

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of :  
Vectren Energy Delivery of Ohio, Inc. : Case No. 12-530-GA-UNC  
for Approval to Implement a Capital :  
Expenditure Program. :

In the Matter of the Application of :  
Vectren Energy Delivery of Ohio, Inc. : Case No. 12-531-GA-AAM  
for Approval to Change Accounting :  
Methods. :

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**SUR-REPLY COMMENTS  
SUBMITTED ON BEHALF OF THE STAFF OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**I. INTRODUCTION**

On February 3, 2012, Vectren Energy Delivery of Ohio, Inc. (VEDO or Company) filed an Application for Authority to Implement a Capital Expenditure Program and for Approval to Change Accounting Methods (Application) in the dockets listed above. VEDO is seeking the Commission's approval to create a capital expenditure program (CEP) for the period from October 1, 2011, through December 31, 2012, and associated deferral authority.

On February 9, 2012 and February 13, 2012, respectively, the Office of the Ohio Consumers' Counsel (OCC) and the Ohio Partners for Affordable Energy (OPAE) filed motions to intervene in these cases. On April 16, 2012, the Commission Staff, OCC, and

OPAE filed Initial Comments on VEDO's Application. On April 27, 2012, the OCC and VEDO filed Reply Comments. On September 14, 2012, VEDO filed Supplemental Reply Comments.

VEDO filed the Supplemental Reply Comments "[U]pon further consideration of the comments of Staff and intervenors, as well as considerations of Supplemental Reply Comments filed by Columbia Gas of Ohio, Inc. and Staff in Case No. 11-5351-GA-UNC, and by Dominion East Ohio Gas Company d/b/a/ Dominion East Ohio in Case No. 11-6024-GA-UNC"<sup>1</sup> and to "clarify its position."<sup>2</sup> In its Supplemental Comments, VEDO indicates that it is willing to accede to various proposals and positions contained in the Staff Comments filed in this case in order to resolve the case and move forward on its proposed CEP. VEDO also proposes several specific formulas for calculating the incremental revenue, post in-service carrying costs (PISCC), deferred depreciation expense and deferred property tax expense associated with its CEP. The Staff reviewed VEDO's Supplemental Reply Comments and proposed formulas in light of the Commission's recent Finding and Order in Case No. 11-5351-GA-UNC (Columbia CEP Order) where the Commission adopted specific formulas for calculating the incremental revenue, PISCC, deferred depreciation expense and deferred property tax expense associated with Columbia Gas of Ohio, Inc.'s (Columbia) very similar proposed capital expenditure pro-

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<sup>1</sup> *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 12-530-GA-UNC, *et al.* (Supplemental Reply Comments of Vectren Energy Delivery of Ohio, Inc. at 1) (September 14, 2012) (*VEDO Supplemental Reply Comments*).

<sup>2</sup> *Id.*

gram as well as the Staff's position on the various topics and proposed formulas. The Staff also considered the Staff Sur-Reply Comments filed in Dominion East Ohio Gas' (DEO) very similar capital expenditure program (DEO CAPEX), where the Staff recommended Commission approval of slightly modified incremental revenue, PISCC, and depreciation and property tax deferral formulas than those approved for Columbia in order to recognize accounting differences between the two companies. The Staff's comments and recommendations for VEDO's Application by topic area are set forth below.

## II. STAFF'S SUR-REPLY COMMENTS

### A. **The Staff recommends that the Commission acknowledge VEDO's proposal to modify of its original Application to remove costs associated with compressed natural gas investments and revised CEP spending level.**

VEDO indicates in its Supplemental Reply Comments that it has opted to remove costs associated with compressed natural gas investments that were included in the estimated \$24.9 million CEP proposed in its original Application.<sup>3</sup> VEDO states that, with this revision, its new CEP for the October 1, 2011 through December 31, 2012 period will be approximately \$23.5 million.<sup>4</sup> As discussed below, with certain limits, the Staff believes that VEDO should have the discretion to modify its CEP applications as it deems necessary (especially prior to approval by the Commission). The Staff recommends that the Commission acknowledge VEDO's election to remove compressed natural gas

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<sup>3</sup> *VEDO Supplemental Reply Comments* at 1.

<sup>4</sup> *Id.*

investments from its proposed CEP in this case and that the new CEP spending level that VEDO is requesting is \$23.5 million.

**B. The Staff agrees that VEDO should have the flexibility to allocate CEP expenditures among the broad categories provided in its Application; however such flexibility should not limit the Staff’s ability to monitor VEDO’s CEP or the Commission’s regulatory authority.**

In its Supplemental Reply Comments, VEDO recommends that the Commission “confirm that VEDO, in its discretion, may allocate CEP expenditures among the categories set forth in the [CEP] Application (excluding compressed-natural-gas investments) as necessary to meet the needs of its customers and its gas delivery system.”<sup>5</sup> VEDO states that the discretion to allocate or reallocate expenditures among the CEP categories included in its Application should extend “up to the aggregate CEP budget amount.”<sup>6</sup> (In this case, the new CEP budget is \$23.5 million.) VEDO maintains that it is difficult to forecast with precision the actual dollars that may be spent on particular CEP projects because not all projects are known when the annual budget is established. It also points out that circumstances could change throughout a given year requiring reprioritization of projects or new higher priority projects could be identified. VEDO also states that “[W]hile R.C. 4929.111(C) grants the Commission discretion in setting the aggregate

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<sup>5</sup> *VEDO Supplemental Reply Comments at 2.*

<sup>6</sup> *Id.*

limit on deferral authority, the statute does not speak to allocations of spending among various categories or projects or costs.”<sup>7</sup>

Up to a point, Staff agrees that VEDO should not be locked into the spending estimates it provided in the current CEP Application or provides in future CEP applications or annual capital budgets. The Staff agrees that as long as VEDO stays within approved CEP spending limits it should have the discretion and flexibility to allocate its capital spending and prioritize and reprioritize its spending as it deems necessary to respond to new or changing conditions. However, such discretion and flexibility should not come at the expense of the Staff’s ability to rely on documents necessary for properly monitoring VEDO’s CEP or diminish the Commission’s oversight authority. As the discussion below indicates, the Staff recommended in its Initial Comments that VEDO file annual updates on the status of its CEP, and VEDO does not object. The Staff recommended the annual filings to enable it to properly monitor VEDO’s CEP and associated deferrals, which are likely to accrue for several years. In these Sur-Reply Comments, the Staff recommends that the Commission direct that VEDO’s annual update filings should include certain forward-looking planning documents such as annual capital budgets in order to facilitate the Staff’s monitoring function. The Staff believes that it must be able to reasonably rely on the information contained in VEDO’s CEP applications and the annual update documents in order to properly monitor the program and associated deferrals. With no limits on the discretion that VEDO is requesting, the Company could exer-

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*VEDO Supplemental Reply Comments at 2.*

cise its discretion to substantially change capital investments specified in CEP applications and reallocate budgeted CEP expenditures as often and as much as it pleases without explanation. Discretion exercised in such a manner would reduce the CEP applications and annual update filings to no more than placeholders for actual information that would be filled in later and render the information contained in them meaningless, thus negating Staff monitoring.

The Staff believes that there should be a balance between VEDO's discretion to allocate or reallocate expenditures among the CEP categories included in its Application up to the approved CEP budget amount in order to respond to new or changing circumstances with the Staff's ability to rely on the data included in CEP applications and annual capital budgets for ongoing monitoring purposes. Therefore, the Staff recommends that the Commission acknowledge that VEDO has the discretion to allocate and reallocate CEP investments as it deems necessary. However, the Commission should require that, if VEDO substantially deviates from planned CEP expenditures specified in CEP applications and/or capital budgets provided with annual update filings, then VEDO should provide detailed explanations for such deviations in the annual update filings. Similarly, the Commission should place VEDO on notice that, should its CEP applications and capital budgets provided with the annual updates be modified so frequently and substantially that the Staff's ability to monitor its CEP is impaired, then the Commission may revisit this topic in the future. In addition, the Staff recommends that the Commission expressly reject VEDO's implication in its Supplemental Reply Comments that since R.C. 4929.111(C) does not expressly state that the Commission can hold VEDO to the

estimated CEP expenditures, then the Commission is required to grant VEDO the discretion it is seeking. The Commission should accept no such limitation on its general supervisory powers or its authority to determine if CEP services and facilities are “just and reasonable” under R.C. 4929.111(C).

