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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Annual Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	))))	Case No. 11-2776-GA-RDR

COMMENTS ON VECTREN ENERGY DELIVERY OF OHIO'S APPLICATION BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

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TABLE OF CONTENTS

Page

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BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

I. INTRODUCTION

The Office of the Ohio Consumers' Counsel ("OCC"), an intervenor in the above-captioned proceeding, hereby files these Comments in opposition to the Application filed by Vectren Energy Delivery of Ohio, Inc. ("Vectren" or "Company") to increase the rates customers pay for Vectren's replacement of cast iron and bare steel distribution mains and service lines and for the replacement of prone-to-failure risers that have a propensity for leaks. Vectren's proposal is in regards to its Distribution Replacement Rider ("DRR") Program. Pursuant to the Stipulation and Recommendation ("Stipulation") filed on September 8, 2008, in Case No. 07-1080-GA-AIR et al., and the Public Utilities Commission of Ohio's ("Commission" or "PUCO") subsequent Opinion and Order dated January 7, 2009, customers are subject to potential DRR increases in each of the years 2010 through 2014. Vectren has approximately 290,000 residential customers that would be required to pay the rate increase requested in Vectren's Application.

On April 29, 2011, Vectren filed its Application for an adjustment to its DRR Rate. OCC filed its Motion to Intervene in these cases on June 2, 2011. On May 9, 2011, the Commission established a procedural schedule. OCC hereby files these Comments in accordance with the established procedural schedule.

II. RESERVATION OF RIGHTS

OCC reserves the right to file additional comments and to file expert testimony on any matters not resolved by the Company by August 4, 2011, as set forth in the procedural schedule in the Attorney Examiner's Entry.[1]

III. BURDEN OF PROOF

The burden of proof regarding the Application rests upon Vectren. In a hearing regarding a proposal that involves an increase in rates, R.C. 4909.19[2] provides that, "[a]t any hearing involving rates or charges sought to be increased, the burden of proof to show that the increased rates or charges are just and reasonable shall be on the public utility." Inasmuch as the current case arose from Vectren's rate case, and Vectren is requesting an increase in rates, Vectren in this case bears the burden of proof.[3] Therefore, neither OCC nor any other intervenor bears any burden of proof in this case.

IV. COMMENTS

A. OCC Comments Immediately Impacting The DRR Rate

1. Vectren's Proposed O&M Cost Savings Pertaining To Service Lines Are Inadequate For Providing The Intended Benefit To Customers.

Vectren has proposed O&M cost savings pertaining to customer service lines, specifically service leaks and meter maintenance expense attributable to bare steel and

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[1] Entry at 2.

[2] See also R.C. 4909.18.

[3] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Stipulation at 12 (September 8, 2008). ("The Company shall: bear the burden of proof of demonstrating the justness and reasonableness of the level of recovery proposed by the Company for the successor DRR charge ***.)

cast iron ("BS/CI"). But Vectren has a unique twist for its customers -- customers will pay Vectren for a $28,325 adjustment to the DRR revenue requirement.[4] The twist occurs because Vectren's O&M expenses for service lines, in the test year for this case, exceeds the established baseline O&M expense for service lines thereby creating a negative savings adjustment (where Vectren, instead of customers, receives a payment) which is backwards and an affront to the intention of the mains replacement program and should not be accepted by the Commission.

The Commission put the importance of the cost savings component of the accelerated infrastructure replacement programs in perspective in the Dominion East Ohio Pipeline Infrastructure Replacement ("DEO PIR") Case, where the Commission stated:

> In evaluating the arguments of the parties, the Commission is mindful of the goal, articulated in the [Dominion] Distribution Rate Case, of using the O&M baseline savings to reduce the fiscal year-end regulatory assets, which allows customers a more immediate benefit of the cost reductions achieved as a result of the PIR program (Staff Ex. 2 at 5). Moreover, the Commission agrees that, if O&M baseline savings are calculated using the methodology suggested by the company, it is possible that consumers will not realize any immediate savings as the result of the PIR program and could incur additional expenses. Because immediate customer savings were articulated as a goal of the PIR program, the Commission finds that, consistent with Staff's proposal, the O&M baseline savings should be calculated **using only the savings from each category of expenses**, such that O&M savings will total $554,300.64 for the PIR year under consideration in this proceeding.[5]

The Commission should apply the same reasoning and result to the Vectren DRR Application and allow only O&M cost savings that reflect decreases from the baseline in

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[4] Direct Testimony of James M. Francis at 14 (April 29, 2011).

[5] *In re Dominion East Ohio PIR Case,* Case No. 09-458-GA-RDR, Opinion and Order at 11 (December 16, 2009). (Emphasis added).

maintenance expenses attributable to BS/CI -- meaning Vectren's customers will actually experience some offset to the rates they're paying to account for savings. As the Commission concluded in the DEO PIR case, because immediate customer savings were articulated as a goal of the PIR program, the O&M baseline cost savings should be calculated using only the cost savings from each category of expense. Like DEO, Vectren originally presented testimony of witness Francis in its rate case where it proposed the DRR, to describe the savings concept as follows: "Once underway, as Vectren retires leaking pipes the Company will be able to reduce maintenance expenses."[6] Therefore, the Commission should take steps to provide consumers the immediate cost savings that were envisioned when the accelerated replacement program was approved for Vectren.

The Commission should at a minimum set the O&M cost savings component for customer service lines from $28,325 to $0, in order to assure Vectren's customers are not harmed by the Company's failure to realize O&M cost savings from its replacement of service lines as part of the DRR program. Or more appropriately establish a minimum O&M cost savings amount that will balance the benefit the Company receives from these programs -- accelerated cost recovery for the Company -- with the quid pro quo that consumers are supposed to get and are entitled to -- accelerated and meaningful O&M cost savings.

[6] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al., Direct Testimony of James M. Francis at 12 (December 4, 2007).

2. Vectren's Proposal To Collect From Customers The Cost Of The Replacement Of Plastic Pipe Should Be Exempted From DRR Recovery.

Vectren has included in the DRR Application recovery from customers for costs associated with the removal and replacement of plastic pipe.[7] That proposal is a violation of the Stipulation which states:

> The Parties agree and recommend that the Company be authorized to establish a Distribution Replacement Rider * * *, to enable the recovery of and return on investments made by the Company to accelerate implementation of a bare steel and cast iron pipeline replacement program * * *.[8]

There is no expectation in the Stipulation that Vectren would recover the costs for the replacement of plastic mains through the DRR mechanism.

Vectren's testimony in this case states: 1,542 feet of plastic main has been replaced within the projects completed in 2010.[9] Vectren witness Francis further stated:

> There were a number of reasons why plastic main segments were retired, which were discussed in my testimony in the Rate Case. Some short segments of plastic main existed among the bare steel or cast iron systems. It would have been more costly to try and salvage that main rather than replace it. Also, there existed sections of plastic main at the ends of some distribution systems being retired wherein those segments no longer served any customers; therefore, there was no reason to replace and continue to maintain those segments.[10]

Vectren's arguments in support of recovery do not overcome the fact that the Stipulation did not contemplate the recovery of plastic main replacement costs through the DRR. Therefore, the Commission should disallow the costs of plastic main replacement.

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[7] Direct Testimony of James M. Francis at 5-6 (April 29, 2011).

[8] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Stipulation at 8 (September 8, 2008). See also Opinion and Order at 5 (January 7, 2009).

[9] *In re 2010 VEDO DRR Case,* Case No. 10-595-GA-RDR, Direct Testimony of James M. Francis at 5 (April 30, 2010).

[10] Id. at 5-6.

In its Application, Vectren does not break out its mains and services by pipe composition (cast iron, bare steel, plastic, etc.). The removal of the costs of new plastic mains that replace the existing plastic mains from the DRR calculation impacts the total expense and annualized return on rate base that makes up the revenue requirement to be collected. OCC proposes reducing the revenue requirement associated with mains by $25,818[11] to exclude the costs of the replacement of existing plastic mains with new plastic mains. It is OCC's position that the DRR should not be the mechanism to collect from customers the costs of replacing old plastic with new plastic mains and services. Instead, the Company should seek recovery for these costs in its next distribution rate proceeding, rather than through the DRR program.

3. Vectren Has Failed To Take Full Advantage Of Bonus Depreciation To The Detriment Of Its Customers.

Vectren's filing is devoid of any discussion of the recent changes in the federal tax laws regarding Bonus Tax Depreciation ("bonus depreciation") and as to the rate impact that bonus depreciation may have on its revenue requirement calculations in this case and how that impact could benefit its customers. In general, bonus depreciation would increase deferred tax expense and lower current tax expense resulting in a zero effect on the income statement. However, the increase in deferred taxes itself can be used as a deduction to rate base which, in turn, would reduce any revenue requirement charged to a company's customers through rates.

Through the Job Creation and Worker Assistance Act of 2002, it was the intent of Congress to allow bonus depreciation as a means of ramping up construction projects

[11] Vectren replaced 1542 feet of plastic pipe. This equates to 1.7% of the total footage replaced (1,542 feet divided by 93,292 feet). Applying 1.7% to the revenue requirement for mains yields $25,818 (1.7% x 1,518,695).

and, as a result, create jobs in the near term. Enacted in May 2003, the Jobs and Growth Tax Relief Reconciliation Act allowed for 50% bonus depreciation deduction to be claimed in the first year for property acquired after May 5, 2003 and before January 1, 2005 as long as the property was placed in service by that date. The 50% bonus depreciation on qualifying property still exists today after being extended several times since the enactment of the 2003 Jobs and Growth Tax Relief Reconciliation Act.

On December 17, 2010, President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extends the first-year 50% bonus depreciation for property placed in service after December 31, 2011 and before January 1, 2013. In addition, the 2010 Tax Relief Act allows for 100% bonus depreciation on qualified property investments made after September 8, 2010 but before January 1, 2012 that are placed in service by January 1, 2012.

In its Application, on Exhibits JMB-2g[12] and JMB-3g[13], the Company did reflect 50% bonus depreciation for additions that replace Bare Steel and Cast Iron Mains and Services for each month in the Year 2010. However, on its Exhibit JMB-3g, it reflected 50% bonus depreciation on Meter Installation Additions, Service Additions related to Service Line Ownership and Natural Gas Riser Additions for the first nine months of 2010 but then reflected 100% bonus depreciation on the value of these items for the last three months of 2010. In its most recent Accelerated Main Replacement Rider case, Duke Energy of Ohio ("Duke") calculated deferred taxes for additions to Mains and Services using 100% bonus depreciation on the value of these assets for the last quarter

[12] Direct Testimony of Janice M. Barrett at Exhibit JMG-2g (April 29, 2011).

[13] *Id. at* Exhibit JMG-3g.

of Year 2010.[14] It is unclear why Vectren calculated the impact of bonus depreciation differently for mains and services.

