

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of :
Suburban Natural Gas Company for : Case No. 12-1698-GA-RDR
Approval of an Infrastructure Replacement :
Rider and Related Matters :
:

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

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INTRODUCTION

Suburban Natural Gas Company (Suburban or Company) is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code and, as such, is subject to the jurisdiction of the Public Utilities Commission of Ohio (Commission). On March 19, 2008, the Commission issued an Opinion and Order in Suburban's Rate Case No. 07-689-GA-AIR authorizing Suburban to establish an infrastructure replacement program rider (IRP Rider) and set the initial rider amount at zero. The Commission subsequently approved the Company's IRP plan on September 15, 2009 and authorized estimated rates that will be trued up annually. Suburban filed its Application in this case to adjust its IRP Rider for costs incurred from July 1, 2011 through June 30, 2012.

The purpose of the IRP Rider is to allow Suburban to recover the costs of replacing prone-to-fail risers, as well as its costs related to the assumption of responsibility for the maintenance, repair and replacement of customer service lines. These Comments present a summary of the Public Utilities Commission of Ohio Staff's (Staff) investigation of Suburban's Application and Staff's findings and recommendations.

BACKGROUND

Suburban is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 15,000 customers in the state. The Finding and Order in Case No. 09-573-GA-UNC approved Suburban's service line and riser replacement program (IRP)(as modified by recommendations set forth in the Staff Report filed in the case), and authorized Suburban to establish the IRP rider. The Commission further authorized IRP charges of up to \$0.29, \$0.58, \$0.84, \$1.10, and \$0.92, per consumer per month for years one through five of the program based upon anticipated program costs and subject to true-up.

The purpose of the IRP Rider is to permit Suburban to seek recovery of the costs associated with the replacement of prone-to-fail risers and maintenance, repair, and replacement of customer service lines. The costs in the IRP Rider are based upon actual amounts incurred for contractors plus internal costs for managing and supervising IRP activities. Specifically, Suburban is permitted to recover 50 percent of the program's costs on an accelerated basis over a four-year period, including a return based on Suburban's cost of debt. This initial 50 percent of costs are accounted for as a deduction from rate base. The remaining 50 percent of costs (including a return on equity established in Case No. 07-689-GA-AIR) are not treated as rate base deductions and are not accelerated.

Lastly, the Commission's Finding and Order directed that Suburban will file a pre-filing notice by May 1 each year, established a test year ending June 30, required Suburban to file a final updated application by August 31, and provided that new rates were to be effective November 1 of each year.

SUBURBAN'S APPLICATION

Suburban filed its application in this case on August 30, 2012. Suburban proposes to increase the IRP Rider rate from \$0.25 to \$0.52 and that the new rate become effective on November 1, 2012. The proposed rate increase is based on Year 4 estimated program cost of \$128,321 as offset by a Year 3 over-recovery balance of \$36,558.50, thus leaving a net Year 4 estimated cost of \$91,762.50.

Suburban filed three schedules and the testimony of its outside consultant, Nichole Clement, in support of its application. The three schedules detail the progress and costs associated with the IRP Program. Schedule 1 provides the overall program costs and cost-recovery calculation. Schedule 2 details the cost of debt calculation used in the four-year recovery of fifty percent of the Program's cost. Schedule 3 provides the return on equity calculation that is used in the calculation for recovery of the remaining fifty percent of Program costs which will be recovered over a 45-year period. In accordance with the initial development of Suburban's IRP Program, the Application does not include a provision for recovery of costs associated with taxes. In addition, Suburban also provided responses to Staff data requests to supplement and further support the data contained in the schedules.

STAFF'S INVESTIGATION SUMMARY AND COMMENTS

The Staff's investigation was designed to determine if Suburban's application and exhibits justify the requested IRP revenue requirement and support the proposed annual adjustment to the IRP Rider rates. The Staff's comments and recommendations, by topic area, are as follows:

Calculation of Costs and Associated Recovery

Staff began its review by requesting appropriate documentation supporting all costs included in Suburban's Rider IRP application. After reviewing this documentation, Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. Based on its examination of such documentation, Staff identified no inappropriate costs.

Staff then reviewed Suburban's 50-50 split of costs, including the cost of debt and overall rate of return used and any tax inclusions. In the Staff's opinion, Suburban properly excluded gross receipts tax and applied the correct cost of debt and rate of return to the costs of replacing prone-to-fail risers and the repair and replacement of customer service lines. Additionally, no expenses were included for testing service lines, as these expenses are already recovered through base rates. The Staff also confirmed that Suburban properly used the 45 year depreciation life provided for in the Commission approved IRP program.

In accordance with the approved cost-recovery mechanism, costs associated with Year 1, Year 2, and Year 3 Program expenditures will continue to be recovered in Year 4. In addition, Suburban estimates Year 4 expenditures for the IRP program to be near the same level as Year 3. These factors combined with the fact that nearly double the number of risers was replaced in Year 3 versus Year 2 mean that the IRP Rider rate for Year 4 will be nearly twice that of Year 3's rate.

Level of Prone-to-Fail Riser Replacement

The Commission directed Suburban to replace all prone-to-fail risers within four years from the date of the Finding and Order. Suburban replaced 283 risers in Year 1, 373 risers in Year 2, and 617 risers in Year 3. This leaves approximately 327 risers to be replaced in Year 4. The Staff anticipates that Suburban will have no trouble completing replacement of the remaining 327 prone-to-fail risers by the end of Year 4 as directed by

the Commission given the Company's historical replacement rate and especially considering the Year 3 replacement rate.

STAFF CONCLUSIONS AND RECOMMENDATIONS

After a thorough review of Suburban's Application and supporting documentation, Staff has determined that Suburban included the appropriate costs and cost estimates for recovery through its IRP Rider and that it provided reliable data to support the proposal. Staff believes that the numbers of risers that need to be replaced in the fourth and final year of the program is realistic and attainable. As a result, the Staff believes that Suburban's application will result in a just and reasonable IRP Rider Rate and recommends that the application be approved.

Respectfully submitted,

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/s/ Thomas G. Lindgren

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PROOF OF SERVICE

I hereby certify that a true 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 upon the following parties of record, this 25th day of September, 2012.

/s/ Thomas G. Lindgren

Thomas G. Lindgren
Assistant Attorney General

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Summary: Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO