

FILE

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**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of **The East** : Case No. 12-0812-GA-RDR  
**Ohio Gas Company d/b/a Dominion East** :  
**Ohio** to Adjust its Pipeline Infrastructure : PIR Filing for the Six Months Ended  
Replacement Program Cost Recovery Charge : December 31, 2011  
and Related Matters. :

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**COMMENTS  
AND  
RECOMMENDATIONS**  
SUBMITTED ON BEHALF OF THE STAFF OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO

March 26, 2012

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**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.

In March, 2011, the Company filed a motion in Case No. 08-169-GA-ALT to modify the existing PIR program. The case was subsequently docketed in Case No. 11-2401-GA-ALT. On July 15, 2011, parties to the case filed a stipulation which was approved by the Commission on August 3, 2011. The stipulation provides in part as follows:

- (1) The pipe installed and field coated before 1955 shall be considered to be ineffectively coated without further testing and within the scope of the PIR program with the replacement costs recovered through the PIR charge. Field coated pipe installed in 1955 or later will be tested to determine whether it is ineffectively coated and, if it is found to be ineffectively coated, the costs associated with its testing and replacement will be included in the PIR charge. The cost of testing of any segment found to be effectively coated shall not be included under the PIR charge. The cost of testing pipe found to be ineffectively coated shall be capitalized with the replacement project.
- (2) The cost of moving inside meters to outside locations, which shall be capitalized, shall be recovered through the PIR charge only to the extent the following conditions are met: DEO plans to increase the pressure in the pipeline associated with the meter to operate that pipeline at regulated pres-

sure (greater than 1 pound per square inch; the meter is connected to a segment of target pipe (*i.e.*, cast iron, bare steel, wrought iron, copper and ineffectively coated pipelines); and DEO plans to operate the replacement mains and associated service lines at regulated pressure within two years of relocating the first meter on the project. If DEO has included the cost of a meter relocation based on plans to operate the replacement mains and associated service lines at regulated pressure but does not do so within two years of relocating the first meter on the project, it will remove the associated cost from the revenue requirement in the next PIR charge adjustment application and include a credit for any associated costs previously included in PIR charges billed to customers.

- (3) The costs of transmission integrity management, distribution integrity management, and environmental compliance programs shall not be recovered through the PIR charge.
- (4) All of the costs associated with governmental relocations that include target pipe shall be recovered through the PIR charge only if any plastic pipe associated with the relocation is less than or equal to 25 percent of the total footage relocated.
- (5) The cost of system improvements shall be recovered through the PIR charge only if the improvements replace the role of the target pipe and cost no more than an in-kind (*i.e.*, size for size) replacement of the target pipe,

- (6) The cost of replacing, modifying, or removing district regulating stations shall be recovered through the PIR charge only if needed due to age or condition or the work is directly associated with the replacement of target pipe connected to the regulating station. DEO shall not seek recovery through the PIR charge of any programmatic replacement, modification or removal of regulating stations if such a program were to be implemented as a result of the Fairport Harbor incident and investigation.
- (7) Costs to replace steel main-to-curb service lines shall be recovered through the PIR charge, regardless of whether such replacements are performed in conjunction with a planned PIR project or are performed at the time of a defective service line replacement.
- (8) DEO should continue to prioritize PIR replacement projects using the Optimain software program, which ranks and prioritizes PIR projects according to pipe age, material type, leak and outage history, and other relevant attributes. DEO shall submit a proposed methodology to assess the replacement prioritization of cast and wrought iron pipelines and non-low pressure bare and ineffectively coated steel pipelines to staff for comment.
- (9) The fiscal year for purposes of calculating the PIR charge shall consist of the most recent calendar year. To facilitate the transition to a calendar year-based fiscal year, DEO shall submit a filing by February 28, 2012, with actual data for the period July 1, 2011 to December 31, 2011. The Commission shall authorize a revised PIR charge to go into effect as of the

first billing cycle in May, 2012. Thereafter, DEO shall submit a prefiling notice by November 30 each year, and an updated filing with actual data by February 28, with the revised PIR charge becoming effective as of the first billing cycle in May.

- (10) The PIR charge shall include a reconciliation of costs recoverable and costs actually recovered. Any resulting reconciliation adjustment, plus or minus, shall be made to the revenue requirement of the subsequent PIR charge filing only.
- (11) The adjustment to the PIR charge for General Sales Service and Energy Choice Transportation Service Customers (GSS Class) based on data for the period July 1, 2011 to December 31, 2011 shall not exceed the most recently authorized level by more than \$0.65. The adjustment for the PIR charge for the GSS Class based on data for Fiscal Year 2012 shall not exceed the most recently authorized level by more than \$1.15. Thereafter, annual adjustments to the PIR charge for the GSS Class shall not exceed the most recently authorized level by more than \$1.40; provided, however, that to the extent an increase in the PIR charge is less than \$1.40, the difference between the approved increase and \$1.40 should be applied to increase the maximum allowable PIR charge only for the next fiscal year. The preceding limitations to the PIR charge do not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered.

