BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. to Implement a Capital Expenditure Program.	)))	Case No. 12-530-GA-UNC
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Change Accounting Methods.	)))	Case No. 12-531-GA-AAM

SUPPLEMENTAL REPLY COMMENTS OF VECTREN ENERGY DELIVERY OF OHIO

I. INTRODUCTION

On April 27, 2012, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") filed reply comments in response to the comments of Staff, the Office of the Ohio Consumers' Counsel ("OCC"), and Ohio Partners for Affordable Energy ("OPAE") regarding VEDO's application requesting authority to implement a capital expenditure program ("CEP"). Upon further consideration of the comments of the Staff and intervenors, as well as consideration of Supplemental Reply Comments filed by Columbia Gas of Ohio, Inc. and Staff in Case No. 11-5351-GA-UNC, and by The East Ohio Gas Company d/b/a Dominion East Ohio in Case No. 11-6024-GA-UNC, VEDO now respectfully submits these supplemental reply comments to clarify its position. VEDO continues to maintain any position set forth in its earlier comments to the extent they are not modified below.

II. COMMENTS

A. VEDO has opted to remove compressed-natural-gas costs from its CEP.

VEDO's application proposed the inclusion of compressed-natural-gas investments in its CEP. Upon further consideration, VEDO has decided to exclude these costs in its proposed CEP for the time period covered by the application. With this removal, VEDO's CEP for the 15 months ended December 31, 2012, will be approximately $23.5 million.

B. VEDO recommends that the Commission authorize VEDO to implement an aggregate $23.5 million CEP.

As discussed above, VEDO now proposes implementing an aggregate $23.5 million CEP, which represents the program's total budget for the 15 months ended December 31, 2012, excluding the compressed-natural-gas investments. The amount eligible for deferred accounting treatment will be equal to expenditures incurred for CEP in the generally described categories of projects set forth in the Application and initiated on or after October 1, 2011, and placed in service (Account 101, Gas Plant in Service or Account 106, Completed Construction Not Classified) by December 31, 2012.

VEDO recommends that the Commission confirm that VEDO, in its discretion, may allocate CEP expenditures among the categories set forth in the Application (excluding compressed-natural-gas investments) as necessary to meet the needs of its customers and its gas delivery system. While R.C. 4929.111(C) grants the Commission discretion in setting the aggregate limit on deferral authority, the statute does not speak to allocations of spending among various categories or projects or costs. It is difficult to forecast with precision the actual dollars that will be spent on particular projects as not all specific CEP projects are known when the annual budget is established. Of necessity, many specific and/or higher priority projects are identified throughout the year, and therefore rebalancing of the CEP investment portfolio may be required to meet service requirements. Granting VEDO this flexibility will allow it to maximize the benefits of its CEP investment without increasing overall rate impacts. All project specific CEP investments will be subject to review and approval in future cost-recovery filings. Because this treatment will benefit both the Company and its customers, the Commission should confirm that VEDO has discretion to reallocate expenditures among the categories listed in its application up to the aggregate CEP budget amount.

C. The formula for recognizing incremental revenue associated with CEP assets should be established as proposed by VEDO in this proceeding.

In its reply comments, VEDO explained that it did not oppose in principle Staff's recommendation for recognizing incremental revenue, but stressed that incremental revenue must be directly attributable to the proposed capital expenditures. VEDO 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 [CEP] investments." (Staff Comments at 7.)

Staff recommended providing a monthly calculation. VEDO recommends a calendar-year calculation of incremental revenues as this approach is consistent with the methodology used in VEDO's last base rate case and represents the baseline period in the formula. Accordingly, VEDO proposes the following formula and definitions to calculate the annual incremental revenues:

Formula

[Fixed Charge ("SFV") Customer Incremental Revenues + Non-SFV Customer Incremental Revenues, if any]

Definitions

Fixed Charge ("SFV") Customer Incremental Revenues – [(Annual Number of Customer Bills Issued – Baseline Number of Customer Bills Issued) x (Cost Portion of Rate)]

Non-SFV Customer Incremental Revenues, if any – [Additional consumption by non-SFV customers directly attributable to CEP investment x Cost Portion of Non-SFV Tariff]

Annual Number of Customer Bills Issued – actual number of customer bills issued for residential and general service, group 1 customer tariffs during the calendar year.

Baseline Number of Customer Bills Issued – residential and general service, group 1 customer annual bill count in the last base rate case (*i.e.*, Case No. 07-1080-GA-AIR).

Cost Portion of the Rate – the revenue requirement in the last base rate case reduced by the equity return and income tax gross up. The resulting cost portion of the revenue requirement is allocated to each rate class using the allocation method used in the last base rate case.

Additional Consumption by Non-SFV Customers – additional consumption directly attributable to a CEP investment associated with a specifically identified general service (Group 2 or Group 3) or large transportation customer such as infrastructure expansion CEP investments for the previously identified customer classes.

Cost Portion of Non-SFV Tariff – represents revenue requirement less equity return and income tax gross up associated with the tariff or customer.

