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FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of **The East Ohio Gas Company d/b/a Dominion East Ohio** to Adjust its Pipeline Infrastructure Replacement Cost Recovery Charge and Related Matters	:	Case No. 11-3238-GA-RDR PIR Annual Filing for Fiscal Year 2010/2011

STAFF COMMENTS AND RECOMMENDATIONS

SUBMITTED TO
THE PUBLIC UTILITIES COMMISSION OF OHIO

September 26, 2011

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 its 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 31, 2011, DEO filed a notice of intent to file an application in Case No. 11-3238-GA-RDR to adjust existing PIR rider rates to recover costs incurred during the period from July 1, 2010 through June 30, 2011, along with schedules 1 through 15 supporting an estimated PIR revenue requirement based on nine months of actual data from the period July 1, 2010, through March 31, 2011, and three months of projected data for the period April 1 through June 30, 2011.

On August 31, 2011, DEO filed its application to adjust the PIR rider rates and provided actual data through June 30, 2011, along with supporting schedules 1 through 15. DEO also filed testimony to support the Application.

On September 15, DEO re-filed its PIR Application to reflect for ratemaking purposes the effect of additional federal tax bonus depreciation for years 2008 and 2009 applicable to eligible capital investments. The Company also filed testimony supporting the changes made in its re-filed Application.

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 proposed 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 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 $37,463,770.11 is allocated to customer rate classes based on the class 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 $2.22 per month.
- LVGSS/LVECTS $19.38 per month.
- GTS/TSS $86.93 per month.
- DTS $0.0332 per Mcf, capped at $1000 per month.

Additionally, the Company requests that the adjusted PIR rider rates become effective in November 2011.

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 adjustment to ensure that the PIR rates are just and reasonable:

1. The Staff recommends that the O&M Savings amount proposed by the Company of $2,127,563 be adopted by the Commission and that the Company should reflect the impact of the O&M savings on its books over the period of time the associated rates are in effect, thus lowering the revenue requirement of customers. The Company's proposed accounting treatment of amortizing the O&M savings amount over the time that the associated rates are in effect will be consistent with the treatment being given such savings by the other Ohio LDC's having pipeline replacement programs.

2. The Staff agrees with DEO that it is appropriate to reflect for ratemaking purposes the 50% federal bonus tax depreciation available in 2008 and 2009. The additional bonus tax depreciation reflected in the updated filing made on September 15, 2011, results in a reduction to the PIR revenue requirement of almost $1.9 million.

With the adoption of the above recommendations, the Staff recommends that the Commission approve the PIR revenue requirement of $37,463,770.11 and resulting PIR rider rates as follows:

- GSS/ECTS $2.22 per month.
- LVGSS/LVECTS $19.38 per month.
- GTS/TSS $86.93 per month.
- DTS $0.0332 per Mcf, capped at $1000 per month.

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

Respectfully submitted,

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

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Staff Comments was served via electronic mail and/or regular U.S. mail, postage prepaid upon the following parties of record this 26th day of September, 2011.

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