BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Suburban Natural Gas Company for an Adjustment to its Infrastructure Replacement Program Rider.	))))	Case No. 11-3234-GA-RDR

FINDING AND ORDER

The Commission finds:

(1) Suburban Natural Gas Company (Suburban) is a natural gas company as defined by Section 4905.03(A)(5), Revised Code, and a public utility as defined by Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of the Commission pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code. Suburban provides natural gas to over 15,000 residential, commercial, and industrial customers in Wood, Henry, Hancock, Lucas, Delaware, and Marion counties.

(2) By opinion and order issued March 19, 2008, in *In the Matter of the Application of the Suburban Natural Gas Company for Authority to Increase its Rates and Charges in Certain Areas of its Service Territory,* Case No. 07-689-GA-AIR (*2007 Rate Case*), the Commission authorized Suburban, *inter alia,* to establish an infrastructure replacement program (IRP) rider at a zero-dollar level.

(3) By finding and order issued September 15, 2009, in *In the Matter of the Application of Suburban Natural Gas Company for Approval of an Infrastructure Replacement Plan,* Case No. 09-573-GA-UNC, (2009 IRP Case), the Commission approved Suburban's IRP. Suburban's IRP provides for the accelerated replacement of aging pipelines and timely replacement of prone-to-fail risers, as well as Suburban's assumption of responsibilities associated with the installation, repair, and maintenance of customer service lines. The Commission directed Suburban to complete replacement of all prone-to-fail risers within four years of the date of the September 15, 2009, finding and order. Under the terms of the IRP, Suburban will recover 50 percent of the program's cost, with a return based on Suburban's cost of debt,

on an accelerated basis, over a four-year period. The amounts subject to accelerated recovery will be accounted for as a deduction from the rate base, as adjustments to the appropriate plant-in-service accounts. The remaining 50 percent of the cost will be accounted for in the appropriate plant-in-service and expense accounts, while associated revenue, including a return based on the return of equity determined in the *2007 Rate Case,* will be recovered through the IRP rider. Pursuant to the approved IRP, Suburban must submit an application to recover the costs associated with the IRP by August 31 of each year. In addition, Suburban must file a prefiling notice by May 31 of each year.

(4) By finding and order issued November 22, 2010, in *In the Matter of the Application of Suburban Natural Gas Company to Adjust its Infrastructure Replacement Plan Rider Charge and Related Matters,* Case No. 10-763-GA-RDR (*2010 IRP Case*), the Commission authorized Suburban to adjust its IRP rider rate to $0.39 per customer per month.

(5) In accordance with the procedure approved by the Commission in the *2009 IRP Case,* Suburban filed a prefiling notice in the current proceeding on May 31, 2011.

(6) On August 30, 2011, Suburban filed its application to adjust its IRP rider to $0.25 per customer per month, reflecting costs associated with capital investments made by Suburban during the period of July 1, 2010 through June 30, 2011. Suburban filed three schedules, tariff sheets, and the testimony of its outside consultant, Nichole Clement, in support of its application. The three schedules detail progress and costs associated with the IRP. Schedule A-1 provides the overall program costs and recovery calculation for the period of July 2010 to June 2011. Schedule A-2 details the cost of debt calculation used for the period of July 2010 to June 2011, and schedule A-3 provides the return on equity calculation for the period of July 2010 through June 2011. (Suburban App., Scheds. A-1 to A-3, B-1 to B-3, and Ex. 1).

(7) Ms. Clement describes Suburban's infrastructure replacement efforts and how Suburban began replacing aging service lines and prone-to-fail customer risers in October 2009. According to Ms. Clement, while Suburban estimated, in the *2009 IRP Case,*

that the incremental costs of the IRP would be approximately $252,000 per year, Suburban's actual costs were lower because fewer risers and service lines were replaced than originally estimated and costs for the risers and service lines have been slightly lower than originally projected. Ms. Clement states that the cost of the IRP for the 12-month period beginning July 1, 2010, and ending June 30, 2011, was $155,170. Ms. Clement notes that, at the time of the *2009 IRP Case,* Suburban estimated that the IRP charge to customers would be $0.29, $0.58, $0.84, $1.10, and $0.92 per month per customer in years one through five, respectively. Ms. Clement states that the $0.25 monthly customer charge that Suburban requests for the third year of the IRP was calculated from the actual data from July 1, 2010 through June 30, 2011, and estimated data from July 1, 2011 through June 30, 2012. Additionally, Ms. Clement indicates that the proposed recovery for the third year of the IRP was reduced by the amount over-collected in year two, in accordance with the calculation approved in the *2009 IRP Case.* (Suburban App., Ex. 1 at 2-4.)