D. To resolve this case, VEDO 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, VEDO opposed Staff's proposal to calculate post-in-service carrying costs ("PISCC") net of retirements or accumulated depreciation. Instead, VEDO proposed to calculate PISCC based on accumulated gross plant balances.

VEDO continues to believe that Staff's position on reducing plant by depreciation, retirements, and cost of removal for the calculation of PISCC is incorrect. Nevertheless, upon further consideration and solely in order to resolve its application in this case, VEDO would not object to the adoption of Staff's recommendation to reduce gross plant by depreciation as well as by retirements for purposes of calculating PISCC for the CEP. It remains the case that VEDO's program expenditures do not contain any costs of removal, so there are no such costs to net out; therefore, VEDO has not included cost of removal in its proposed formula.

Also, as noted by Columbia and Dominion East Ohio in their supplemental replies, VEDO agrees that because the gross plant balance will include only those incremental capital investments associated with the CEP, only the retirements associated with those incremental capital investments (not *all* retirements) should be included in calculating the net plant balance on which to apply the PISCC rate to determine the deferral.

Accordingly, VEDO 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 CEP investments:

<u>PISCC</u>

> [[(Month-end CEP plant-in-service) – (Month-end CEP Accumulated Depreciation) – (Month-end CEP Retirements)] x (Long-Term Cost of Debt Rate /12)]

VEDO also would confirm that the long-term debt rate represents VEDO's preceding year-end average long-term debt rate.

E. VEDO would accept a monetary limit on its deferral authority.

VEDO opposed Staff's recommendation to apply a time limit to CEP deferrals. For the reasons stated in its reply comments, VEDO still believes such a limit on deferrals is contrary to the plain language of R.C. 4929.111. Regardless, the Company proposes that its CEP deferrals may continue until the rate impact of recovering a return on and of the CEP regulatory asset on VEDO's Residential (Rate 310, 311 and 315) and General Default Sales Service, Group 1 (Rate 320, 321 and 325) customers would exceed $2.50 per month.

VEDO proposes this limit for the following reasons. In the aftermath of the 2010 pipeline incident in San Bruno, California and other unfortunate incidents linked to aging infrastructure, the gas industry is entering a phase of significant infrastructure assessment, improvement, and replacement in response to recent and imminent regulations designed to enhance public safety. VEDO estimates that its capital budget will increase over the next few years as these regulations become effective. This investment in response to new regulations is projected to exceed $20 million in 2014, 2015, and 2016—incremental and nearly equal to the value of VEDO's initial CEP; this increase is shown on line 1a of Attachment A hereto. It is VEDO's intention to seek recovery of much of this mandatory investment through an alternative rate mechanism such as VEDO's distribution replacement rider ("DRR") which was created for the similar purpose of recovering the costs of replacing aging infrastructure on an accelerated basis. But if these system modernization investments are to be deferred like all other necessary investments through the CEP, VEDO's projections suggest that a limit less than $2.50 may be reached relatively quickly, as demonstrated on Attachment A. A $2.50 per month rate impact equates to a 4.6% annual increase for a typical residential customer, when compared to the bill of the same customer receiving Standard Choice Offer service during a recent 12-month period. The proposed limit strikes a fair balance by addressing both Staff's concern of a growing, unrecovered deferral and VEDO's concern of reducing the intended benefit of the legislation in terms of allowing deferral of reasonable investment without requiring frequent rate filings.

VEDO acknowledges that if an alternative rate mechanism is approved for recovery of the modernization investment included in its CEP, the amount projected to be deferred under the CEP would be reduced, and VEDO would recalculate the monetary cap accordingly.[1]

Finally, VEDO would recommend that the Commission make the following clarifications regarding the monetary cap. First, the Commission should state that the Company may file for cost recovery before reaching the $2.50 limit, as permitted under R.C. 4929.111(D), which only limits recovery filings to not be "more than one time each calendar year." Second, the Commission should clarify that upon filing for recovery of its CEP deferral, VEDO may continue deferred accounting treatment for its in-service CEP investments until the date of a final order in that proceeding.

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[1] At the time of approval of such a rate mechanism for the investment made to comply with new regulations, VEDO would adjust its CEP to eliminate those types of investments, reset the CEP budget amount in that year, and proportionately reduce the monetary cap to reflect the reduction in the projected CEP.

F. VEDO would accept the proposed calculation of depreciation and property tax deferrals for the CEP.

VEDO would not oppose the Commission's use of the following calculations of deferrals for depreciation and property taxes for the CEP, in which all components of the balance forming the basis of the calculations are directly attributable to CEP investments.

<u>Depreciation Expense</u>

[(Current Month CEP Gross Plant Additions – Current Month CEP Retirements) x (Depreciation Rate/12) x ½] + [(Prior Month-end Cumulative CEP Gross Plant Additions – Cumulative Prior Month CEP Retirements) x (Depreciation Rate/12)]

<u>Property Tax Expense</u>

Taxable Value x Weighted Average Personal Property Tax Rate

<u>Taxable Value</u>

[(Prior Year-End Cumulative CEP Gross Plant Additions x Percent Good) – (Prior Year-End Cumulative CEP Retirements x Percent Good)] x 25%

The terminologies used in the above formula are consistent with the personal property valuation method used in the Ohio Department of Taxation Form U-NG, Natural Gas Company Annual Personal Property Tax Report.

G. VEDO agrees to file an annual informational filing.

VEDO agrees to file an annual informational filing detailing the CEP regulatory asset balance and deferrals to the regulatory asset for the preceding calendar year by March 15 each year. VEDO intends that the filing will contain the following information:

1. CEP Regulatory Asset Balance at December 31;
2. Monthly deferrals to the CEP Regulatory Asset for the year ended December 31 by the following categories:
    a. PISCC;
    b. Depreciation Expense;
    c. Property Tax Expense;

d. Reduction for Incremental Revenue, if any.

3. Rate impact of the return on and return of CEP regulatory asset at December 31 for Residential and General Service, Group 1 customers.

III. CONCLUSION

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

Dated: September 14, 2012

Respectfully submitted,

/s/ Andrew J. Campbell

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Supplemental Reply Comments was served by electronic mail to the following persons on this 14th day of September, 2012:

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Vectren Energy Delivery of Ohio, Inc. **Attachment A**

Illustrative Example of Residential Rate Impact - CEP Deferred Accounting Treatment

($ In Millions, except Residential Rate Impact)

			FILED	ILLUSTRATIVE						
			Fifteen Months Ended	Twelve Months Ended December 31, 20XX						
Line #	**Description**		**Dec. 31, 2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1	Projected Annual Capital Expenditure Program	Line 1a + Line 1b	$ 23.5	$ 25.0	$ 40.0	$ 40.0	$ 40.0	$ 35.0	$ 25.0	$ 25.0
	1a. Modernization [5]		$ 3.5	$ 10.0	$ 20.0	$ 20.0	$ 20.0	$ 20.0	$ 10.0	$ 10.0
	1b. All Other Non-BS/CI Cap Ex		$ 20.0	$ 15.0	$ 20.0	$ 20.0	$ 20.0	$ 15.0	$ 15.0	$ 15.0
2	Annual Deferred CEP Expenses [1]		$ 0.7	$ 3.5	$ 6.7	$ 11.0	$ 15.2	$ 19.3	$ 22.5	$ 25.0
3	Gross Cumulative Deferred CEP Expenses		$ 0.7	$ 4.2	$ 10.9	$ 21.9	$ 37.1	$ 56.4	$ 78.9	$ 103.9
4	Deferred Taxes for Depreciation and PISCC		0.3	1.3	3.5	7.0	12.0	18.5	26.1	34.7
5	Net, Cumulative Deferred CEP Expenses	Line 3 - Line 4	$ 0.5	$ 2.9	$ 7.4	$ 14.9	$ 25.1	$ 37.9	$ 52.8	$ 69.2
6	Rate of Return [2]		11.67%	11.67%	11.67%	11.67%	11.67%	11.67%	11.67%	11.67%
7	Pre-Tax Return on Deferred Expenses	Line 5 x Line 6	$ 0.06	$ 0.34	$ 0.86	$ 1.74	$ 2.93	$ 4.42	$ 6.16	$ 8.08
8	Amortization of Regulatory Asset	Line 3 x 3.25% [3]	$ 0.02	$ 0.14	$ 0.35	$ 0.71	$ 1.21	$ 1.83	$ 2.56	$ 3.38
9	Annual Revenue Requirement	Line 7 + Line 8	$ 0.08	$ 0.48	$ 1.22	$ 2.45	$ 4.14	$ 6.26	$ 8.72	$ 11.45
10	Estimate Annual Residential Revenue Requirement	Line 9 * 75% [4]	$ 0.06	$ 0.36	$ 0.91	$ 1.84	$ 3.10	$ 4.69	$ 6.54	$ 8.59
11	Residential Customer Count	Illustrative	286,000	286,000	286,000	286,000	286,000	286,000	286,000	286,000
12	Annual Residential Bills Issued	Line 11 * 12	3,432,000	3,432,000	3,432,000	3,432,000	3,432,000	3,432,000	3,432,000	3,432,000
13	Projected Monthly Residential Rate Impact [5]	(Line 10/Line 12)*1.0m	$ 0.02	$ 0.10	$ 0.27	$ 0.53	$ 0.90	$ 1.37	$ 1.91	$ 2.50

Notes:

(1) Deferred expenses include post in service carrying costs, depreciation and property taxes.

(2) Pre-tax rate of return approved in Case No. 07-1080-GA-AIR.

(3) For illustrative purposes, VEDO used the composite depreciation rate from Case No. 07-1080-GA-AIR. Actual amortization rate will be equal to average service life of assets included in CEP.

(4) For illustrative purposes, VEDO allocated 75% of revenue requirement to residential. Actual allocation will be based on actual CEP investment and the related cost of service allocation approved in the last rate case, Case No. 07-1080-GA-AIR.

(5) The impact of modernization is roughly $1.00 per month in 2019. Consistent with our comments, modernization may be subject to a alternative rate mechanism.