OCC estimates that if Vectren had made the following adjustments: (a) set the O&M cost savings for service lines to $0; (b) excluded the replacement of plastic main lines and (c) applied 100% bonus depreciation deduction to the value of its Mains and Services additions for the last quarter of 2010, the effect on the rates of Residential customers would be to lower the monthly DRR charge from $1.27 to $1.25.[15]

B. OCC Comments That May Not Immediately Impact The DRR Rate

1. The Claimed Need For The DRR Program Should Be Further Scrutinized.

Vectren has in large part relied on safety and reliability as the basis for justifying the need for the DRR program.[16] Vectren's recent rate case included testimony which supports this contention. Vectren witness James M. Francis stated:

> Q. Is there a difference in the operational performance of bare steel and cast iron mains when compared to protected steel or plastic mains?
>
> A. Yes. Bare steel and cast iron mains have significantly higher leakage rates than do protected steel and plastic mains. This increased incidence of leakage results in higher operating and maintenance expenses, greater line losses and safety and reliability risks. * * *.[17]
>
> Q. Does the increased likelihood of leakage on a bare steel or cast iron main create potentially serious issues for [Vectren] and its customers?

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[14] *In the Matter of the Annual Application of Duke Energy Ohio for an Adjustment to Rider AMRP Rates,* Case No. 10-2788-GA-RDR, Direct Testimony of Peggy A. Laub at Schedule 13-B (February 28, 2011).

[15] See DRR Rider Rate Adjustment Calculation attached hereto as Exhibit A.

[16] For example see, *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 6, 8, 9, 12, 14-15 (December 4, 2007).

[17] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 7 (December 4, 2007).

> A. When considering only those leaks repaired since 2003 that are directly attributable to bare steel or cast iron mains, 13% of those leaks were identified as being hazardous to public or employee safety, requiring immediate repair. Exhibit JMF-5 provides a count of the leaks repaired by hazard type. Approximately another 45% of the repaired leaks were under hard surface and thus are prone to migration into buildings or sewer systems, which can be problematic. * * *.[18]
>
> Q. Why does [Vectren] believe it is prudent to pursue the Program at this time?
>
> A. There are numerous benefits to the Program beyond the replacement of [Vectren's] most aged assets. First, the Program will replace the pipes that contribute most to system leaks. The resulting benefits to service reliability and safety are clear. * * *.[19]

Thus at the time the DRR was proposed, safety and reliability factors seemingly played an important role in the justification of the program.

The Company proposed completing the program within twenty years, and stated in testimony that it could potentially shorten the program. Vectren witness James Francis stated:

> Q. Why is [Vectren] proposing a 20 year replacement program, rather than a shorter Program period?
>
> A. The 20 year program was developed when considering distribution system replacement needs throughout VUHI, not only the [Vectren] system. Vectren has proposed a similar program for its Indiana utilities. In total, the planned annual mileage to be replaced across Vectren service territories is approximately 90 miles. Additionally, there are a number of other utilities in the Midwest, including Duke Energy Ohio, who have in place a significant replacement program that will constrain construction resource availability for some time. The 20 year program reflects the amount of resources [Vectren] believes would be reasonably available to implement and execute the Program. However, [Vectren] would consider

[18] Id. at 8.

[19] Id. at 12.

> shortening the length of the Program if resources were to become available. * * *.[20]

It is noteworthy that throughout his testimony, Mr. Francis did not discuss or contemplate a DRR program lasting longer than 20 years. Yet, experience through the first two years of the DRR program demonstrates that Vectren is replacing significantly less pipeline than originally proposed; therefore, creating the very real possibility that the program will extend well beyond the twenty years originally proposed, or that it may not be completed early as potentially contemplated.

In its Application, Vectren discussed the activity that would be required in order to complete the program in twenty years. Vectren witness James Francis stated:

> As of the end of 2008, [Vectren] had a total of 524 miles of bare steel and 172 miles of cast iron main remaining in its system. In its Rate Case, [Vectren] proposed to replace its remaining bare steel and cast iron infrastructure over a twenty year period, or approximately 35 miles per year.[21]

Yet in 2010, Vectren replaced only 14 miles of bare steel mains and 3.5 miles of cast iron mains.[22] The 17.5 miles represents 50 percent of the 35 miles per year needed to complete the project in twenty years. In 2009 and 2010, Vectren has replaced only 42 miles of bare steel and cast iron pipeline instead of 70 miles -- a pace which could extend the DRR program past its current projection of 20 years. Although this replacement rate is greater than the rate Vectren achieved during the five years prior to its 2008 rate case (10.5 miles of bare steel and cast iron pipeline per year),[23] it does not appear sufficient to

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[20] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 9-10 (December 4, 2007).