**C. VEDO agrees that the total monthly deferred regulatory asset should be net of any incremental revenue and VEDO’s and Staff’s recommended formulas for calculating incremental revenue are similar.**

In its Supplemental Reply Comments, VEDO reiterates that it does not oppose in principle the Staff recommendation that the CEP deferred regulatory asset should be net of incremental revenue attributable to the CEP investments. In addition, it proposes a formula for calculating incremental revenue and related definitions that are similar to the incremental revenue formula and definitions that the Commission adopted in the Columbia CEP Order, except that VEDO recommends a calendar year calculation for incremental revenue to be consistent with the methodology used in its last base rate case. In addition, VEDO does not include a provision for including revenue generated by sources other than straight fixed-variable (SFV) or non- SFV customers.

VEDO’s recommendation to use a calendar year baseline in its recommended incremental revenue formula makes it very similar to the formula that the Staff recommended in the DEO CAPEX case. Despite this apparent agreement, however, the Staff believes that additional clarification regarding calculation of incremental revenue is warranted. One such clarification is that, like in the Staff recommendations in the Columbia and DEO cases, the Commission should find as a principle in this case that any revenue

that VEDO obtains that is directly associated with CEP investments under a CEP should be used to offset the requested CEP deferrals. The Staff believes that such revenue can be categorized into three potential sources: (1) SFV customers; (2) non-SFV customers; and, (3) other revenues. The Staff explains how each of these categories should be treated in the formula for calculating VEDO's incremental revenue below.

In the Columbia CEP Order, the Commission adopted Staff's formula for calculating incremental revenues generated from SFV customers for the purposes of offsetting the total monthly deferral. This is done by taking the number of customer bills for a specific class of customers included in the baseline (from the most recent base rate case) and subtracting that number from the actual number of customer bills, then multiplying the difference by the cost portion of the SFV rate for that class. Revenue generated in this manner would then be subtracted from the deferral amounts. If the number of current customer bills is less than the baseline, no adjustment is made. Likewise, if the revenue calculation exceeds the PISCC, property tax expense, and depreciation expense to be deferred for that period, then VEDO would simply not record a deferral rather than recording a negative amount. Staff would like to clarify that the actual number of customer bills is not adjusted to reflect only those customer bills identified by the Company as directly attributable to the CEP program. As Staff pointed out in its comments in Columbia's CEP proceeding, if a company's "customer count increases or it obtains other sources of revenue that were not considered in the [last base rate case]..., then the com-

pany would realize earnings above its allowable rate of return.”<sup>8</sup> VEDO, however, raises a valid point regarding the calculation of the revenues in this manner on a monthly basis. Staff agrees with VEDO that a “calendar year calculation of incremental revenues”<sup>9</sup> is appropriate given a calendar year baseline and Staff recognizes that calculating this number annually still produces the desired result.

The Commission also adopted Staff’s methodology for calculating incremental revenues for non-SFV customers in Columbia’s CEP Order. For non-SFV customers directly attributable to program investment, the Company should calculate incremental revenue by multiplying total usage by the cost portion of that customer’s rate and subtracting it from the deferral for that period. The Commission found this method to be reasonable and consistent with the calculation of incremental revenue for SFV customers. In addition, Staff recommends that any other revenues generated by CEP investments also be deducted from the deferral. The Staff also recommends that the Commission direct VEDO to maintain sufficient records to enable the Staff to verify that all revenue generated from CEP investments can be accurately excluded from the total monthly deferral.

In sum, the Staff believes that the methodologies for calculating incremental revenue set forth herein are consistent with VEDO’s proposed calculation and statement that VEDO does not oppose netting incremental revenue attributable to CEP investments

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<sup>8</sup> *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 11-5351-GA-UNC, *et al.* (Staff Comments at 9) (February 17, 2012) (*Staff Initial Comments*).

<sup>9</sup> *VEDO Supplemental Reply Comments* at 3.

from the CEP deferrals. Therefore, the Staff recommends that the Commission adopt for VEDO the incremental revenue calculation provided below in the summary of Staff-recommended formulas and the definitions that support the formula.

**D. VEDO's proposed formulas for calculating the monthly depreciation expense and property tax expense deferrals are acceptable to the Staff, however its proposed formula for calculating monthly PISCC should be adjusted to be consistent with the formula approved by the Commission in the Columbia CEP Order and its long term debt rate should be the rate approved in its last base rate case.**

In its Supplemental Reply Comments, VEDO proposes formulas and associated definitions for calculating monthly PISCC, depreciation expense, and property tax expense deferrals associated with its CEP investments. The proposed formulas for calculating the monthly deferral amounts for the CEP depreciation and property tax expenses differ slightly from similar formulas that the Commission adopted for Columbia in the Columbia CEP Order, but the differences are immaterial and acceptable to the Staff. Therefore, the Staff recommends that the Commission approve the formulas proposed by VEDO as delineated below in the summary of Staff-recommended formulas.

VEDO's proposed PISCC formula assumes that all CEP assets would be placed into service and thus be eligible for PISCC at the beginning of the current month. This assumption is not correct. Therefore, the Staff recommends that the Commission adopt for VEDO the same PISCC formula that it approved for Columbia in the Columbia CEP

Order.<sup>10</sup> This formula is provided in the summary of Staff-recommended formulas below.

Lastly, VEDO also asks the Commission to “confirm that the long term debt rate represents VEDO’s preceding year-end average long term debt rate.”<sup>11</sup> The Staff recommends that the Commission direct that the long term debt rate that VEDO should use in its formulas is the long term debt rate that was set in its last base rate case, Case No. 07-1080-GA-AIR, *et.al.*<sup>12</sup> This would be consistent with the Commission’s practice for setting the long term debt rate in numerous other Commission proceedings.

**E. The Staff recommends that the Commission set a cap on VEDO’s CEP deferrals at \$1.50 per customer per month if the deferrals were included in customer rates as opposed to the \$2.50 cap recommended by VEDO.**

In the Columbia CEP Order, the Commission established that:

Columbia may accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the SGS class of customers to increase by more than \$1.50/month. Accrual of all future CEP-related deferrals should cease once the \$1.50/month threshold is surpassed, until such time as Columbia files to recover the

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<sup>10</sup> The Staff would also accept a PISCC formula utilizing a ½ month lag convention that recognizes that assets would be placed into service throughout a given month by using the mid-point of the month to calculate the PISCC. This formula would be:  $PISCC = [1/2 \times (\text{current month's plant additions} - \text{current month's retirements} - \text{current month's depreciation}) \times (\text{long term cost of debt}/12)] + [(\text{previous month's cumulative plant additions} - \text{previous month's cumulative retirements} - \text{previous month's accumulated depreciation}) \times (\text{long term cost of debt}/12)]$ .

<sup>11</sup> *VEDO Supplemental Reply Comments* at 5.

