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PUCO EXHIBIT FILING

Date of Hearing: 8/16/11

Case No. 11-2796-GA-RDR

PUCO Case Caption: Vectren Energy Delivery Ohio, Inc.

List of exhibits being filed:

Staff Ex-2 Comments and Recommendation

Reporter's Signature:

Date Submitted:

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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 : Case No.
Authority to Adjust its : 11-2776-GA-RDR
Distribution Replacement :
Rider Charges. :

- - -

PROCEEDINGS

before Katie Stenman, Attorney Examiner, held at the Public Utilities Commission of Ohio, 180 East Broad Street, Hearing Room 11-C, Columbus, Ohio, on Thursday, August 11, 2011, at 10:00 A.M.

- - -

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- - -

STAFF Ex. 2

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
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 (2007 Rate Case), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned case 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 2010 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. [1] It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code, 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 (2007 Rate Case 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 on[2] 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-COI[3]; (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

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1 *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges* (2011 DRR Case), Case No. 11-2776-GA-RDR (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.

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

The 2007 Rate Case Stipulation further provided a process for establishing the annual DRR rate. By May 1 of each year, 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. The initial monthly DRR was capped at $1.00 for Residential and Group 1 General Service customers and the cap will increase in $1.00 increments in each of the succeeding years.[4]

VEDO'S APPLICATION

VEDO filed its Application on April 29, 2011. 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,

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[4] *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 Services and Related Matters* (2007 Rate Case), Case No. 07-1080-GA-AIR, (Stipulation at 8-14).

and Scott E. Albertson, Director of Regulatory Affairs. Mr. Francis' testimony and exhibits present the progress made in 2010 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company's BS/CI 2011 Replacement plans, the 2010 Riser Replacement Program progress and costs, maintenance costs associated with the 2010 BS/CI Replacement Program, the 2010 incremental costs for maintenance and repair of service lines previously owned by customers, and 2010 capital costs for replacement of previously customer-owned service lines.

Ms. Barrett's 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 2010 Mains and Service Line and Riser Replacement Programs; 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, PISCC[5], and AFUDC; and a schedule showing the true-up for riser investigation and replacement costs in accordance with the 2007 Rate Case Stipulation and under recovery of the revenue requirement adopted in last year's DRR application, Case No. 10-595-GA-RDR .

Mr. Albertson's testimony principally provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

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[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.

In its Application, the Company indicates that in 2010 it replaced 14 miles of bare steel and 3.5 miles of cast iron mains, replaced 2,027BS/CI service lines (with an additional 127 service lines retired), replaced 18,828 prone-to-fail risers, and moved 1,847 inside meters outside as part of its Replacement Program. The Company proposes a Mains Replacement Program revenue requirement of $1,518,695 and $4,045,430 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of $5,564,125 that the Company proposes to be allocated to customers as follows:

Rate Schedule	$ Per Month	$ Per Ccf	2009 to 2010 Increase
310, 311, and 315	$1.27		$0.63
320, 321, and 325 (Group 1)	$1.27		$0.63
320, 321, and 325 (Group 2 and 3)		$0.00986	$0.00541
341	$6.69		$3.45
345		$0.00269	$0.00150
360		$0.00167	$0.00050

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 Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the Application is just and reasonable. Based on this investigation, the Staff makes the following comments and recommendations by topic area.

A. VEDO's Application

In Comments filed in last year's DRR case, the Staff commented that VEDO'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. The Staff recommended that the Commission direct Company to work with the Staff to modify future DRR applications to include 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. In addition, the Staff recommended 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 with its Application.

The Company complied with the Commission's directive and worked with the Staff to modify its Application and accompanying schedules. The Company's Application and schedules in this case are complete and well thought out. In addition, the Company provided the Staff and OCC with a working model of its revenue requirement and rate allocation process. The Staff has no further recommendations on this topic.