(8) On September 2, 2011, the attorney examiner issued an entry stating, *inter alia,* that Staff and intervenors may file comments on Suburban's application by September 26, 2011. Additionally, the attorney examiner set a deadline of September 30, 2011, for Suburban to file a statement informing the Commission whether the issues raised in the comments have been resolved.

(9) On September 26, 2011, Staff filed comments on Suburban's application. Staff's review of Suburban's calculation of costs incurred through the IRP and the associated cost recovery identified no inappropriate costs. Staff also reviewed Suburban's division of costs including Suburban's calculation of its cost of debt, the proposed rate of return, and treatment of taxes. Staff concludes that Suburban properly excluded gross receipts tax and applied the proper cost of debt and rate of return to the costs of replacing prone-to-fail risers and the repair and placement of customer service lines. Additionally, Staff finds that Suburban properly excluded expenses associated with testing service lines and used the correct 45-year depreciation life provided for in the *2009 IRP Case.* (Staff Comments at 4.)

(10) Staff further observes that the estimate of costs in year three is being set at the same level as the estimated costs in year two, despite the fact that Suburban plans more replacement work in year three because the cost estimate in year three was adjusted to reflect over-recovery of actual versus estimated expenditures in years one and two and a more accurate estimate of labor costs. (Staff Comments at 4-5.)

(11) Additionally, Staff comments that, in the *2009 IRP Case,* the Commission directed Suburban to replace approximately 1,600 risers over a four-year period. Staff remarks that the 1,600 figure has decreased due to the transfer of 110 prone-to-fail risers to KNG Energy, Inc. Additionally, Staff notes that Suburban replaced only 283 risers in year one and only 373 risers in year two, short of its goal of replacing 475 risers in year two. According to Staff, Suburban has indicated a goal of replacing 600 risers in year three. Staff remarks that this increase in the replacement rate should bring Suburban within a reasonable range of fulfilling the Commission's directive to replace all prone-to-fail risers within the four years as required in the *2009 IRP Case.* (Staff Comments at 5.)

(12) Finally, Staff recommends that Suburban's application be modified to require Suburban to provide a monthly report to Staff comparing its year-three progress toward replacing prone-to-fail risers to its projected 600 replacements for the period of July 2011 through June 2012, as well as a comparison of its actual versus estimated costs. Staff states that ongoing monitoring of Suburban is warranted and prudent due to the IRP rider being partly developed from projections of needed revenue to fund the IRP coupled with Suburban's lower-than-expected riser replacement rates in years one and two. (Staff Comments at 6.)

(13) After reviewing Suburban's application, Staff concludes that Suburban's proposed IRP rider rate is just and reasonable and, accordingly, Staff recommends approval of the application.

(14) On October 6, 2011, Suburban filed a motion for leave to file its statement concerning the issues out of time. Additionally, Suburban filed a statement that it has no objection to Staff's comments and that there are no issues to be resolved. Further, Suburban asserts that, as there are no outstanding issues, a

hearing is not necessary. The attorney examiner finds that Suburban's motion for leave to file its statement out of time is reasonable and should be granted.

(15) The Commission finds that Suburban's application to adjust its IRP rider rate to $0.25 per customer per month is reasonable and should be granted. Further, the Commission finds that Suburban shall provide monthly reports to Staff comparing its year-three progress toward replacing prone-to-fail risers to its projected 600 replacements for the period of July 2011 through June 2012, as well as a comparison of its actual versus estimated costs.

It is, therefore,

ORDERED, That Suburban's motion for leave to file out of time be granted. It is, further,

ORDERED, That Suburban's application to adjust its IRP rider rate to $0.25 per customer per month be granted. It is, further,

ORDERED, That Suburban provide monthly reports to Staff in accordance with Finding (15). It is, further,

ORDERED, That Suburban be authorized to file in final form four complete copies of the tariff page consistent with this Finding and Order and to cancel and withdraw its superseded tariff page. Suburban shall file one copy in its TRF docket (or may make such filing electronically as directed in Case No. 06-900-AU-WVR) and one copy in this case docket. The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

ORDERED, The effective date of the new rates for the IRP shall be a date not earlier than the date upon which four complete, printed copies of the final tariff page are filed with the Commission. It is, further,

ORDERED, That Suburban shall notify its customers of the changes to the tariffs via bill message or bill insert within 30 days of the effective date of the revised tariffs. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability, and Service Analysis Division at least 10 days prior to its distribution to customers. It is, further,

ORDERED, That nothing in this Finding and Order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Paul A. Centolella

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

MLW/sc

Entered in the Journal

OCT 26 2011

Betty McCauley

Betty McCauley
Secretary