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 for Approval to Implement a Capital Expenditure Program.	))))	Case No. 11-6024-GA-UNC
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods.	))))	Case No. 11-6025-GA-AAM

SUPPLEMENTAL REPLY COMMENTS OF THE EAST OHIO GAS COMPANY D/B/A DOMINION EAST OHIO

I. INTRODUCTION

On March 22, 2012, The East Ohio Gas Company d/b/a Dominion East Ohio ("DEO") filed reply comments ("Reply Comments") in response to comments of Staff and the Office of the Ohio Consumers' Counsel ("OCC") regarding DEO's application requesting authority to implement a capital expenditure program ("CAPEX Program"). Upon further consideration of the comments of Staff and OCC, as well as consideration of Supplemental Reply Comments filed by Columbia Gas of Ohio, Inc., in Case No. 11-5351-GA-UNC, DEO now respectfully submits these supplemental reply comments to clarify its position. DEO continues to maintain any position set forth in its earlier comments to the extent they are not modified below.

II. SUPPLEMENTAL REPLY COMMENTS

A. Incremental revenue associated with CAPEX Program assets should be properly determined and approved by the Commission in this proceeding.

In its reply comments, DEO explained that it did not oppose in principle Staff's recommendation for recognizing incremental revenue, but stressed that incremental revenue must be tied to the proposed capital expenditures. DEO continues to agree with Staff that "revenue that is incremental to the revenue provided by the rates that were set in its last base rate case" may be recognized, if such revenue is "generate[d]" by "proposed CAPEX Program investments." (Staff Comments at 7.)

This means that incremental revenues must be directly attributable to CAPEX Program expenditures. Revenue streams from sources without a direct link to the CAPEX Program should not be considered. DEO would reiterate that it does not anticipate any of its existing revenue streams to be increased by expenditures under the CAPEX Program. In short, only incremental revenues that are directly attributable to CAPEX expenditures should be considered; there is no basis for considering other revenues in the incremental-revenue calculation. To this end, DEO intends in its annual CAPEX Program application to identify those portions of the CAPEX Program that would generate incremental revenue and to propose an appropriate calculation for such revenues.

Staff also recommends providing a monthly calculation. DEO continues to support a calendar year calculation of incremental revenues given that the baseline period is a calendar year. However, if monthly calculations must be made and the accumulation of monthly calculations—positive as well as negative—shows no net incremental revenue for the year, there should be no reduction in the regulatory asset for that year. Accordingly, DEO proposes the following formula and definitions to calculate the annual incremental revenues:

> [(Current Year's Customers – Baseline Customers) x (Cost Portion of Rate)] +
> [Other Revenues Directly Attributable to CAPEX Investments, if any]
>
> <u>Current Year's Customers</u> – actual number of customer bills issued during the calendar year by rate class.
>
> <u>Baseline Customers</u> – customer bill count by rate class in 2007, the test year of the last base rate case (*i.e.*, Case No. 07-829-GA-AIR).
>
> <u>Cost Portion of the Rate</u> – rate determined by reducing the revenue requirement in the last base rate case by the equity return and income tax gross up and allocating

this adjusted revenue requirement to each rate class using the allocation method defined in the last base rate case.

Other Revenues – other revenues directly generated from the CAPEX Program assets placed in service during the calendar year, if any.[1]

B. To resolve this case, DEO would not object to the adoption of Staff's recommendation to reduce post-in-service carrying costs by retirements and depreciation.

In its Reply Comments, DEO opposed Staff's proposal to calculate post-in-service carrying costs ("PISCC") net of accumulated depreciation, retirements and cost of removal. Instead, DEO proposed to calculate PISCC based on accumulated gross plant balances less cost of removal.