[21] Id. at 4.

[22] See *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al. Direct Testimony of James M. Francis at 5 (December 4, 2007).

[23] Id. at 5.

meet the Company's 20-year completion target date, or a possible earlier completion date.

Vectren, in its 2009 DRR Application, explained that the slower pace of pipeline replacement was in response to the economic downturn and the greater cost of capital necessary for such a large scale project.[24] But it should be pointed out that the DRR was designed in a manner to reduce Company risk and regulatory lag associated with pipeline investment. Despite this framework, cost apparently seems to be the impediment keeping the Company from meeting the projected pipeline replacement schedule.

There are numerous problems with Vectren's rationale. First, if the program is necessary for the improvement of system safety and reliability, then Vectren's cost concerns do not adequately explain its delay. Second, Vectren has been given a very generous accelerated cost recovery mechanism designed to provide the Company with a return of and on the plant investment. The DRR recovery mechanism should more than adequately cover the risk of increased capital costs that worries Vectren. Finally, if the Company is indeed prioritizing accelerated cost recovery (from customers) ahead of accelerated main replacement (to benefit customers), then the Commission should recognize that the underpinnings used by Vectren to justify the DRR program -- safety and reliability -- are secondary to the cost implications for the Company, and the Commission should reevaluate the program.

Inasmuch as the pipeline replacement program was designed to permit Vectren to maintain a safe and reliable distribution system, and to do so in an accelerated manner, it now appears that cost concerns have become the over-riding factor, and not safety. If, in

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[24] Id. at 11.

fact, cost has now become the over-riding factor in the pipeline replacement program, then the PUCO should re-evaluate the need for such a program and the annual DRR review.

2. The O&M Cost Savings That Are Supposed To Be A Benefit And Offset To The Rates Customers Are Paying Are Jeopardized By The Company's Main Replacement Rate.

O&M cost savings pertaining to mains replacement could be impacted by the Company's decision to replace less cast iron and bare steel main than was projected. To the extent Vectren delays its replacement of distribution facilities, the potential exists that consumers will not receive the O&M cost savings that were envisioned at the time the DRR was approved, and that the program may extend beyond the original 20-year projection. The Staff recognized the importance of achieving significant O&M cost savings through the DRR. The Staff stated:

> Staff has supported a similar program at Duke Energy Ohio (Duke) in its Accelerated Mains Replacement Program (AMRP). Staff supports Vectren Energy Delivery Company Case Nos. 07-1080-GA-AIR and 07-1081-GA-ALT Duke's ongoing AMRP for the replacement of all cast iron and bare steel pipeline and resulting improvement it has made to pipeline safety, and notes that customers have realized approximately $8.5 million in O&M savings to date that has been credited back through rider AMRP **Vectren also anticipates significant benefits from a reduced incidence in leak repair expenses, and like Duke, will credit savings in the avoided O&M costs to customers.**[25]

Vectren has not yet passed back significant O&M cost savings to its consumers, and if the trend continues and the replacement rate achieved falls below the Company's projections, then the Commission should consider establishing a minimum O&M cost savings amount to assure consumers are provided the benefit they were promised.

[25] *In re Vectren Rate Case,* Case No. 07-1080-GA-AIR, et al., Staff Report at 30-40 (June 16, 2008).

V. CONCLUSION

The Commission should reduce the DRR Rider rate that Vectren proposes consistent with the OCC recommendations regarding plastic pipe additions, maintenance expense savings and bonus depreciation used in the calculation of deferred taxes on depreciation, as noted above.

Furthermore, because the present replacement rate is not in compliance with the rate that Vectren argued in the rate case as being necessary to maintain a safe and reliable system, the Commission should put Vectren on notice that the Company has the burden to prove, in future DRR proceedings, that its actions -- replacing less miles of distribution main than projected -- are prudent under the Stipulation in Case No. 07-1080-GA-AIR, et al. Additionally, OCC is concerned that by virtue of the fact that the Company is replacing less distribution infrastructure than projected, it reduces the O&M cost savings that are to be passed back to consumers. Finally, if it can be shown, in future DRR proceedings, that the need for an accelerated pipeline replacement program has been superseded by a program to accelerate cost recovery from consumers, then the continuation of the DRR program could be in jeopardy.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that a copy of these *Comments* was provided to the persons listed below via first class U.S. Mail, postage prepaid, this 29th day of July 2011.

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Exhibit A

Vectren Energy Company of Ohio, Inc.
Case No. 11-2776-GA-RDR
Proposed OCC Adjustments to the DRR Revenue Requirement

Mains Replacement Revenue Requirement

	2009	Cumulative	2010
Plant In Service:			
Additions - Main Replacements	$ 7,062,973	$ 12,293,313	$ 5,230,340
Original Cost - Retired Mains	$ (174,052)	$ (246,819)	$ (72,767)
Total Plant In Service	$ 6,888,921	$ 12,046,494	$ 5,157,573
Less Accumulated Depreciation:			
Depreciation Expense - Mains	$ (33,881)	$ (192,510)	$ (158,629)
Cost of Removal - Mains	$ 407,719	$ 802,872	$ 395,153
Original Cost - Retired Mains	$ 174,052	$ 246,819	$ 72,767
Total Accumulated Depreciation	$ 547,890	$ 857,181	$ 309,291
PISCC	$ 98,323	$ 587,917	$ 489,594
Net Deferred Tax Balance	$ (34,413)	$ (205,771)	$ (171,358)
Deferred Taxes on Depreciation	$ (1,285,263)	$ (2,308,063)	$ (1,022,800)
Total	$ (1,221,353)	$ (1,925,917)	$ (704,564)
Net Rate Base	$ 6,215,458	$ 10,977,758	$ 4,762,300
Pre-tax Rate of Return	11.67%	11.67%	
Annualized Return on Rate Base	$ 725,344	$ 1,281,104	$ 555,760
Operations & Maintenance Expense:			
Annualized Property Tax Expense	$ 150,651	$ 263,313	$ 112,662
Annualized Depreciation Expense	$ 121,934	$ 213,223	$ 91,289
Annualized PISCC Amortization Expense	$ -	$ 9,054	$ 9,054
Annualized Maintenance Adjustment	$ (347,765)	$ (286,033)	$ 61,732
Total Incremental Mains Operating Expense	$ (75,180)	$ 199,557	$ 274,737
Variance	$ -	$ 38,034	$ 38,034
Total Annual Mains Revenue Requirement	$ 650,164	$ 1,518,695	$ 868,531
OCC Proposed Reduction for Plastic Mains		$ (25,818)	
OCC Proposed Reduction for Bonus Depreciation		$ (35,914)	
OCC Adjusted Revenue Requirement for Mains		$ 1,456,963	

Vectren Energy Company of Ohio, Inc.
Case No. 11-2776-GA-RDR
Proposed OCC Adjustments to the DRR Revenue Requirement

Service Lines Replacement Revenue Requirement

	2009	Cumulative	2010
Plant In Service:			
Additions - Services Replacements (BS/CI)	$ 4,187,450	$ 7,498,051	$ 3,310,601
Additions - Meter Installation (BS/CI)	$ -	$ 1,221,792	$ 1,221,792
Additions - Services Replacements (Responsibility)	$ 1,394,305	$ 2,120,478	$ 726,173
Additions - Natural Gas Risers	$ 5,451,132	$11,791,495	$ 6,340,363
Original Cost - Retired Meter Installation	$ -	$ (6,422)	$ (6,422)
Original Cost - Retired Services	$ (30,202)	$ (77,288)	$ (47,086)
Total Plant In Service	$11,002,685	$22,548,106	$11,545,421
Less Accumulated Depreciation:			
Depreciation Expense - Services	$ (93,255)	$ (422,106)	$ (328,851)
Depreciation Expense - Meter Installation	$ -	$ (20,507)	$ (20,507)
Depreciation Expense - Risers	$ (89,392)	$ (524,356)	$ (434,964)
Cost of Removal - Services	$ 319,526	$ 623,036	$ 303,510
Original Cost - Retired Services	$ 30,202	$ 77,288	$ 47,086
Original Cost - Retired Meter Installation	$ -	$ 6,422	$ 6,422
Total Accumulated Depreciation	$ 167,081	$ (260,223)	$ (427,304)
PISCC	$ 57,709	$ 937,900	$ 880,191
Net Deferred Tax Balance	$ (20,198)	$ (328,265)	$ (308,067)
Deferred Taxes on Depreciation	$ (1,962,946)	$ (4,173,122)	$ (2,210,176)
Total	$ (1,925,435)	$ (3,563,487)	$ (1,638,052)
Net Rate Base	$ 9,244,331	$18,724,396	$ 9,480,065
Pre-tax Rate of Return	11.67%	11.67%	
Annualized Return on Rate Base	$ 1,078,813	$ 2,185,137	$ 1,106,324
Operations & Maintenance Expense:			
Annualized Property Tax Expense	$ 237,269	$ 490,330	$ 253,061
Annualized Depreciation Expense - Services	$ 578,741	$ 1,122,102	$ 543,361
Annualized Depreciation Expense - Meter Installation	$ -	$ 22,120	$ 22,120
Annualized PISCC Amortization Expense	$ -	$ 16,439	$ 16,439
Incremental O&M - Service Line Responsibility	$ 71,725	$ 53,647	$ (18,078)

Vectren Energy Company of Ohio, Inc.
Case No. 11-2776-GA-RDR
Proposed OCC Adjustments to the DRR Revenue Requirement

Service Lines Replacement Revenue Requirement cont.

Annualized Maintenance Adjustment	$ 26,581	$ 28,325	$ 1,744
Total Incremental Mains Operating Expense	$ 914,316	$ 1,732,963	$ 818,647
Variance	$ 232,718	$ 127,330	$ (105,388)
Total Annual Mains Revenue Requirement	$ 2,225,847	$ 4,045,430	$ 1,819,583
OCC Proposed Reduction for Bonus Depreciation		$ (27,498)	
OCC Proposed Maintenance Expense Adjustment		$ (28,325)	
OCC Adjusted Revenue Requirement for Services		$ 3,989,607	

Reveue Distribution to Residential Customers:

	Mains As Filed	Mains As Adjusted	Mains Adjustment	Services As Filed	Services As Adjusted	Services Adjustment
Revenue Requirement	$ 1,518,695	$ 1,456,963	$ (61,732)	$ 4,045,430	$ 3,989,607	$ (55,823)
Residential Allocation Factor (Exhibit SEA-1)	0.6148	0.6148	0.6148	0.85184	0.85184	0.85184
Residential Revenue Contribution	$ 933,694	$ 895,741	$ (37,953)	$ 3,446,059	$ 3,398,507	$ (47,552)
Residential Customer Count (Exhibit SEA-1)	286,285	286,285	286,285	286,285	286,285	286,285
Proposed DRR per customer per month	$ 0.272	$ 0.261	$ (0.011)	$ 1.003	$ 0.989	$ (0.014)
Total DRR Rate As Filed by VEDO	$ 1.27					
Total DRR Rate As Proposed by OCC	$ 1.25					
Reduction in DRR Rate Proposed by OCC	(0.02)					