- (12) Notwithstanding Paragraph 17(f) of the Commission's Opinion and Order in Case No. 07-829-GA-AIR, commencing with the filing of an application to adjust the PIR charge for the Fiscal Year 2012, and in each annual filing thereafter, the calculation of the proposed PIR charge shall reflect a credit for minimum operation and maintenance (O&M) expense savings of \$1 million, notwithstanding actual O&M expense savings, if any, achieved during the Fiscal Year. DEO shall reflect no additional credit for any O&M expense savings between \$1 million and \$1.5 million. To the extent actual O&M expense savings exceed \$1.5 million, 50 percent of the excess thereof shall be reflected as additional O&M expense savings credited to the PIR charge revenue requirement. Savings shall be calculated in accord with the Commission's Opinion and Order in Case No. 09-458-GA-RDR. The preceding O&M savings credit thresholds for the PIR charge based on July 1, 2011 to December 31, 2011, data shall be adjusted proportionately to reflect the six-month filing period.
- (13) DEO may continue the PIR program and PIR charge mechanism as modified by this stipulation for a 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. At that time, DEO may request continuation of the PIR program for an additional term, and the other signatory parties retain all rights to take any positions they respectively deem appropriate in future PIR filings by the company.



## **CURRENT FILING**

On February 28, 2012, DEO filed its application to adjust the PIR rider rates and supporting schedules 1 through 15 pursuant to the Stipulation in Case No. 11-2401-GA-ALT. DEO did not file testimony to support the Application. The current filing is designed to move the Company's PIR filings from a fiscal-year basis to a calendar-year basis and includes six months of plant investment along with associated expenses for the period.

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 November 30 of each year, and will consist of nine months of actual and three months of projected data for a test year ended December 31 and a date certain as of December 31. By February 28 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 considered all of the documentation filed by the Company. 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, and operation and maintenance expense 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 for 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 depreciation and post in-service carrying costs and related deferred income tax effect.

### **COMPANY'S PROPOSED RECOVERY**

The Company's proposed PIR revenue requirement of \$46,714,686.08 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	\$2.80 per month.
LVGSS/LVECTS	\$23.68 per month.
GTS/TSS	\$107.94 per month.
DTS	\$0.0384 per Mcf capped at \$1000 per month.

Consistent with the other gas distribution company pipeline replacement programs under the Commissions' jurisdiction, Staff recommends that the adjusted PIR rider rates become effective in May 2012.

### **STAFF RECOMMENDATIONS**

The Staff has determined that the Company's calculation of the PIR revenue requirement, as reflected in the filing, is supported by adequate data and it is properly allocated to the various customer classes.

The Staff recommends that the O&M Savings amount proposed by the Company and agreed to by parties to the Stipulation in Case No. 11-2401-GA-ALT of \$500,000 be adopted by the Commission for purposes of lowering the revenue requirement in this

case. Operation and maintenance expenses as reflected on Schedule 15 showed an increase from baseline O&M expenses of \$141,261.65 due to increases in the leak repair and leak surveillance expense categories. O&M savings as calculated using the method approved by the Commission in Case No. 09-458-GA-RDR would have been \$234,458.39; however, as agreed to in the stipulation, \$500,000 shall be attributed to savings and deducted from the revenue requirement in this case.

With the adoption of the above, the Staff recommends that the Commission approve the PIR revenue requirement of \$46,714,686.08 and resulting PIR rider rates as follows:

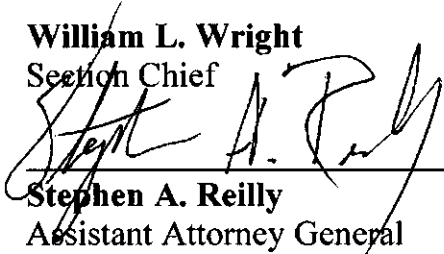
GSS/ECTS	\$2.80 per month.
LVGSS/LVECTS	\$23.68 per month.
GTS/TSS	\$107.94 per month.
DTS	\$0.0384 per Mcf, capped at \$1000 per month.

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. Staff also recommends that the Company, as a matter of practice, file testimony supporting the requested increase.

Respectfully submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief



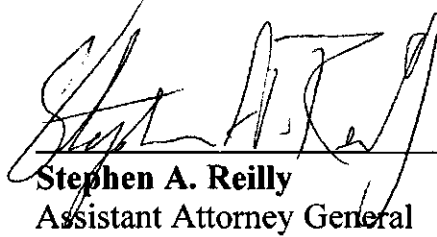
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**Stephen A. Reilly**  
Assistant Attorney General  
180 East Broad Street  
Columbus, Ohio 43215  
614.466.4397 (telephone)  
614.644.8764 (fax)  
[stephen.reilly@puc.state.oh.us](mailto:stephen.reilly@puc.state.oh.us)

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

## **CERTIFICATE OF SERVICE**

I certify that a copy of the foregoing Comments and Recommendations submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served via electronic mail and/or regular U.S. mail, postage prepaid, upon the party of record noted below this 26<sup>th</sup> day of March, 2012.



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**Stephen A. Reilly**  
Assistant Attorney General

Mark A. Whitt  
Christopher T. Kennedy  
Melissa L. Thompson  
Whitt Sturtevant LLP  
PNC Plaza, 20<sup>th</sup> Floor  
155 East Broad Street  
Columbus, Ohio 43215  
(614) 224-3911  
[whitt@whitt-sturtevant.com](mailto:whitt@whitt-sturtevant.com)  
[kennedy@whitt-sturtevant.com](mailto:kennedy@whitt-sturtevant.com)  
[thompson@whitt-sturtevant.com](mailto:thompson@whitt-sturtevant.com)