair

Service Monitoring and Enforcement Department

John Williams
Director

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 28, 2010, DEO filed a notice of intent to file an application in Case No. 10-733-GA-RDR to adjust existing PIR rider rates to recover costs incurred during the period from July 1, 2009 through June 30, 2010, along with schedules 1 through 16 supporting an estimated PIR revenue requirement based on nine months of actual data from the period July 1, 2009, through March 31, 2010, and three months of projected data for the period April 1 through June 30, 2010. The schedules filed by DEO in the May 28, 2010 notice of intent were presented in two ways. Exhibit A represents DEO's proposed calculation of the PIR Cost Recovery Charge. Exhibit B presents an alternative calculation using the approach ordered by the Commission in DEO's last PIR case; Case No. 09-458-GA-RDR.

On August 31, 2010, DEO filed its application to adjust the PIR rider rates and provided actual data through June 30, 2010, along with supporting schedules 1 through 15.

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 the related deferred income tax effect.

COMPANY'S PROPOSED RECOVERY

The Company has filed its application as two exhibits, Exhibit A and Exhibit B. The Exhibit A application represents DEO's proposed calculation of the revenue requirement for this proceeding. Exhibit B reflects the Commission's rate decision in the last PIR case, which DEO has appealed to the Ohio Supreme Court for review.

The Exhibit A proposed PIR revenue requirement of $27,761,354.82 is allocated to customer rate classes based on the cost of service used in DEO's last base rate case. The Company requests that the Commission adjust its PIR rider rates to the following:

- GSS/ECTS — $1.63 per month.
- LVGSS/LVECTS — $15.26 per month.
- GTS/TSS — $65.89 per month.
- DTS — $0.0343 per Mcf, with a maximum monthly charge of $1,000 per account.

The Exhibit B proposed revenue requirement of $26,937,360.91 is also allocated to customer rate classes based upon the cost of service used in DEO's last base rate case resulting in proposed PIR rider rates as follows:

- GSS/ECTS	$1.58 per month.
- LVGSS/LVECTS	$15.09 per month.
- GTS/TSS	$65.18 per month.
- DTS	$0.0340 per Mcf, with a maximum monthly charge of $1,000 per account.

Additionally, the Company requests that the adjusted PIR rider rates become effective in November 2010.

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 data and it is properly allocated to the various customer classes. The Staff recommends the following adjustments to the Company's Exhibit A in order to ensure that the PIR rates are just, reasonable, and in accord with the Commission's Order in DEO's last PIR case, Case No. 09-458-GA-RDR:

1. The Staff recommends that DEO's total cumulative PIR Capital Additions of $177,838,614 be reduced by a total $3,209,725 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 $3,209,725.

2. The Staff recommends that the Exhibit B O&M Baseline Savings amount of $258,569.77 be adopted to reflect the actual savings resulting from the implementation of the PIR program that should be passed on to customers.

   The Company's methodology for calculating the Exhibit A O&M savings of $5,521.08 (DEO claims an actual increase in O&M expenses of $756,886.73) involves comparing the PIR test year (July 1, 2009 – June 30, 2010) 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.

   The Staff recommends that the same O&M Savings methodology approved by the Commission in the last PIR case be adopted for this case. In this approach to calculating the O&M Savings, the Company's methodology is used except that only the accounts with cost savings are 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 at least some 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 $258,569.77.

A fundamental premise underlying both the Company's annual PIR applications and the Commission's approval of PIR recovery is that the accelerated replacement of aging infrastructure will reduce leaks and corrosion problems thereby generating O&M savings that would benefit customers and partially offset the costs of the program. To date, DEO has invested nearly $180 million in new plant. Within the five-year initial period of PIR recovery, it is conceivable that DEO will have invested almost half a billion dollars in new plant. According to the Company's calculations, instead of achieving operation and maintenance savings from the investment of nearly $180 million in new plant, expenses in the four selected savings categories described above have actually increased by approximately $757,000 annually.

Staff has a keen interest in seeing the Company achieve actual operation and maintenance savings from this program and believes that achievement of such savings should be a consideration in the evaluation of whether the annual PIR recovery should continue after the initial five-year period.

3. In its Application, the Company included $49,647.76 as a capital addition in June 2010 related to the cost of moving gas meters from inside to outside of customer premises in conjunction with PIR related construction (project PIR-063). A similar proposal for meter move outs was made for the 2010/2011 construction year (project PIR-083). Such costs were previously expensed by the Company;

however, consistent with the treatment by other LDCs, the Company has begun to capitalize such costs. As support for the meter move-outs, the Company cites improved operational efficiency due to increased distribution pressure as well as enhanced safety and ability to make timely meter reads as required by Commission rules. Staff does not object to such meter move-outs when conducted in conjunction with PIR-related construction in order to foster operational efficiencies and enhance safety, and Staff supports the capitalization of meter move-out costs. If, however, the meter move out in conjunction with PIR construction requires a new meter to be set as opposed to reusing an existing meter, the new meter cost should not be recoverable through the annual PIR and should instead be recovered in the Company's next base rate proceeding. Capitalizing these meter relocations results in more uniform accounting treatment across the gas distribution companies regulated by the Commission.

4. During its audit of plant additions, Staff identified three pipeline relocation projects where a significant portion of the retired pipe was plastic. Because most of the retired pipe on these projects was plastic, it did not need to be replaced due to the current condition of the pipe. Staff, therefore, does not believe the cost of such relocations should be included in the PIR Rider, and recommends excluding the $59,081 cost of these projects.

With the adoption of the above recommendations, the Staff recommends a PIR annualized revenue requirement of $26,928,991.03 and that the Commission should adjust the PIR rider rates as follows:

- GSS/ECTS	$1.58 per month.
- LVGSS/LVECTS	$15.08 per month.
- GTS/TSS	$65.15 per month.
- DTS	$0.0340 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 a copy of the foregoing was served upon the following persons via electronic mail and U.S. Mail, postage prepaid, on September 24, 2010.

Stephen A. Reilly

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