<sup>12</sup> The approved long term debt rate set in Case No. 07-1080-GA-AIR, *et al.*, was 7.02%.

existing accrued deferrals and establish a recovery mechanism under Section 4909.18, 4929.05, or 4929.11, Revised Code.<sup>13</sup>

Columbia proposed the \$1.50/month cap on accrued CEP deferrals in the CEP Order case to address the Staff's concern that, without a limit, CEP deferrals could grow to unreasonable levels and potentially cause rate shock for customers once the deferrals were placed into rates while still allowing the deferrals to accrue for a sufficient time to prevent frequent recovery cases. In its Supplemental Reply Comments, VEDO reiterates the position that it took in its Reply Comments that any limit on the CEP deferrals is contrary to R.C. 4929.111 but indicates that it would accept a \$2.50 cap.<sup>14</sup> In other words, VEDO 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."<sup>15</sup> VEDO indicates that it is requesting the \$2.50 cap because imminent federal regulations requiring infrastructure assessment, improvement, and replacement (collectively "modernization") will necessitate investments that will cause it to nearly double its normal capital expenditures in each of the next several years.<sup>16</sup> It maintains that the \$2.50 cap will not allow the CEP deferrals to accrue for an unreason-

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<sup>13</sup> *In the Matter of the Application of Columbia Gas of Ohio, Inc. for Approval to Implement a Capital Expenditure Program*, Case Nos. 11-5351-GA-UNC, *et al.*. (Finding and Order at 12-13) (August 29, 2012).

<sup>14</sup> *VEDO Supplemental Reply Comments* at 5.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

able period of time and would equate to a 4.6% annual rate increase for a typical residential customer for a twelve month period.<sup>17</sup> VEDO also recommends that the Commission clarify that, in its discretion, the Company may file for cost recovery prior to reaching the proposed \$2.50 cap. In addition, VEDO seeks clarification that, upon filing for recovery of its CEP deferral, it can continue deferred accounting treatment for its in-service CEP investments until the date of a final order in that filing. Lastly, VEDO states that it intends to seek recovery of its anticipated modernization expenditures via an alternative rate mechanism such as its distribution replacement rider (DRR) which allows the Company accelerated recovery of similar infrastructure investments.<sup>18</sup> It further indicates that if it is successful in getting recovery of the modernization investments through an alternative rate mechanism, then it will “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.”<sup>19</sup>

The Staff believes that the Commission should set the cap for VEDO at the \$1.50 level that it approved for Columbia in the Columbia CEP Order and that Dominion and the Staff agreed to in comments filed in Dominion’s CAPEX case. Columbia and Dominion are facing the same imminent federal regulations for assessing and modernizing their natural gas distribution systems as VEDO cites as the rationale for setting its cap at \$2.50. Yet, both Columbia and Dominion agreed that the \$1.50 cap struck an appro-

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<sup>17</sup> *VEDO Supplemental Reply Comments* at 6.

<sup>18</sup> *Id.* at 5-6.

<sup>19</sup> *Id.* at 6.

priate balance between the Staff concern that CEP deferrals could accrue for protracted periods and cause rate shock for customers when placed into rates and their desire to allow the deferrals to accrue for a sufficient time to avoid frequent recovery proceedings. Similarly, Attachment A of the Company's Application shows that the amount for system modernization that the Company indicates it will seek alternative recovery for in the future that is included in this case is only \$3.5 million of the total \$23.5 million CEP requested. The Staff believes that a \$1.50 cap is sufficient for this case and that the adequacy of the cap can be revisited in a future case if VEDO is unsuccessful in obtaining an alternative recovery mechanism similar to its DRR for its modernization investments in the future.

The Staff is also concerned that VEDO's proposed \$2.50 cap could lead to the rate shock that the Staff was initially concerned with and prompted the Staff to recommend caps in the first place. It is important to recognize that when VEDO applies for recovery of deferred PISCC, depreciation and property tax expenses for its CEP investments, it will also be seeking to place into rates the original cost less accumulated depreciation (i.e., net book value) of the underlying assets that led to the deferrals. The actual impact on customer rates caused by including both the deferred CEP regulatory asset and the net book value of the underlying capital assets at the same time is not known. The actual customer impact depends on a number of factors such as depreciation of VEDO's non CEP assets, deferred income taxes, annualized property taxes, and other factors. However, including in rates the capital costs of the assets underlying the CEP deferrals at the same time as the accrued CEP regulatory asset will almost certainly cause customer rates