B. *Level of Investment*

In last year's Comments, the Staff expressed a concern that the Company's 2009 and planned 2010 capital investments and replacement of BS/CI mains were below the levels contemplated by the 2007 Rate Case Stipulation. The Company proposed in its 2007 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.[6] The Company explained that the 2009 investment level and planned 2010 investment were below the level specified in the 2007 Rate Case Application due to the economic climate and that it was facing and that it (along with its affiliate companies under the Vectren Utility Holdings, Inc.'s umbrella) curbed capital expenditures in an effort to avoid potential exposure to higher capital costs.[7]

In this year's DRR Application, the Staff notes that the Company's actual 2010 capital investment in replacing BS/CI mains was below what was planned for 2010 in the Company's Application last year (approximately $9.7 million in 2010 actual versus $11 million planned). However, the Staff also notes that the Company retired the approximate 18 miles of BS/CI mains that it planned for 2010 and that its plans for 2011 call for replacing more than 37 miles of BS/CI mains, which is more than the approximate 35 miles per year anticipated in the Company's original DRR proposal. The

6 *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of An Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Difference Between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain Reliability Programs,* Case No. 07-1080-GA-ALT, (Application Alt. Reg. Exhibit A; Alternative Rate Plan Description at 7).

7 *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, (Direct testimony of James M. Francis at 11).

Staff intends to continue to monitor the Company's investments and progress in replacing the BS/CI mains and will comment on the Company's progress at the planned five-year review of VEDO's DRR Program or in a future DRR application case if the Company's investments or replacement levels drop significantly below anticipated levels.

C. Calculation of Post In-Service Carrying Costs

The Company's formula for calculating the PISCC (capitalized interest for the time between when DRR investments are placed into service and the company begins to recover its costs via the DRR rider) includes a provision for compounding, which, in effect, gives the Company interest on interest. The 2007 Rate Case Stipulation and the Commission Order approving it do not define how the PISCC should be calculated; however, the Commission has ruled on the topic of compounding PISCC in another natural gas infrastructure replacement case. In Case No. 07-478-GA-UNC concerning Columbia Gas of Ohio's (Columbia) recovery of costs for testing and replacing prone to fail risers, the Commission adopted a stipulation providing that:

> PISCC shall be computed, in the annual IRP rider filing, based on the life of the asset upon which it was accrued and shall be deferred on all investment between the dates the asset was placed into service (or reimbursement of a customer was made) and the date recovery of the investment commences. The PISCC rate shall be determined annually based upon Columbia's weighted cost of debt, exclusive of the equity component, and **with no compounding**. PISCC is to be verified by staff.[8] [Emphasis added.]

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[8] *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval of Tariffs to Recover Through an Automatic Adjustment Clause Costs Associated with the Establishment of an Infrastructure Replacement Program and for Approval of Certain Accounting Treatment*, Case No. 07-478-GA-UNC *et al*, (Opinion and Order at 11).

Likewise, Dominion East Ohio Gas (Dominion) does not compound the PISCC in its infrastructure replacement rider cases.

The Staff does not believe that VEDO should compound the PISCC and recommends that the effects of compounding be removed from the Company's calculation of PISCC. Removing the compounding reduces VEDO's proposed PISCC for the Mains by $21,518 and for the Service Lines/Risers by $30,721. These reductions, in turn, have flow-through impacts on other elements of the Company's calculation of the revenue requirement. When plugged into VEDO's revenue requirement model, the Staff recommended adjustments reduce the overall DRR revenue requirement (Mains plus Service Lines/Risers) by $4,832. When allocated to customers, this relatively small adjustment does not change any of the rates proposed by the Company (due to the effects of rounding) except for those customers served under Rate Schedules 320/321/325 Group 2 (General Sales customers that take service on a volumetric or "Ccf" basis), where the rate changes from $0.00986 per Ccf to $0.00985 per Ccf, and Rate Schedule 341(Dual Fuel Standard Choice Offer Service), where the adjustment reduces the proposed rate from $6.69 per customer per month to $6.68 per customer per month.

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's recommendations for modifying VEDO's calculation of allowable PISCC discussed 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.

Respectfully submitted,

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

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Comments and Recommendations, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered; and/or sent via electronic mail to the following parties of record, this 29th day of July, 2011.

Steven L. Beeler

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STIPULATION AND RECOMMENDATION

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August 9, 2011

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