DEO is not opposed to further reducing gross plant, less cost of removal, by retirements for calculation of PISCC as proposed by Staff. However, DEO continues to believe that Staff's position on also reducing plant by depreciation for the calculation of PISCC is incorrect. PISCC is intended to compensate DEO for the cost of debt used to finance new capital investments before such investments are incorporated into rates. The PISCC rate does not include an equity component and therefore is not equivalent to the rate of return on rate base. Nevertheless, upon further consideration and solely in order to resolve its Application in this case, DEO would not object to the adoption of Staff's recommendation to reduce gross plant by depreciation as well as by retirements and cost of removal for purposes of calculating PISCC for the CAPEX Program.

Also, as noted by Columbia in its supplemental reply, DEO agrees that because the gross plant balance will include only those incremental capital investments associated with the CAPEX Program, only the retirements associated with those incremental capital investments (and thus

[1] As stated by DEO, the value of incremental other revenues in this proceeding is zero. The formula provides for incremental other revenues that may arise in future years.

not *all* retirements) should be included in calculating the net plant balance on which to apply the PISCC rate to determine the deferral.

Accordingly, DEO proposes the following formula to calculate PISCC, in which all components of the balance to which the debt rate is applied are directly attributable to the CAPEX Program investments:

> [(Previous Month's Cumulative Gross Plant Additions) – (Previous Month's Cumulative Cost of Removal) – (Previous Month's Cumulative Retirements) – (Previous Month's Accumulated Depreciation)] x [(Long-term Debt Rate/12)]

C. DEO does not oppose a monetary limit on its deferral authority.

DEO opposed Staff's recommendation to apply a time limit to the CAPEX Program deferrals. For the reasons stated in its Reply Comments, DEO still believes a time limit on deferrals is contrary to the plain language of R.C. 4929.111.

Upon consideration of Columbia's supplemental reply, however, DEO believes that Columbia's recommendation for a monetary limit strikes an appropriate balance to resolve this case: the CAPEX Program deferral may accrue until such time as the bill impact on DEO's General Sales Service class of customers would exceed $1.50 per month. For purposes of this case, the proposed limit would fairly address Staff's concern of a growing, unrecovered deferral and DEO's concern of being made subject to unlawful, arbitrary, and potentially burdensome time limits.

D. DEO would accept the proposed calculation of depreciation and property tax deferrals for the CAPEX Program.

Finally, DEO states that it would not oppose the Commission's use of the following calculations of deferrals for depreciation and property taxes for the CAPEX Program, in which all components of the balance forming the basis of the calculations are directly attributable to the CAPEX Program investments:

Deferred Depreciation Expense:

> [(Current Month Cumulative Gross Plant Additions) – (Current Month Cumulative Cost of Removal) – (Current Month Cumulative Retirements)] x [(Depreciation Rate)/12 months]

Deferred Property-Tax Expense:

> [(Prior Year-End Cumulative Gross Plant Additions) – (Prior Year-End Cumulative Cost of Removal) – (Prior Year-End Cumulative Retirements)] x [(Effective Personal Property Tax Rate)/12 months]

E. DEO agrees to submit an annual informational filing.

DEO agrees to file an annual informational filing detailing the CAPEX Program regulatory asset balance and deferrals to the regulatory asset for the preceding calendar year by April 30 each year. The annual filing will contain the following information:

a) CAPEX Program Regulatory Asset Balance as of December 31;

b) Monthly and Total Deferrals to the Regulatory Asset for the Year Ended December 31 based on CAPEX Program Investments:

   1) PISCC;

   2) Depreciation Expense;

   3) Property Tax Expense;

   4) Reductions for Net Incremental Revenue, if any.

III. CONCLUSION

In accordance with its comments filed in this case, DEO respectfully requests that the Commission grant DEO's application.

Dated: August 3, 2012

Respectfully submitted,

/s/ Andrew J. Campbell

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CERTIFICATE OF SERVICE

I hereby certify that a copy of DEO's Supplemental Reply Comments was served to the following by electronic mail this 3rd day of August, 2012:

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