to be higher than the \$2.50 cap proposed by VEDO, perhaps by a large amount. Therefore, the Staff recommends that the Commission set the cap for VEDO at the same \$1.50 amount that it approved for Columbia. Specifically, the Staff recommends that the Commission order that VEDO can accrue CEP deferrals up until the point where the accrued deferrals, if included in rates, would cause the rates charged to the Residential (Rate 310, 311, and 315) and General Default Sales Service, Group 1 (Rate 320, 321, and 325) (which is comparable to Columbia's SGS class of customers) to increase by more than \$1.50/month. Accrual of all future CEP related deferrals would cease once the \$1.50/month threshold is surpassed until such time as VEDO files to recover the existing accrued deferrals under one of the recovery mechanisms specified in the Revised Code.

In regards to VEDO's two points for clarification regarding the monetary cap, the Staff recommends that the Commission allow VEDO to apply for recovery of CEP deferrals prior to reaching the \$1.50 cap provided that it does not do so more than once per year as specified in R.C. 4929.111(D). However, the Staff disagrees with VEDO's suggestion that the Commission should clarify that VEDO can continue deferred accounting treatment for its in-service CEP investments until the Commission has issued a final order addressing its recovery application. The Staff believes that the cap that the Commission set in the Columbia was meant to function as a hard cap. In other words, if VEDO's (or Columbia's) accrued CEP deferrals are approaching the \$1.50 cap, then it is incumbent upon the Company to file an application for recovery before the cap is actually reached in order to avoid hitting the cap and ceasing to accrue the deferrals while the applicable application process and Commission deliberations run their course. The Staff

recommends that the Commission state plainly that the \$1.50 cap is meant as a hard cap as described above.

**F. VEDO and the Staff agree that VEDO should make annual informational filings.**

In its initial Comments, Staff proposed that VEDO should be required to make annual informational filings for its CEP on March 15 of each year covering the previous calendar year and that this filing “should provide a breakdown of investments, PISCC, depreciation expense, property tax expense, and incremental revenue.”<sup>20</sup> In addition, the Staff recommended that the annual filing should include a capital budget for the year succeeding the year covered in the filing.<sup>21</sup> In its Supplemental Reply Comments, VEDO agrees to submit annual information filings that VEDO states will include the following: (1) the CEP regulatory asset balance as of December 31; and, (2) monthly and total deferrals to the regulatory asset for the year ended December 31 based on CEP investments for PISCC, depreciation expense, property tax expense, and reductions for net incremental revenue. The Staff recommends that information that VEDO proposes to include in its annual information filing should be modified to also include a (1) breakdown of CEP investments by budget class, (2) a capital budget for the year succeeding the year covered in the information filing, (3) a schedule showing the potential impact on customer rates if the deferrals were included in rates, and (4) schedules showing the calculations and

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<sup>20</sup> *Staff Initial Comments* at 12.

<sup>21</sup> *Id.*

inputs for the deferrals. The Staff believes that these additions are necessary and will make VEDO's annual information filing consistent with the information filing requirements that the Commission adopted for Columbia in the Columbia CEP Order. The Staff also recommends that the Commission set the filing date for VEDO's annual information filings as April 30 of each year. This date is consistent with the filing date that the Commission established in the Columbia CEP Order in recognition of the fact that both Columbia and Staff's resources are stretched thin around the March 15 date originally proposed by Staff. Like Columbia, VEDO's staff will also likely be engaged in closing the Company's books around the March 15 date. Therefore, the Staff believes that the April 30 date is better for VEDO as well as for the Staff.

