

A. The applications lack sufficient detail for the Commission to determine if the requirements of Ohio Revised Code §4929.111(C) are satisfied.

The applications lack detail on the nature of the capital investments for which Vectren requests recovery under the provisions of Revised Code §4929.111. The applications list three “expenditure program category” items: infrastructure expansion, infrastructure improvement and replacement, and programs to comply with Commission rules. The applications do not specify what specific investments will actually be made under the program and what expenditures will be made under each category. There is no description of the proposed investments beyond generalities.

As a result, it is impossible for the Commission to determine that the capital expenditure program is consistent with the obligation of Vectren to provide necessary and adequate service under Revised Code §4905.22 as required by Revised Code §4929.111(C). Given the paucity of information in the applications, Vectren is essentially asking the Commission to determine that an undefined capital expenditure program is consistent with the obligation to provide necessary and adequate service, thus justifying the exceptional recovery provided for under the statute. The applications do not provide adequate details on the proposed program to permit the Commission to make this decision. The applications are deficient because they fail to describe the capital investment program in sufficient detail for such a determination to be made.

B. The expenditures in the capital expenditure program must be incremental to the level of cost already included for capital expenditures in Vectren’s current base rates.

The Commission must determine whether the expenditures in the capital expenditure program are incremental to the level of capital expenditures already

included in Vectren's current base distribution rates established in its last base rate proceeding. *Vectren*, Case No. 07-1080-GA-AIR, Opinion and Order, January 7, 2009. The level of capital expenditure already included in base rates represents what Vectren should be spending anyway without a capital expenditure program.

If Vectren is not, in fact, proposing to spend more on capital projects in 2011 and in 2012 than it spent in the three previous years that its current base rates have been in effect, the need for additional returns and special deferral treatment as authorized by the statute for this program is not proven. If Vectren has in the past three years spent just as much without the need for any special ratemaking or regulatory treatment as it plans to spend in the last months of 2011 and 2012, there is no need for a capital expenditure program.

C. Given Vectren's current rate design, the Commission must assure that the deferrals are reduced by incremental revenues so that Vectren does not excessively over-earn.

The Commission should note that Vectren has had a straight fixed variable rate design since its last base rate case. *Vectren*, Case No. 07-1080-GA-AIR, Opinion and Order, January 7, 2009. That rate design should allow Vectren to earn its allowable rate of return annually. See the Comments of the Staff of the Commission, *Columbia Gas of Ohio*, Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM (February 17, 2012) at 8-9. When a utility, especially one with such a rate design, is allowed to defer for future recovery the Post-In Service Carrying Charges ("PISCC"), depreciation, and property taxes associated with capital expenditure program investments, it must also recognize any incremental revenue generated by the investments. Otherwise, there is a mismatch in the

treatment of expenses and revenues related to the capital expenditure program investments.

This mismatch is unfair to customers and violates the principle that revenues and expenses should be recorded on a utility's books in the same time period. Rates established with a straight fixed variable rate design, which establishes a high fixed customer charge, would result in over earnings if costs, including carrying charges, are deferred for future recovery and nothing is done to address the incremental revenues. If the PISCC, depreciation, and property tax expense related to the capital expenditure investments are carried forward for future recovery, any incremental revenue that the utility realizes in the same time period should be brought forward as well.

The Staff of the Commission has recommended that a utility should create a regulatory liability to track the monthly incremental revenues in the same months as the capital expenditure deferrals. In the alternative, the utility should net out the incremental revenue in the monthly calculation. Comments of the Staff of the Commission, *Columbia Gas of Ohio*, Case Nos. 11-5351-GA-UNC and 11-5352-GA-AAM (February 17, 2012) at 8-9. This is necessary to assure fairness to ratepayers.

D. The capital expenditure program deferrals should have a time limit.

The capital expenditure program deferrals should have a time limit. When deferrals grow without a timetable for recovery, there can be significantly large future rate increases due to the continued accrual of carrying charges on the deferrals. Given Vectren's straight fixed variable rate design covering fixed costs and its lack of incentive to file a base rate case under this rate design, the capitalization of PISCC and deferral of depreciation and property tax expenses

associated with the capital expenditures may lead Vectren to defer rate increase applications indefinitely. The potential protracted time period could result in large accrued deferrals that could result in rate shock for customers when the deferrals are ultimately recovered in rates set in a future rate proceeding. To prevent the deferrals from growing to unreasonable levels, the Commission should established a fixed time for the deferrals to cease and a fixed time for the deferrals to be included in Vectren's base rates

E. Vectren should make annual filings.

Vectren should also be required to make annual informational filings detailing the capital expenditure program investment deferrals on its books. In the event that there is a protracted period of time between when the deferrals are created and when Vectren makes an application to recovery the deferrals, the deferrals could accumulate to significant amounts. The annual filing would detail the monthly capital investments and the calculations used to determine the deferred amount. Vectren should breakdown the investments, PISCC, depreciation expense, property tax expense and incremental revenue. This should be given on a calendar year.

These annual filings should continue until the deferrals are included in base rates. Again, the Commission should set a fixed time for the application by Vectren to include the deferrals in base rates.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served electronically upon the persons identified below on this 16th day of April 2012.

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Summary: Comments electronically filed by Ms. Colleen L Mooney on behalf of Ohio Partners for Affordable Energy