**G. The Commission should establish the specific formulas that should be used to calculate VEDO's total monthly CEP deferrals.**

As the preceding discussion above demonstrates, there is now a substantial amount of agreement between VEDO and the Staff on VEDO's proposal for creation of a CEP and calculation of associated deferrals. Where there are differences, the Staff believes that the differences are relatively minor, but significant enough that the Staff recommends the Commission adopt the Staff-recommended formulas and definitions specified below. These formulas and definitions for calculating VEDO's CEP deferrals that the Staff is recommending are consistent with similar formulas that the Commission adopted for Columbia in the Columbia CEP Order. As a result, the Staff recommends that the

Commission adopt the following definitions and specific formulas for calculating

VEDO's monthly CEP deferrals:

Definitions:

*Straight Fixed Variable (SFV) Customer Incremental Revenue* – [(Annual number of Customer Bills Issued – Baseline Number of Customer Bills Issued) x (Cost Portion of Rate)].

*Non-SFV Customer Incremental Revenue* – [(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 VEDO's last base rate case, 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 allocated to each of the VEDO's rate classes using the allocation method utilized in the Company's last base rate case.

*Additional Consumption by Non-SFV Customer* – 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 CEP investments for the previously identified customer classes.

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

$\text{Total Monthly Deferral} = \frac{(\text{PISCC}) + (\text{Depreciation Expense}) + (\text{Property Tax Expense}) - (\text{Incremental Revenues})}{}$
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Where:

$$\text{PISCC} = \frac{[(\text{Previous Month's Cumulative Gross Plant Additions}) - (\text{Previous Month's Cumulative Retirements}) - (\text{Previous Month's Accumulated Depreciation})] \times [(\text{Long Term Debt Rate}) / (12 \text{ Months})]}{1}$$

$$\text{Depreciation Expense} = \frac{[(\text{Current Month CEP Gross Plant Additions}) - \text{Current Month CEP Retirements}] \times [(\text{Depreciation Rate} / 12 \text{ Months}) \times \frac{1}{2}] + [(\text{Prior Month-end Cumulative CEP Gross Plant Additions} - \text{Cumulative Prior Month CEP Retirements}) \times (\text{Depreciation Rate} / 12 \text{ months})]}{1}$$

$$\text{Property Tax Expense} = \frac{\text{Taxable Value} \times \text{Weighted Average Personal Property Tax Rate}}{1}$$

Where:

$$\text{Taxable Value} = [(\text{Prior Year-End CEP Cumulative Gross Plant Additions} \times \text{Percent Good}) - (\text{Prior Year-End Cumulative CEP Retirements} \times \text{Percent Good})] \times 25\%$$

Incremental Revenue	=	[(Annual Number of Customer Bills Issued - Baseline Number of Customer Bills Issued) x (Cost Portion of Rate)] + [(Consumption by non-SFV customers directly attributable to program investment) x (Cost Portion of Rate)] + (Other revenues directly attributable to CEP investment).
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The Staff believes that Commission adoption of the above definitions and formulas for calculating VEDO’s monthly CEP deferrals as well as the other Staff recommendations made herein should go a long way towards avoiding future misunderstandings and arguments over the CEP deferrals. Notwithstanding Commission adoption of the Staff-recommended formulas, however, the Staff reiterates the statement that it made in its initial Comments that the Staff is taking no position on the level or prudence of the capital spending proposed for VEDO’s CEP in this proceeding. Further, the Staff’s lack of comment or objection to the proposed CEP investments should in no way be construed as the Staff’s lack of objection or support for future recovery of the investments or related deferred amounts. In fact, the Staff will investigate and make any necessary adjustments to the deferrals when VEDO applies to recover the deferred assets.

### III. CONCLUSION

With the adoption of the Staff's unmodified recommendations included in these Sur-Reply Comments, the Staff respectfully recommends that the Commission approve VEDO's Application and the Staff recommendations in these cases.

Respectfully Submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief

*/s/ Steven L. Beeler*

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#### IV. CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Sur-Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, this 26<sup>th</sup> day of October, 2012.

*/s/ Steven L. Beeler*

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**Steven L. Beeler**  
Assistant Attorney General

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Summary: Comments Sur-Reply Comments submitted by Assistant Attorney General Steven L. Beeler on behalf of the Staff of the Public Utilities Commission of Ohio electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio