BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Form of Regulation	)))	Case No. 13-1571-GA-ALT

APPLICATION FOR APPROVAL OF AN ALTERNATIVE RATE PLAN

In accordance with R.C. 4929.05, R.C. 4929.051(B), R.C. 4929.11, and R.C. 4909.18, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company") respectfully requests that the Commission approve this application for an alternative rate plan. In support of its application, VEDO states as follows:

1. VEDO is an Ohio corporation engaged in the business of providing natural gas service to customers in Ohio and, as such, is a "natural gas company" as defined by R.C. 4905.03(A)(5), and a "public utility" as defined by R.C. 4905.02.

2. In Case No. 07-1080-GA-AIR, VEDO requested and the Commission granted authority to implement a Distribution Replacement Rider ("DRR"). *See* Opinion & Order at 5 & 7 (Jan. 7, 2009). The DRR is an automatic adjustment mechanism that enables, among other things, the recovery of and return on investments made by the Company to implement an accelerated bare steel and cast iron pipe replacement program. *Id*. The Commission approved the DRR for a period of up to five years from the effective date of the rates approved in Case No. 07-1081-GA-ALT, *id*., which was February 22, 2009, *see* Final Tariffs, Case No. 07-1081-GA-ALT (Feb. 17, 2009).

3. On July 2, 2013, VEDO filed a motion for waiver of certain filing requirements of the current version Ohio Adm. Code 4901:1-19-05 and sought permission to apply Ohio Adm. Code 4901:1-19-06, which was recently adopted by the Commission in Case No. 11-5590-GA-

ORD, but had not yet become effective. The Commission granted VEDO's motion on July 13, 2013.

4. In accordance with newly adopted Ohio Adm. Code 4901:1-19-06(A), on July 2, 2013, VEDO notified the Commission's Staff by letter addressed to the directors of the utilities department and the service monitoring and enforcement department of VEDO's intent to file an application no sooner than thirty calendar days after the date of that letter.

5. R.C. 4909.43(B) states, "Not later than thirty days prior to the filing of an application pursuant to section 4909.18 or 4909.35 of the Revised Code, a public utility shall notify, in writing, the mayor and legislative authority of each municipality included in such application of the intent of the public utility to file an application, and of the proposed rates to be contained therein." VEDO provided this notice on July 2, 2013.

6. R.C. 4929.05(A) states, "A natural gas company may request approval of an alternative rate plan by filing an application under section 4909.18 of the Revised Code, regardless of whether the application is for an increase in rates." That section requires the Commission to "authorize the applicant to implement an alternative rate plan if the natural gas company has made a showing and the commission finds" that (*1*) "[t]he natural gas company is in compliance with section 4905.35 of the Revised Code and is in substantial compliance with the policy of this state specified in section 4929.02 of the Revised Code"; that (*2*) "[t]he natural gas company is expected to continue to be in substantial compliance with the policy of this state specified in section 4929.02 of the Revised Code after implementation of the alternative rate plan"; and that (*3*) "[t]he alternative rate plan is just and reasonable."

7. R.C. 4929.051(B) states, "An alternative rate plan filed by a natural gas company under section 4929.05 of the Revised Code and seeking authorization to continue a previously

approved alternative rate plan shall be considered an application not for an increase in rates." In this filing, VEDO seeks approval for the continuation of the DRR approved in Case No. 07-1080-GA-AIR. Accordingly, VEDO's application should be considered an application not for an increase in rates.

8. Newly adopted Ohio Adm. Code 4901:1-19-06(C) states, "An alternative rate plan application that proposes infrastructure investment shall be considered to be for an increase in rates if the proposed rates, joint rates, tolls, classifications, charges, or rentals are not based upon the billing determinants and cost allocation methodology utilized by the public utilities commission in the applicant's most recent rate case proceeding." VEDO's application proposes infrastructure investment and proposes to continue using the same methodology to calculate and allocate the DRR rate that was approved by the Commission in Case No. 07-1080-GA-AIR, VEDO's most recent rate case proceeding, and that has been used in every annual update proceeding. Accordingly, VEDO's application is not an application for an increase in rates.

9. VEDO proposes to extend the DRR to recover costs incurred through the end of calendar year 2017. VEDO proposes to include the following within the scope of the DRR:

- continued replacement/retirement of BSCI mains and bare steel service lines, while accelerating the pace of replacement such that all targeted pipe has been replaced by the end of 2023 (as compared to the current pace of replacement which targets completion by the end of 2028)
- replacement and retirement of ineffectively coated steel infrastructure
- replacement and retirement of obsolete pipe and appurtenances and vintage plastic pipe when done in conjunction with a BS/CI replacement project
- non-reimbursable portion of any projects that require the replacement, retirement, or relocation of existing infrastructure as a result of a public works project when a majority of the infrastructure replaced is BS/CI
- the cost of continued assumption of responsibility for all service lines (including assumption of ownership of customer-owned service lines upon replacement) with clarification of the recoverable amount of such costs going forward

Further detail on these proposals are provided in the attachments to VEDO's application. VEDO will no longer include costs to replace prone-to-fail risers because all risers targeted under VEDO's original DRR have been replaced as of December 31, 2011.

10. Under the stipulation approved in Case No. 07-1081-GA-ALT, the initial monthly DRR charge for Residential and Group 1 General Service customers was not to exceed $1.00 per customer. The cap on successor DRR monthly charges applicable to these customers was permitted to increase in increments of $1.00 per year. VEDO proposes the following modifications to the DRR rider mechanism. VEDO proposes that the monthly DRR charge for Residential and Group 1 General Service customers be subject to the following caps:

- September 1, 2014 – August 31, 2015 = $4.05
- September 1, 2015 – August 31, 2016 = $5.45
- September 1, 2016 – August 31, 2017 = $6.70
- September 1, 2017 – August 31, 2018 = $8.00
- September 1, 2018 – August 31, 2019 = $9.25

VEDO proposes that if during any of the first four years of the DRR as proposed herein its actual costs would result in a DRR monthly charge that exceeds the DRR caps described above, VEDO may defer on its books any costs that it is unable to include in the DRR because the applicable cap would otherwise be exceeded. Such costs shall be deferred with carrying charges calculated at VEDO's long-term debt rate, and VEDO may include such deferred costs in any subsequent DRR application, so long as the inclusion of those deferred costs does not cause VEDO to exceed the applicable DRR cap in that subsequent year. VEDO further proposes that the caps on the monthly DRR charge shall not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered. VEDO Witness Scott Albertson provides additional detail regarding these proposals regarding modification and application of the rate-cap methodology.

11. VEDO proposes that costs recoverable in the DRR continue to be offset by Operations and Maintenance ("O&M") savings, using the following methodology: VEDO proposes carrying forward as an ongoing annual credit the actual O&M savings in 2012 of $274,919 that were included in its 2013 annual DRR filing (Case No. 13-1121-GA-RDR). Beginning with retirements in 2013 and going forward, VEDO proposes applying a $4,500 credit for each mile of BS/CI main retired and including those savings as an additional offset to costs recoverable in the DRR in its annual filings. Savings credits would be cumulative. VEDO proposes this treatment only for Replacement Program investments through the end of 2017. It neither proposes nor agrees that any savings offset determined based on investments through 2017 should be carried forward in any filing or recovery pertaining to post-2017 investment. VEDO Witness James Francis provides additional detail regarding the proposed O&M cost savings methodology.

12. VEDO's request complies with R.C. 4929.05 and should be approved. VEDO complies with R.C. 4905.35 and with the policy of this state specified in R.C. 4929.02 and it expects to continue to be in substantial compliance with that policy if this application is approved. Moreover, VEDO's proposed alternative rate plan is just and reasonable, continuing to provide for the timely recovery of necessary costs to ensure the continued provision of safe and reliable service.

13. Attached to this application are the following materials in support of this application:

- Exhibits to Alternative Rate Plan Application

- Direct Testimony of Scott E. Albertson
- Direct Testimony of James M. Francis

WHEREFORE, VEDO respectfully requests that the Commission consider the facts and proposals set forth in this application and approve this application, its proposed tariffs, and any other necessary and proper relief.

Dated: August 22, 2013

Respectfully submitted,

/s/ Andrew J. Campbell

Mark A. Whitt (Counsel of Record)
Andrew J. Campbell
Gregory L. Williams
WHITT STURTEVANT LLP
The KeyBank Building
88 E. Broad Street, Suite 1590
Columbus, Ohio 43215
Telephone: (614) 224-3911
Facsimile: (614) 224-3960
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
williams@whitt-sturtevant.com

ATTORNEYS FOR
VECTREN ENERGY DELIVERY
OF OHIO, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Application was served by electronic mail to the following persons on this 22nd day of August, 2013:

Maureen Grady
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215
grady@occ.state.oh.us

Vern Margard
Assistant Attorney General
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215
Werner.Margard@puc.state.oh.us

Colleen Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
PO Box 1793
Findlay, OH 45839-1793
cmooney2@columbus.rr.com

Trent Dougherty, Attorney
Ohio Environmental Council
1207 Grandview Ave.
Columbus, OH 43212-3449
trent@theoec.org

Mark Yurick
Taft Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, OH 43215-4213
myurick@taftlaw.com

W. Jonathan Airey
Gregory D. Russell
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street, PO Box 1008
Columbus, OH 43216-1008
wjairey@vorys.com
gdrussell@vorys.com

John M. Dosker
Stand Energy Corporation
1077 Celestial Street
Suite 110
Cincinnati, OH 45202-1629
JDosker@stand-energy.com

/s/ Andrew J. Campbell
One of the Attorneys of Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Form of Regulation	)))	Case No. 13-1571-GA-ALT

ALTERNATIVE RATE PLAN EXHIBITS

A. Ohio Adm. Code 4901:1-19-06(C)(2) Detailed alternative rate plan and related information.

1. Continuation of the Replacement Program Approved in Case No. 07-1081-GA-ALT.

VEDO's proposed alternative rate plan proposes a continuation of the alternative rate plan approved by the Commission in Case No. 07-1081-GA-ALT, with a modified and expanded scope ("the Replacement Program" or "the Program"). The Program, as described in detail in the filing in that case, provided and will continue to provide for an accelerated bare-steel and cast-iron pipeline ("BS/CI") replacement program for the replacement and retirement of cast-iron mains and bare-steel mains and service lines in the VEDO distribution system. The purpose of the program continues to be to improve the safety and reliability of service due to the propensity of increased instances of leakage on bare-steel and cast-iron assets when compared to assets composed of other materials such as plastic and coated steel. In addition to the facts and grounds for the program set forth in its original Alt. Reg. Exhibit A in Case No. 07-1081-GA-ALT (*see* pp. 1–3), the Distribution Integrity Management Rules ("DIMP Rules"), which have been issued by the U.S. Department of Transportation's Pipeline and Hazardous Materials and Safety Administration ("PHMSA"), provide added justification for continuation and acceleration of the program.

The DIMP Rules require each LDC to implement a risk-modeling program that (*1*) evaluates data related to the nature of its distribution facilities and the potential risks that those facilities face, (*2*) rank those risks, and (*3*) prioritize actions that may mitigate the realization of those risks. Through its Distribution Integrity Management Program ("DIMP"), VEDO has identified and prioritized the Distribution Replacement Program as the most appropriate risk-mitigating action that VEDO can take to address the risk evaluated by its DIMP. In addition to improving system safety and reliability, the Program allows VEDO to continue to implement its systematic replacement strategy in compliance with its DIMP.

2. Modification and Expansion of Replacement Program.

In addition to continuing the Replacement Program, VEDO proposes to modify certain elements of the Program and to expand the Program's scope. Unless otherwise modified or expanded below, VEDO proposes continuing the Replacement Program as approved by the Commission in Case No. 07-1081-GA-ALT.

a. Acceleration of the Replacement Program.

VEDO originally proposed to complete the accelerated replacement of all remaining BS/CI infrastructure over a 20-year period, with an intended completion date of 2028. In this case, VEDO intends to increase the pace of replacement to enable completion of the Replacement Program by the end of 2023. The Replacement Program thus far has improved pipeline safety and system reliability, but VEDO has observed that the remaining BS/CI assets continue to manifest leakage and repair rates significantly greater than plastic pipelines. Therefore, consistent with its DIMP, VEDO believes that the pace of the program should be increased as the best measure to improve pipeline safety and system integrity.

b. Ineffectively Coated Steel Lines.

Ineffectively coated steel lines refer to steel pipe that received inadequate field-applied coatings and is now degrading due to corrosion, sometimes to the point of a leak. Coating types and application methods used before 1971 were less likely to produce consistent results, creating variability in the application and thickness of these coatings. These coating types and application methods failed to maintain the required current to adequately protect the line from corrosion.

Certain segments of VEDO's system appear ineffectively coated, and VEDO proposes to replace sections of ineffectively-coated steel pipe and to include those costs in the Replacement Program. VEDO also proposes to include the costs associated with any analysis that identifies such projects.

c. Obsolete pipe and appurtenances.

VEDO also proposes to expand the Replacement Program to include the replacement of obsolete pipe and appurtenances. This category refers to pipelines and system components for which replacement parts and related materials are no longer available. For this reason, leak or damage repair materials must be custom fabricated, resulting in a high cost to repair, inefficient and extended repair times, and increased risk of reoccurrence of leaks or leakage migration. Common obsolete appurtenances include regulators; regulator-station components; non-standard steel pipe, including non-standard sizes and material grades; and pipe processed with non-standard manufacturing processes.

VEDO proposes that the costs of replacing obsolete pipe and appurtenances be included in the Replacement Program when these assets are encountered during the replacement of BS/CI or ineffectively-coated steel.

d. Vintage Plastic Pipe.

VEDO also proposes to expand the Replacement Program to include the replacement of vintage plastic pipe. This pipe is susceptible to cracking and leakage when subjected to stress intensification and thus represented a potential safety hazard. Such lines become hardened and brittle the longer they remain in service, resulting in more serious damage to the pipe and more serious risks in cases of accidental damage and repair.

VEDO proposes to replace vintage plastic pipe when it is encountered in association with a Replacement Program project.

e. Public Works Projects.

A public works project is a project that is initiated by a third-party government entity that requires VEDO to relocate existing facilities located within the public right-of-way and within the boundary of the project. In situations where some or all of the infrastructure being relocated is BS/CI and results in the retirement of those BS/CI assets and the installation of new assets, VEDO proposes including the associated costs in the Replacement Program. Only those costs that are non-reimbursable by the government entity would be included.

f. Modification of Provisions regarding Service Lines.

The approval of the Program also authorized VEDO to replace certain service lines, to assume ownership of service lines traditionally owned by customers, and to recover certain costs. Under the Program's current scope, VEDO has been recovering its costs for the replacement of any service lines included as part of a project within the Replacement Program. VEDO proposes to continue this treatment going forward.

VEDO, however, proposes partially modifying the treatment of service lines that are *not* part of a project otherwise in the Replacement Program. Under the current scope of the Program, VEDO includes in the DRR the assumed incremental investment required to replace service lines, determined under a specified formula. With respect to plastic service lines, VEDO proposes to continue this treatment going forward. But with respect to steel service lines, VEDO has determined that this method does not adequately identify the incremental costs and investment actually required of VEDO as a result of assuming responsibility from customers for service-line replacements. Most steel service lines that are replaced are either bare steel or ineffectively coated and present the same safety issues as do other projects within the Replacement Program. Moreover, certain jobs (namely, the replacement of meter settings) pertain solely to facilities formerly owned by customers, meaning that the entire project reflects incremental costs to VEDO. Therefore, for both categories, the full cost should be recovered.

In summary, VEDO proposes in this case the following treatment of service lines:

- Continue to recover all costs of replacing steel service lines, and tying over existing plastic service lines, when included as a component of a defined BS/CI main replacement project.
- For work not otherwise associated with a defined BS/CI main replacement project, but yet within the scope of replacement project:
    - Continue the current method of calculating incremental investment for plastic service line replacements.
    - Recover all costs related to the replacement of steel service lines.
    - Recover all costs related to the replacement of meter settings.

g. Provisions regarding Risers.

Costs to replace prone-to-fail risers have been removed from the scope of costs to be included in the DRR, because all risers targeted under VEDO's original DRR have been replaced as of December 31, 2011.

3. Description of Recovery Mechanism and Procedures.

The Distribution Replacement Rider ("DRR") filed pursuant to the Program will recover (*1*) a return on and of incremental annual costs incurred under the Program; (*2*) the incremental costs attributable to assuming ownership of service lines installed or replaced by VEDO as well as assuming repair responsibility for all service lines, in the DRR.

VEDO will continue making annual DRR filings by May 1 each year and will reflect activity for the most recent calendar year. VEDO will report to the Commission the following information for the previous calendar year:

(1) investment in infrastructure replacement under the Program;

(2) pipe mileage replaced (by type);

(3) revenue requirement (including reconciliation of revenue requirement recovery for a prior period); and

(4) derivation of rates for the prospective recovery period (September 1 through August 31).

VEDO proposes that the DRR shall become effective on September 1 of each year.

The annual revenue requirement for the DRR will be allocated to customer rate schedules based on the distribution mains/service lines allocation (as applicable) determined in the Company's cost of service study in its most recent base rate proceeding and recovered through either a fixed charge per month for Residential and Group 1 General Service customers or a volumetric charge for all other customers.

The revenue requirement will compute the effect of both the return on, and return of, the net change in plant investment attributable to the Program. The return on calculation will be calculated using the total net change in plant investment (gross investment, less retirements and accumulated depreciation) multiplied by the approved pre-tax rate of return of 11.67 percent from Case No. 07-1080-GA-AIR. Next, the net change in property taxes (incremental property taxes associated with new plant, less property taxes avoided due to the retirement of plant) will be added to the revenue requirement. Current depreciation expense and incremental O&M expenses resulting from the assumption of service line responsibility (ownership and repair) will also be added to the revenue requirement.

VEDO proposes that costs recoverable in the DRR continue to be offset by Operations and Maintenance ("O&M") savings, using the following methodology: VEDO proposes carrying forward as an ongoing annual credit the actual O&M savings in 2012 of $274,919 that were included in its 2013 annual DRR filing (Case No. 13-1121-GA-RDR). Beginning with retirements in 2013 and going forward, VEDO proposes applying a $4,500 credit for each mile of BS/CI main retired and including those savings as an additional offset to costs recoverable in the DRR in its annual filings. Savings credits would be cumulative. VEDO proposes this treatment only for Replacement Program investments through the end of 2017. It neither proposes nor agrees that any savings offset determined based on investments through 2017 should be carried forward in any filing or recovery pertaining to post-2017 investment.

Finally, VEDO will continue to include a reconciliation of actual DRR recoveries and the associated applicable revenue requirement and will adjust the prospective annual revenue requirement for the variance. In each annual DRR filing, the revenue requirement will be updated to reflect the cumulative work completed and costs incurred, including the cumulative maintenance savings realized under the Program. In general rate cases filed by the Company prior to completing the Program, the revenue requirement associated with the DRR as of a date certain will be included in the rate base calculation. Upon approval and implementation of new base rates, the included rate-base portion will be removed from the DRR.

As set forth in the following table, the expected Program cost is approximately $186,750,000 through the end of 2017. Program costs are estimated based on historical costs per mile of main replaced and per service replacement during the last four years on projects throughout VEDO's service territories. The costs may vary from year to year depending on the size of individual projects undertaken in each year and changes in the availability and cost of labor, equipment and materials. VEDO proposes to continue to submit its annual construction plans under the Program so that the Commission may become familiar with the projects contemplated for the coming year. VEDO proposes to submit its construction plans on February 1of each calendar year for the 5-year Program.

VEDO's current infrastructure investment plan to meet federal mandates assumes an installation period of ten years, although the actual investment timeframe will be dictated by specific regulations, availability of capital, and operational constraints. Expected investments break down as follows (in thousands):

Capital Investment ($000's)	**2013**	**2014**	**2015**	**2016**	**2017**
Bare Steel/Cast Iron	$27,000	$28,000	$28,000	$28,000	$28,000
Service Replacements	$6,000	$6,500	$6,500	$6,500	$6,500
Ineffectively-Coated Steel	$1,000	$3,500	$2,500	$2,500	$2,500
Obsolete Pipe and Appurtenances	$250	$250	$250	$250	$250
Vintage Plastic	$250	$250	$250	$250	$250
Public Improvements	$250	$250	$250	$250	$250
TOTAL	**$34,750**	**$38,750**	**$37,750**	**$37,750**	**$37,750**
TOTAL – 5-YEARS					**$186,750**

Under the stipulation approved in Case No. 07-1081-GA-ALT, the initial monthly DRR charge for Residential and Group 1 General Service customers was not to exceed $1.00 per customer. Successor DRR charges applicable to these customers were permitted to increase in increments of $1.00 per customer per month each year.

VEDO proposes the following modifications to the annual caps on the DRR charge applicable to Residential and Group 1 General Service customers per month to allow recovery of the increased expenses due to further acceleration of BS/CI main replacements and the inclusion of replacement of other types of older infrastructure:

Annual Period	**Rate Cap** (per customer, per month)
September 1, 2014–August 31, 2015	$4.05
September 1, 2015–August 31, 2016	$5.45
September 1, 2016–August 31, 2017	$6.70
September 1, 2017–August 31, 2018	$8.00
September 1, 2018–August 31, 2019	$9.25

VEDO proposes that if during any of the first four years of the DRR as proposed herein its actual costs would result in a DRR monthly charge that exceeds the DRR caps described above, VEDO may defer on its books any costs that it is unable to include in the DRR because the applicable cap would otherwise be exceeded. Such costs shall be deferred with carrying charges calculated at VEDO's long-term debt rate, and VEDO may include such deferred costs in any subsequent DRR application, so long as the inclusion of those deferred costs does not cause VEDO to exceed the applicable DRR cap in that subsequent year.

VEDO further proposes that the caps on the monthly DRR charge shall not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered. In future annual DRR filings, the Small Customer monthly charge will be calculated based only on the DRR revenue requirement, exclusive of any variances. This charge will be compared to the approved Small Customer monthly bill caps. Any over or under recovery variances will then be added to the DRR revenue requirement in order to calculate the proposed monthly DRR charges. The allocation of any over or under recovery variances, currently based upon how the revenue requirement from the prior DRR filing was allocated between mains and services, will be unchanged.

B. Ohio Adm. Code 4901:1-19-06(C)(3), Statements regarding exemptions.

VEDO has been granted exemptions by the Commission with respect to its provision of commodity service. *See* Case No. 07-1285-GA-EXM (original exemption); Case No. 12-483-GA-EXM (modification). VEDO's approved code of conduct is attached.

C. Ohio Adm. Code 4901:1-19-06(C)(4), Cross-Subsidization

VEDO does not expect any cross-subsidization of services to occur under the alternative rate plan. All customers will benefit from the continued provision of safe and reliable service, and rates will be subject to Commission review and approval.

D. Ohio Adm. Code 4901:1-19-06(C)(5), Compliance with Revised Code Provisions

1. Compliance with R.C. 4905.35

R.C. 4905.35 provides in its entirety as follows:

> (A) No public utility shall make or give any undue or unreasonable preference or advantage to any person, firm, corporation, or locality, or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage.
>
> (B)(1) A natural gas company that is a public utility shall offer its regulated services or goods to all similarly situated consumers, including persons with which it is affiliated or which it controls, under comparable terms and conditions.
>
> (2) A natural gas company that is a public utility and that offers to a consumer a bundled service that includes both regulated and unregulated services or goods shall offer, on an unbundled basis, to that same consumer the regulated services or goods that would have been part of the bundled service. Those regulated services or goods shall be of the same quality as or better quality than, and shall be offered at the same price as or a better price than and under the same terms and conditions as or better terms and conditions than, they would have been had they been part of the company's bundled service.
>
> (3) No natural gas company that is a public utility shall condition or limit the availability of any regulated services or goods, or condition the availability of a discounted rate or improved quality, price, term, or condition for any regulated

> services or goods, on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from the company.

VEDO is compliant with R.C. 4905.35. In accordance with R.C. 4905.35(A), VEDO does not make or give any undue or unreasonable preference or advantage to any person, firm, corporation, or locality, or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage.

In accordance with R.C. 4905.35(B)(1), VEDO offers its regulated services or goods to all similarly situated consumers, including persons with which it is affiliated or which it controls, under comparable terms and conditions, as evidenced by VEDO's Supplier Code of Conduct and Affiliate Code of Conduct (*see* existing Tariff Sheets No. 52, p.6 of 14, and No. 72, pp. 1–2). Consistent with the obligation to make its service offerings available on a comparable and non-discriminatory basis, VEDO has applied these principles in developing its service offerings, the terms and conditions upon which it provides public utility service, and its rates. Such services, terms and conditions and rates have been reviewed and approved by the Commission and are currently incorporated in VEDO's tariff.

With respect to R.C. 4905.35(B)(2), VEDO does not presently have any bundled service offerings that include a regulated and unregulated service.

In accordance with R.C. 4905.35(B)(3), VEDO does not condition or limit the availability of any regulated services or goods, or condition the availability of a discounted rate or improved quality, price, term, or condition for any regulated services or goods, on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from VEDO.

2. Substantial compliance with R.C. 4929.02

The Commission's rules require VEDO to discuss its current compliance with state policy and its expected compliance with that policy following implementation of the proposed plan.

R.C. 4929.02 establishes Ohio's state policy regarding the provision of natural gas service and goods. The policy promotes, among other things, the availability of adequate, reliable, and reasonably priced services and goods as well as the unbundling and comparability of those services and goods. It supports effective choices for supplies and suppliers; encourages market access to supply- and demand-side services and goods; and acknowledges the importance of effective competition and the regulatory treatment needed to support competition.

VEDO currently works to promote, encourage, recognize, facilitate and ensure the goals in R.C. 4929.02 are met. VEDO's record of service in Ohio includes a proactive effort to work with stakeholders to implement unbundled and ancillary service offerings that provide customers with effective and convenient choices to meet their natural gas supply needs. VEDO's current tariff provides numerous options for service of varying terms and conditions to meet its customers' needs for the purchase and delivery of natural gas. VEDO's services provide all customers the opportunity to choose an alternative commodity supplier. VEDO's current rates provide no subsidies flowing to or from regulated services or goods. VEDO developed and implemented a successful residential and commercial natural gas choice program within the first two years of its ownership and operation of the VEDO system, and as approved in Case No. 07-1285-GA-EXM, it has implemented an auction-based commodity-service procurement since 2008.

VEDO also provides funding for low-income conservation programs resulting in more efficient use and conservation of natural gas for qualifying customers. VEDO's energy efficiency programs provide $1.1 million in annual funding for low-income conservation programs resulting in more efficient use and conservation of natural gas for qualifying customers, and an additional $1.0 million in annual funds for expanded low-income conservation programs. In collaboration with the VEDO DSM Collaborative, VEDO's programs also provide $2.9 million in annual funding for energy-efficiency and conservation programs for residential and small business customers. VEDO's conservation portfolio also includes resources, such an online energy audit tool and a dedicated conservation connection hotline, to assist customers in becoming more energy efficient and managing their bills.

Moreover, VEDO's bill inserts, public outreach initiatives, and customer service representatives provide information useful to customers in making choices about natural gas services and goods.

The Commission has previously ruled that VEDO is in compliance with R.C. 4929.02, based on information that is substantially unchanged. *See* Case No. 07-1825-GA-EXM, Opin. & Order (Apr. 30, 2008); Case No. 05-1444-GA-UNC, Opin. & Order (Sept. 13, 2006). VEDO will continue to comply with R.C. 4905.35 and to substantially comply with the policies specified in R.C. 4929.02, after implementation of VEDO's alternative rates plan proposals.

VEDO's proposal for accelerated replacement (and ownership as described) of certain plant and service lines and recovery of the associated costs through the proposed Distribution Replacement Rider is a coordinated, cost-effective, and efficient systematic approach to preserving infrastructure reliability and public safety by decreasing the instances of leakage. Implementation of these proposals, combined with VEDO's existing services and programs, will ensure continued and enhanced compliance with the policies described in Section 4929.02, Revised Code.

3. The proposed plan is just and reasonable.

For all of the foregoing reasons, VEDO's proposed plan is just and reasonable. Approval of the plan will continue to ensure timely and reasonable cost recovery of the investments needed to ensure the continued provision of safe and reliable service. The annual review process will ensure that only just and reasonable costs are recovered. The justness and reasonableness of the plan is also demonstrated by the fact that the Commission approved a similar plan for VEDO in Case No. 07-1081-GA-ALT and the fact that similar plans have been approved and extended for other LDCs in Ohio. *See* Case Nos. 11-2401-GA-ALT (Dominion East Ohio); 11-5515-GA-ALT (Columbia Gas of Ohio, Inc.).

E. Ohio Adm. Code 4901:1-19-06(C)(6), List of Witnesses.

In accordance with the Commission's rules, below is the list of witnesses who will sponsor testimony on behalf of VEDO in this proceeding.

- Scott E. Albertson, Vice-President, Regulatory Affairs
- James M. Francis, Director of Engineering and Asset Management

GENERAL TERMS AND CONDITIONS APPLICABLE TO GAS SERVICE

13. AFFILIATE CODE OF CONDUCT

Company shall comply with the following Code of Conduct:

1. Company must apply Tariff Sheets in a like manner when comparing application to affiliate and non-affiliate Suppliers.

2. Company must enforce the Tariff Sheets in a like manner when comparing enforcement to affiliate and non-affiliate Suppliers.

3. Company may not give its affiliated Supplier or Customers of its affiliated Supplier preference over non-affiliated Suppliers or their Customers in the application of tariff provisions or otherwise pertaining to the Pooling Program. Any ancillary service provided by Company to Supplier (e.g., billing and envelope service) that is not tariffed will be priced uniformly for affiliated and non-affiliated Suppliers and be made available to all on a non-discriminatory basis.

4. Company must process all similar requests for Transportation Service in the same manner and within the same approximate period of time for all Suppliers irrespective of affiliate status.

5. Company shall not disclose to anyone other than a Company employee or agent any information regarding an existing or proposed Transportation Service arrangement, unless authorization is granted by Customer, Customer's agent, or Supplier.

6. If a potential Pool Customer requests information about Suppliers, Company shall provide a list of all participating Suppliers, but shall not endorse any Supplier nor indicate that any Supplier will receive preference because of an affiliate relationship.

7. Company will, to the extent practicable, separate the activities of its operating employees from its affiliate Supplier employees in all areas where their failure to maintain independent operations may have the effect of harming Customers or unfairly disadvantaging unaffiliated Suppliers.

8. Company shall not condition or tie its agreements for gas supply or for the release of interstate pipeline capacity to any agreement by a Supplier, Pool Customer or other third party in which its affiliate Supplier is involved.

GENERAL TERMS AND CONDITIONS APPLICABLE TO GAS SERVICE

13. **AFFILIATE CODE OF CONDUCT (Continued)**

9. Company and its affiliate Supplier shall keep separate books of accounts and records.

10. Neither Company nor its affiliate Supplier shall communicate to any Customer, Supplier or third party the idea that any advantage might accrue in the use of Company's service as a result of dealing with its affiliate Supplier.

11. Company's complaint procedure for issues concerning compliance with this code of conduct is as follows: All complaints, whether written or verbal, shall be referred to Company's designated attorney. Company's designated attorney shall orally acknowledge the complaint within five (5) working days of receipt. The complainant party shall prepare a written statement of the complaint which shall contain the name of the complainant and a detailed factual report of the complaint, including all relevant dates, companies involved, employees involved, and specific claim. Company's designated attorney shall communicate the results of the preliminary investigation to the complainant in writing within thirty (30) days after the complaint was received including a description of any course of action which was taken. Company's designated attorney shall keep a file with all such complaint statements for a period of not less than three years.

12. If Company offers its affiliate Supplier or a Pool Customer of its affiliate Supplier a discount, rebate or fee waiver for transportation, balancing, meters or meter installation, storage, or any other service, it must, upon request, prospectively offer such discounts, rebates or fee waivers to all similarly situated non-affiliated Suppliers or Pool Customers under similar terms and conditions.

13. Company's name and logo will not be used in its affiliate Supplier's promotional material designed for the solicitation of Pool Customers, unless such promotional material discloses in plain, legible or audible language, on the first page or at the first point where Company's name and logo appears, that its affiliate Supplier is not the same entity as Company. Company is also prohibited from participating in exclusive joint activities with its affiliate Supplier, including advertising, marketing, sales calls or joint proposals to any existing or potential Pool Customers.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Form of Regulation	)))	Case No. 13-1571-GA-ALT

DIRECT TESTIMONY OF SCOTT E. ALBERTSON
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

Direct Testimony of
Scott E. Albertson

I. INTRODUCTION

Q1. Please state your name and business address.

A. My name is Scott E. Albertson, and my address is One Vectren Square, Evansville, IN.

Q2. What position do you hold with Applicant Vectren Energy Delivery of Ohio, Inc. (“VEDO” or “the Company”)?

A. I am Vice President, Regulatory Affairs for Vectren Utility Holdings, Inc. (“VUHI”), the immediate parent company of VEDO. I hold the same position with the three utility subsidiaries of VUHI: VEDO, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. (“Vectren North”), and Southern Indiana Gas and Electric Company d/b/a/ Vectren Energy Delivery of Indiana, Inc. (“Vectren South”).

Q3. Please describe your educational background.

A. I received a Bachelor of Science degree in mechanical engineering from Rose-Hulman Institute of Technology in 1984. I have been a registered professional engineer in Indiana since 1990.

Q4. Please describe your professional experience.

A. I have over 25 years’ experience in the utility industry. I began my career with Ohio Valley Gas Corporation in a project engineering position. I have worked at VUHI and its predecessor companies since 1987 in a variety of positions including Operations Staff Manager, Assistant Chief Engineer, Director of Engineering Projects, Director of Engineering, and Director of Technical Services. I was named Director, Regulatory Affairs for VUHI in 2004, and was promoted to Vice President, Regulatory Affairs effective July 1, 2012.

Q5. What are your present duties and responsibilities as Vice President, Regulatory Affairs?

A. I am responsible for coordinating regulatory and rate matters of the regulated utilities within VUHI in proceedings before the Indiana and Ohio utility regulatory commissions. In addition, I am responsible for overseeing the gas supply function for VUHI's three gas utilities.

Q6. Have you previously testified before the Public Utilities Commission of Ohio ("PUCO" or "Commission")?

A. Yes.

Q7. What is the purpose of your testimony in this proceeding ("2013 DRR Extension")?

A. My testimony in this proceeding supports VEDO's request to extend and modify the scope of the Distribution Replacement Rider ("DRR") recovery mechanism to include the recovery of costs incurred under VEDO's proposed and expanded Replacement Program, the scope of which is described by VEDO Witness James M. Francis. I specifically will explain the proposed DRR mechanism; procedures to be followed in cost recovery cases; and modifications to the DRR rate caps. I will also address compliance of VEDO's application with certain legal requirements.

Q8. What exhibits are attached to your testimony?

A. The following exhibits which have been prepared by me or under my supervision are attached to my testimony:

- SEA-1 – 2012 DRR Revenue Requirement; and
- SEA-2 – Clean and Redlined DRR Tariff Sheets.

II. BACKGROUND

Q9. Please describe the DRR.

A. The DRR was established pursuant to a Stipulation and Recommendation ("Stipulation") approved by the Commission in VEDO's last general rate case, Case No. 07-1080-GA-AIR ("Rate Case"). The DRR recovered the following costs pursuant to VEDO's program to replace and/or retire targeted BS/CI pipeline assets and other assets ("Replacement Program"):

1) the return on and of plant investment, including capitalized interest or post-in-service carrying cost charges ("PISCC"), along with incremental costs incurred under a multi-year program for the accelerated replacement and retirement of bare steel and cast iron ("BS/CI") mains and service lines;

2) deferred expenses incurred during the Company's investigation of the installation, use, and performance of natural gas service risers;

3) all costs of replacement of prone-to-fail risers;

4) the incremental costs attributable to assuming ownership of service lines installed or replaced by the Company; and

5) the incremental cost of assuming maintenance responsibility for all service lines;

6) less the actual annual savings of certain Operations and Maintenance ("O&M") expenses from the baseline O&M of $1,192,153.

Q10. Did the Stipulation establish a term for the DRR?

A. Yes. The Stipulation, at pages 8 and 9, provided as follows: "The DRR shall be in effect for the lesser of five (5) years from the effective date of rates approved in this proceeding or until new rates become effective as a result of the filing of the Company of an application for an increase in rates pursuant to Section 4909.18, Revised Code, or the Company's filing of a proposal to establish base rates pursuant to an alternative method of regulation pursuant to Section 4929.05, Revised Code." The rates approved in the Rate

Case were implemented on February 22, 2009. Therefore, the DRR is currently approved to be in effect through February 21, 2014.

Q11. Are you familiar with VEDO's previous and pending annual DRR filings?

A. Yes, I am. I was a witness in VEDO's annual DRR filings in Case Nos. 10-595-GA-RDR, 11-2776-GA-RDR, and 12-1423-GA-RDR, and I am familiar with VEDO's pending filing in Case No. 13-1121-GA-RDR.

III. EXTENSION AND EXPANSION OF THE REPLACEMENT PROGRAM

Q12. Is VEDO proposing to extend the DRR and modify its scope?

A. Yes, VEDO proposes that the DRR be extended to recover costs incurred pursuant to the expanded Replacement Program through December 31, 2017, as described by witness Francis. He also explains how and why the scope of the current Replacement Program should be expanded. Further, costs to replace prone-to-fail risers have been removed from the scope of costs to be included in the DRR, because all targeted risers have been replaced as of December 31, 2011.

Q13. Will the costs recoverable in the DRR continue to be offset by Operations and Maintenance ("O&M") savings?

A. Yes. Witness Francis discusses expected O&M savings associated with the expanded Replacement Program and VEDO's proposal for calculating the corresponding offset.

Q14. Have other Ohio natural gas utilities extended and expanded their pipeline replacement programs and related cost recovery mechanisms since those were first implemented?

A. Yes. The Commission approved an extension and expansion of both Dominion East Ohio's ("DEO") and Columbia Gas of Ohio's ("Columbia") pipeline replacement program recovery mechanisms in Case No. 11-2401-GA-ALT on August 3, 2011, and Case No. 11-5515-GA-ALT on November 28, 2012, respectively.

Q15. Please discuss how the DRR will be adjusted on an annual basis.

A. VEDO will continue to make annual DRR filings by May 1 of each year for new rider rates to be implemented on September 1. Each annual filing will continue to reflect costs incurred through the end of the prior calendar year. For example, the 2013 Annual DRR Filing (Case No. 13-1121-GA-RDR) was filed on May 1, 2013, for recovery of Replacement Program costs incurred through December 31, 2012.

Q16. When will the DRR expire under VEDO's proposal in this Case?

A. Consistent with the procedural schedule applicable to VEDO's previous DRR Filings, the Company will make an annual DRR filing on or before May 1, 2018, and would anticipate implementing a revised DRR to be effective on September 1, 2018 (and continuing through August 31, 2019), to recover Replacement Program costs incurred through December 31, 2017. In the event that the DRR mechanism is not renewed for recovery of approved costs incurred after December 31, 2017, VEDO proposes that the DRR continue until all approved costs incurred under the expanded Replacement Program have been recovered.

IV. COST ALLOCATION AND RESIDENTIAL CUSTOMER BILL IMPACTS

Q17. Is VEDO proposing to change how costs recoverable in the DRR are allocated to the Rate Schedules?

A. No. Mains and service line costs will continue to be allocated separately, using the same allocation percentages determined in the Rate Case. These allocation percentages would be subject to change in a future rate case.

Q18. Is VEDO proposing to change the current DRR rate design?

A. No. VEDO proposes that the current rate design remain in place; Residential and Group 1 General Service customers (hereinafter referred to as "Small Customers") will pay a fixed DRR charge per month, and all other customers will pay volumetric DRR charges.

Q19. Are there currently any caps on Small Customer DRR charges?

A. Yes. Under the Stipulation, the cap on the monthly DRR charge applicable to Small Customers increases by $1.00 in each annual filing.

Q20. Is VEDO proposing, as part of the 2013 DRR Extension, specific caps on monthly DRR charges to be applicable to Small Customers?

A. Yes. VEDO is proposing the following specific caps on the monthly DRR charge applicable to these customers for each of the following annual periods:

Monthly Cap	To Be Effective	For Replacement Program Costs Incurred Through
$4.05	September 1, 2014 – August 31, 2015	December 31, 2013
$5.45	September 1, 2015 – August 31, 2016	December 31, 2014
$6.70	September 1, 2016 – August 31, 2017	December 31, 2015
$8.00	September 1, 2017 – August 31, 2018	December 31, 2016
$9.25	September 1, 2018 – August 31, 2019	December 31, 2017

VEDO further proposes that if during any of the first four years of the DRR as proposed herein its actual costs would result in a DRR that exceeds the DRR caps described above, VEDO may defer on its books any costs that it is unable to include in the DRR because the applicable cap would otherwise be exceeded. Such costs shall be deferred with carrying charges calculated at VEDO's long-term debt rate. VEDO proposes that it may then include such deferred costs in any subsequent DRR application so long as the inclusion of those deferred costs does not cause VEDO to exceed the applicable DRR cap in that subsequent year.

Q21. How were these caps derived?

A. The caps proposed above are a function of VEDO's planned annual investments under the expanded Replacement Program. They are directly related to the projected annual DRR revenue requirement and the proposed allocation of costs to be incurred under the expanded Replacement Program.

Q22. How does VEDO propose to evaluate the monthly DRR charge against these caps?

A. VEDO proposes that the caps on the monthly DRR charge shall not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered. In future annual DRR filings, the Small Customer monthly charge will be calculated based only on the DRR revenue requirement, exclusive of any variances. This charge will be compared to the approved Small Customer monthly bill caps. Any over or under recovery variances will then be added to the DRR revenue requirement in order to calculate the proposed monthly DRR charges. The allocation of any over or under recovery variances, currently based upon how the revenue requirement from the prior DRR filing was allocated between mains and services, will be unchanged.

Q23. Please describe Exhibit SEA-1.

A. Exhibit SEA-1, Pages 1 and 2 are the 2012 DRR Revenue Requirement filed in Case No. 13-1121-GA-RDR, and illustrate the form of the DRR Revenue Requirement to be included in future DRR annual filings which, including all Exhibits and workpapers, will be unchanged under the Company's proposal in this proceeding but for one new exhibit. Exhibit SEA-1, Page 3 reflects the new exhibit to be included in each annual DRR filing to evaluate the proposed Small Customer DRR charge against the cap applicable to that filing period. As discussed above, the over or under recovery variance attributed to the prior 12-month recovery period will not be considered when evaluating whether the new DRR charge exceeds the applicable cap. Exhibit SEA-1, Page 3 illustrates how this calculation would work using VEDO's 2013 DRR Filing as an example.

The Residential Annual Revenue requirement will be reduced by the residential portion of the DRR over or under recovery variance (line 4). This resulting total (line 5) is then used to determine a hypothetical DRR charge applicable to Small Customers (line 7). This charge is then compared to the applicable cap (line 8), with the lesser of the two charges added to the over or under recovery variance component (line 10) to derive the proposed Small Customer DRR Charge (line 11).

Q24. Please describe Exhibit SEA-2.

Exhibit SEA-2 is the tariff sheet proposed in this case, and includes both clean and redlined versions of the proposed Sheet No. 44 – Distribution Replacement Rider.

Q25. How does VEDO's DRR relate to VEDO's Capital Expenditures Plan ("CEP")?

A. No costs or investments recovered under the DRR will be included in the CEP. Although VEDO believes that the basis for costs incurred pursuant to new federal pipeline safety requirements is quite similar to the basis for costs to be incurred under the expanded Replacement Program and recovered in the DRR, VEDO intends to include these costs in its annual CEP filings under R.C. 4929.111. Witness Francis explains these federal requirements in more detail, and VEDO respectfully reserves the right to propose a different recovery mechanism for those mandated costs as federal rules continue to evolve.

V. NOTICE AND STATUTORY REQUIREMENTS

Q26. What notices has VEDO issued in this proceeding?

A. VEDO filed notice of this filing with the Commission as required under newly adopted Ohio Adm. Code 4901:1-19-06(A) on July 2, 2013. In addition, VEDO provided notice of its filing to the mayors and legislative authorities of all municipalities served on July 2, 2013.

Q27. Under R.C. 4929.05, before the Commission may approve the 2013 DRR Extension, it must find that VEDO complies with R.C. 4905.35. In your opinion, what facts show that VEDO complies with Section 4905.35, Revised Code?

A. R.C. 4905.35 (*1*) prohibits a public utility from making or giving any undue or unreasonable preference or advantage to any person, corporation, or locality; (*2*) prohibits a public utility from subjecting any person, corporation, or locality to any undue or unreasonable prejudice or disadvantage; (*3*) requires that natural gas companies offer their regulated services or goods to all similarly situated consumers under comparable terms and conditions, including persons with which it is affiliated or which it controls; (*4*) requires that natural gas companies that offer bundled services that include both regulated and unregulated services or goods offer the regulated services or goods on an unbundled basis of the same quality as or better quality than the bundled service; and (*5*) prohibits natural gas companies from conditioning or limiting the availability of any regulated services or goods on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods from the company.

I am not aware of any facts that suggest VEDO does not comply with R.C. 4905.35. I am generally familiar with VEDO's management, operations, and the services that it provides. VEDO makes its public utility services available on a comparable and nondiscriminatory basis. VEDO does not make or give any undue or unreasonable preference or advantage to any person, corporation, or locality, or subject any person, firm, corporation, or locality to any undue or unreasonable prejudice or disadvantage.

Likewise, VEDO offers its regulated services or goods under comparable terms and conditions to all similarly-situated consumers, including persons with which it is affiliated or which it controls. Indeed, VEDO has incorporated this requirement into its Commission-approved Choice Supplier Code of Conduct (Tariff Sheet No. 52, p. 6 of 14) and its Affiliate Code of Conduct (Tariff Sheet No. 72).

Moreover, VEDO does not presently have any bundled service offerings that include a regulated and unregulated service.

Finally, VEDO does not condition or limit the availability of any regulated services or goods, including any discounted rates or quality, price, terms, or condition of its service or goods, on the basis of the identity of the supplier of any other services or goods, or on the purchase of any unregulated services or goods from VEDO.

Q28. R.C. 4929.05 also requires VEDO to show that it substantially complies with the state policies set forth in R.C. 4929.02 and that it expects to remain in compliance with those policies after the 2013 DRR Extension is implemented. In your opinion, does VEDO substantially comply with state policy, and what facts show that it does?

A. In my opinion, VEDO substantially complies with state policy. Ohio's policy promotes, among other things, the availability of adequate, reliable, and reasonably priced services and goods as well as the unbundling and comparability of those services and goods. It supports effective choices for supplies and suppliers; encourages market access to supply- and demand-side services and goods; and acknowledges the importance of effective competition and the regulatory treatment needed to support competition.

VEDO complies with these policies and works to ensure that its goals are continually met. For example, VEDO has worked with stakeholders to implement unbundled and ancillary service offerings that provide customers with effective and convenient choices to meet their natural gas supply needs. VEDO's current tariff provides numerous options for service of varying terms and conditions to meet its customers' needs for the purchase and delivery of natural gas. VEDO provides customers the opportunity to select a commodity supplier pursuant to its residential and general service choice program. As approved in Case No. 07-1285-GA-EXM, the Company implemented in 2008 an auction-based commodity-service procurement program that continues today. Finally, VEDO's current rates do not provide for subsidies to or from regulated services or goods.

Moreover, VEDO's energy efficiency programs provide $1.1 million in annual funding for low-income conservation programs resulting in more efficient use and conservation of natural gas for qualifying customers, and an additional $1.0 million in annual funds for expanded low-income conservation programs. Via collaboration with the VEDO DSM Collaborative[1], VEDO's programs also provide $2.9 million in annual funding for energy-efficiency and conservation programs for residential and small business customers. VEDO's conservation portfolio also includes resources, such an online energy audit tool and a dedicated conservation connection hotline, to assist customers in becoming more energy efficient and managing their bills.

Finally, VEDO's bill inserts, public outreach initiatives, and customer service representatives provide information useful to customers in making choices about natural gas services and goods.

[1] VEDO's DSM Collaborative currently includes Commission Staff, the Ohio Consumers' Counsel, and the Ohio Partners for Affordable Energy.

Q29. Does VEDO expect to remain in compliance with these policies after the 2013 DRR Extension is implemented?

A. Yes. VEDO's 2013 DRR Extension is a coordinated, cost-effective, and systematic approach to preserving infrastructure reliability, enabling proactive and efficient reinvestment, and maintaining public safety. Implementation of VEDO's proposal herein, combined with VEDO's existing services and programs, will ensure continued and enhanced compliance with the policies described in R.C. 4929.02.

Q30. Finally, R.C. 4929.05 requires the Commission to find that VEDO's proposal is just and reasonable. In your opinion, is the 2013 DRR Extension just and reasonable?

A. For all of the above reasons, I believe that the 2013 DRR Extension is just and reasonable. Approval of VEDO's proposal will continue to ensure timely and reasonable cost recovery of the investments needed to ensure the continued provision of reliable service. The annual review process, which is subject to the Commission's oversight and approval, will ensure that only just and reasonable costs are recovered. Finally, the justness and reasonableness of VEDO's proposal is demonstrated by the fact that the Commission approved a similar program for VEDO in Case No. 07-1081-GA-ALT and the fact that similar plans have been approved and extended for other LDCs in Ohio.

Q31. Does this conclude your direct testimony?

A. Yes.

[redacted]

[redacted]

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - MAINS

Line	Description	Amount	Reference
1	**Return on Investment:**		
2	Plant In-Service at December 31, 2012		
3	Additions - Main Replacements	$ 28,363,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	(1,386,667)	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	$ 26,976,733	Line 3 + Line 4
6	Less: Accumulated Depreciation at December 31, 2012		
7	Depreciation Expense - Mains	$ (874,579)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	1,238,726	Exhibit JCS-S2d, Column O, Line 2
9	Original Cost - Retired Mains	1,386,667	-Line 4
10	Total Accumulated Depreciation	$ 1,750,814	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) [3]	$ 1,634,859	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	$ 258,434	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	$ (572,201)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	$ (7,210,638)	Exhibit No. JCS-S2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	$ (90,452)	-Line 12 x 35%
16	Net Rate Base	$ 22,747,549	Sum of Lines 5 and 10-15
17	Pre-Tax Rate of Return	11.67%	Case No. 07-1080-GA-AIR
18	**Annualized Return on Rate Base - Mains**	**$ 2,654,639**	Line 16 x Line 17
19	**Operations and Maintenance Expenses**		
20	Annualized Property Tax Expense	$ 601,655	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	477,488	Line 5 x 1.77% [1]
22	Annualized PISCC Amortization Expense	25,416	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	3,989	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	(257,022)	(2)
25	**Total Incremental Operating Expenses - Mains**	**$ 851,526**	Sum of Lines 20-24
26	**Variance**	**$ 50,053**	Exhibit JCS-4, Line 15
27	**Total Annual Revenue Requirement - Mains**	**$ 3,556,218**	Line 18 + Line 25 + Line 26

(To Exhibit No. JCS-S1 and Exhibit No. SMK-S1, page 1 of 5)

(1) FERC Account 676 depreciation rate approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Column C, Line 23.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate. as approved in Case No. 07-1080-GA-AIR.

[redacted]

[redacted]

VECTREN ENERGY DELIVERY OF OHIO, INC.
DISTRIBUTION REPLACEMENT RIDER
ANNUAL REVENUE REQUIREMENT - SERVICE LINES

Line	Description		Amount	Reference
1	**Return on Investment:**			
2	Plant In-Service at December 31, 2012			
3	Additions - Services Replacements (Bare Steel/Cast Iron)	$	24,438,108	Exhibit JCS-3a, Column O, Line 2
4	Additions - Meter Installation (Bare Steel/Cast Iron)		5,992,399	Exhibit JCS-3a, Column O, Line 3
5	Additions - Services Replacements (Service Line Responsibility)		4,465,988	Exhibit JCS-3a, Column O, Line 4
6	Additions - Natural Gas Risers		17,262,601	Exhibit JCS-3a, Column O Line 5
7	Original Cost - Retired Services		(165,110)	Exhibit JCS-3b, Column Q, Line 2
8	Original Cost - Retired Meter Installation		(16,798)	Exhibit JCS-3b, Column Q, Line 3
9	Total Plant In-Service	$	51,977,188	Sum of Lines 3 - 8
10	Less: Accumulated Depreciation at December 31, 2012			
11	Depreciation Expense - Services	$	(2,342,775)	Exhibit JCS-3c, Column O, Line 2
12	Depreciation Expense - Meter Installation		(135,271)	Exhibit JCS-3c, Column O, Line 3
13	Depreciation Expense - Natural Gas Risers		(2,202,189)	Exhibit JCS-3c, Column O, Line 4
14	Cost of Removal - Services		1,657,422	Exhibit JCS-S3d, Column O, Line 2
15	Original Cost - Retired Services		165,110	-Line 7
16	Original Cost - Retired Meter Installation		16,798	-Line 8
17	Total Accumulated Depreciation	$	(2,840,905)	Sum of Lines 11 - 16
18	Net Deferred Post In-Service Carrying Costs (PISCC) (3)	$	3,133,410	Exhibit JCS-3e, Column O, Line 10
19	Deferred Depreciation Regulatory Asset Balance - Services	$	1,470,201	Exhibit JCS-3h, Page 1, Column B, Line 3
20	Deferred Depreciation Regulatory Asset Balance - Meter Installation	$	62,692	Exhibit JCS-3h, Page 2, Column B, Line 3
21	Net Deferred Tax Balance - PISCC	$	(1,096,694)	-Line 18 x 35%
22	Deferred Taxes on Depreciation	$	(12,279,613)	Exhibit No. JCS-S3g, Line 31
23	Deferred Taxes on Deferred Depreciation Regulatory Asset - Services	$	(514,570)	-Line 19 x 35%
24	Deferred Taxes on Deferred Depreciation Regulatory Asset - Meter Installation	$	(21,942)	-Line 20 x 35%
25	Net Rate Base	$	39,889,767	Sum of Lines 9 and 17-24
26	Pre-Tax Rate of Return		11.67%	Case No. 07-1080-GA-AIR
27	**Annualized Return on Rate Base -Service Lines**	**$**	**4,655,136**	Line 25 x Line 26
28	**Operations and Maintenance Expenses**			
29	Annualized Property Tax Expense	$	1,117,821	Exhibit No. JCS-3f, Line 24
30	Annualized Depreciation Expense - Services		2,419,683	(Line 3+ Lines 5-7) x 5.26% (1)
31	Annualized Depreciation Expense - Meter Installation		108,756	(Line 4 + Line 8) x 1.82% (1)
32	Annualized PISCC Amortization Expense		55,544	Exhibit No. JCS-3e, Column D, Line 33
33	Annualized Deferred Depreciation Amortization Expense - Services		25,803	Exhibit JCS-3h, Page 1, Column C, Line 25
34	Annualized Deferred Depreciation Amortization Expense - Meter Installation		1,143	Exhibit JCS-3h, Page 2, Column C, Line 21
35	Incremental O&M - Service Line Responsibility		49,029	(2)
36	Annualized Maintenance Adjustment		(17,897)	(4)
37	**Total Incremental Operating Expenses - Service Lines**	**$**	**3,759,882**	Sum of Lines 29-36
38	**Variance** (4)	**$**	**153,605**	Exhibit No. JCS-4, Column D, Line 16
39	**Total Revenue Requirement - Service Lines**	**$**	**8,568,623**	Line 27 + Line 37 + Line 38

(To Exhibit No. JCS-S1 and Exhibit No. SMK-S1, page 1 of 5)

(1) FERC Account 680 (Line 30) and FERC Account 682 (Line 31) depreciation rates approved in Case No. 04-0571-GA-AIR.
(2) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Column C, Line 16.
(3) PISCC is accrued at an annual rate of 7.02% from the in service date until investments are reflected in the DRR rate as approved in Case No. 07-1080-GA-AIR.
(4) Support provided by VEDO Witness James Francis, Exhibit No. JMF-4, Column C, Line 17.

[redacted]

[redacted]

VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
RESIDENTIAL RATE EVALUATION AGAINST CAP

Line		(A) Mains	(B) Services	(C) Total (A)+(B)
1	Residential Annual Revenue Requirement Exhibit SMK-S1, Page 1, Columns (A) and (B), Line 1	$2,186,346	$7,299,088	$9,485,433
2	Total DRR Over/Under Recovery Variance Exhibit JCS-S2, Line 26 and Exhibit JCS-S3, Line 38	$50,053	$153,605	$203,658
3	Residential Rate 310/311/315 Allocation Exhibit SMK-S1, Page 2, Line 1	61.480%	85.184%	
4	Residential DRR Over/Under Recovery Variance (Line 2 x Line 3)	$30,772	$130,847	$161,619
5	Residential Annual Revenue Requirement without Variance (Line 1 - Line 4)	$2,155,573	$7,168,241	$9,323,814
6	Residential Customer Count Exhibit SMK-S1, Page 1, Column (D), Line 1			285,461
7	Proposed Residential DRR without Variance per Customer per Month (Line 5 / Line 6 / 12)			$2.72
8	Residential Bill Cap per Customer Per Month - 2014 Filing			$4.05
9	Proposed Residential DRR without Variance per Customer per Month (Lesser of Line 7 or Line 8)			$2.72
10	Proposed Residential DRR Variance per Customer per Month (Line 4 / Line 6 / Line 12)			$0.05
11	Proposed Residential DRR with Variance per Customer per Month (Line 9 + Line 10)			$2.77

Deleted: First

Deleted: Original

DISTRIBUTION REPLACEMENT RIDER

APPLICABILITY

The Distribution Replacement Rider (DRR) is applicable to any Customer served under the Rate Schedules identified below.

- Rate 310 - Residential Default Sales Service
- Rate 311 – Residential Standard Choice Offer Service
- Rate 315 - Residential Transportation Service
- Rate 320 - General Default Sales Service
- Rate 321 – General Standard Choice Offer Service
- Rate 325 - General Transportation Service
- Rate 341 - Dual Fuel Standard Choice Offer Service
- Rate 345 - Large General Transportation Service
- Rate 360 - Large Volume Transportation Service

DESCRIPTION

The DRR will be effective until recoverable costs incurred through December 31, 2017, have been recovered or until new rates become effective, which modify the DRR, as a result of the filing by Company of an application for an increase in rates pursuant to Section 4909.18, Revised Code, or a proposal to establish base rates pursuant to an alternative method of regulation under Section 4929.05, Revised Code.

Deleted: for the lesser of five (5) years from the effective date of rates in Case No. 07-1080-GA-AIR

Deleted:

Deleted:

All applicable Customers shall be assessed either (a) a monthly charge in addition to the Monthly Charge or Customer Charge component of their applicable Rate Schedule, or (b) a volumetric charge applicable to each Ccf of metered gas usage each month, that will enable Company to recover (1) the return on and of plant investment, including capitalized interest, or post-in-service carrying cost charges ("PISCC"), along with incremental costs incurred under a multi-year program for the accelerated replacement and retirement of cast iron mains and bare steel mains and service lines, which includes (a) replacement and retirement of ineffectively coated steel infrastructure, (b) replacement and retirement of obsolete pipe and appurtenances and (c) replacement and retirement of vintage plastic pipe when done in conjunction with a cast iron or bare steel replacement/retirement project, (2) the non-reimbursable portion of any project that requires the replacement, retirement or relocation of existing infrastructure as a result of a public works project when a majority of the infrastructure replaced is cast iron or bare steel, (3) the incremental costs attributable to assuming ownership of all service lines installed or replaced by Company, and (4) the incremental cost of assuming maintenance responsibility for all service lines, less (5) the annual savings of certain Operations and Maintenance ("O&M") expenses based on cumulative mileage of cast iron and bare steel mains retired.

Deleted: deferred expenses incurred during Company's investigation of the installation, use, and performance of natural gas service risers, (3) all costs of replacement of prone-to-fail risers, (4)

Deleted: (5)

Deleted: (6)

Deleted: actual

Deleted: from the baseline O&M of $1,192,953

The DRR will be updated annually, in order to reflect the impact on Company's revenue requirement of net plant additions and other applicable, incremental costs, as offset by O&M expense reductions attributable to the replacement program. Actual costs and actual recoveries are reconciled annually, with any under or over recovery being recovered or returned over the next twelve month period.

Deleted: maintenance

Deleted:

Deleted: November 4, 2009

Deleted: 07-1285-GA-EXM

Deleted: March 17, 2010

Deleted: 09-1984-GA-ATA

Deleted: March 29, 2010

Deleted: Jerrold L. Ulrey

Deleted: April 1, 2010

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$x.xx	
320, 321 and 325 (Group 1)	$x.xx	
320, 321 and 325 (Group 2 and 3)		$x.xxxxx
341	$x.xx	
345		$x.xxxxx
360		$x.xxxxx

Deleted: Sixth
Deleted: Fifth
Formatted: Font:16 pt, Bold, Underline
Deleted: The monthly DRR charge applicable to Rate 310, 311, 315, 320 (Group 1), 321 (Group 1) and 325 (Group 1) customers shall be capped at $1.00 per month in the initial annual DRR filing to be made in May 2010. Annual increases to the cap shall be limited to $1.00 per month ... [1]
Deleted: $2.01
Deleted: $2.01
Deleted: $0.01521
Deleted: $10.27
Deleted: $0.00342
Deleted: $0.00224

Deleted: October 3, 2012
Deleted: October 3, 2012
Deleted: October 3, 2012

DISTRIBUTION REPLACEMENT RIDER

APPLICABILITY

The Distribution Replacement Rider (DRR) is applicable to any Customer served under the Rate Schedules identified below.

- Rate 310 - Residential Default Sales Service
- Rate 311 – Residential Standard Choice Offer Service
- Rate 315 - Residential Transportation Service
- Rate 320 - General Default Sales Service
- Rate 321 – General Standard Choice Offer Service
- Rate 325 - General Transportation Service
- Rate 341 - Dual Fuel Standard Choice Offer Service
- Rate 345 - Large General Transportation Service
- Rate 360 - Large Volume Transportation Service

DESCRIPTION

The DRR will be effective until recoverable costs incurred through December 31, 2017, have been recovered or until new rates become effective, which modify the DRR, as a result of the filing by Company of an application for an increase in rates pursuant to Section 4909.18, Revised Code, or a proposal to establish base rates pursuant to an alternative method of regulation under Section 4929.05, Revised Code.

All applicable Customers shall be assessed either (a) a monthly charge in addition to the Monthly Charge or Customer Charge component of their applicable Rate Schedule, or (b) a volumetric charge applicable to each Ccf of metered gas usage each month, that will enable Company to recover (1) the return on and of plant investment, including capitalized interest, or post-in-service carrying cost charges ("PISCC"), along with incremental costs incurred under a multi-year program for the accelerated replacement and retirement of cast iron mains and bare steel mains and service lines, which includes (a) replacement and retirement of ineffectively coated steel infrastructure, (b) replacement and retirement of obsolete pipe and appurtenances and (c) replacement and retirement of vintage plastic pipe when done in conjunction with a cast iron or bare steel replacement/retirement project, (2) the non-reimbursable portion of any project that requires the replacement, retirement or relocation of existing infrastructure as a result of a public works project when a majority of the infrastructure replaced is cast iron or bare steel, (3) the incremental costs attributable to assuming ownership of all service lines installed or replaced by Company, and (4) the incremental cost of assuming maintenance responsibility for all service lines, less (5) the annual savings of certain Operations and Maintenance ("O&M") expenses based on cumulative mileage of cast iron and bare steel mains retired.

The DRR will be updated annually, in order to reflect the impact on Company's revenue requirement of net plant additions and other applicable, incremental costs, as offset by O&M expense reductions attributable to the replacement program. Actual costs and actual recoveries are reconciled annually, with any under or over recovery being recovered or returned over the next twelve month period.

DISTRIBUTION REPLACEMENT RIDER

DISTRIBUTION REPLACEMENT RIDER CHARGE

The charges for the respective Rate Schedules are:

Rate Schedule	$ Per Month	$ Per Ccf
310, 311 and 315	$x.xx	
320, 321 and 325 (Group 1)	$x.xx	
320, 321 and 325 (Group 2 and 3)		$x.xxxxx
341	$x.xx	
345		$x.xxxxx
360		$x.xxxxx

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Scott E. Albertson was served by electronic mail to the following persons on this 22nd day of August, 2013:

Maureen Grady
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215
grady@occ.state.oh.us

Vern Margard
Assistant Attorney General
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215
Werner.Margard@puc.state.oh.us

Colleen Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
PO Box 1793
Findlay, OH 45839-1793
cmooney2@columbus.rr.com

Trent Dougherty, Attorney
Ohio Environmental Council
1207 Grandview Ave.
Columbus, OH 43212-3449
trent@theoec.org

Mark Yurick
Taft Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, OH 43215-4213
myurick@taftlaw.com

W. Jonathan Airey
Gregory D. Russell
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street, PO Box 1008
Columbus, OH 43216-1008
wjairey@vorys.com
gdrussell@vorys.com

John M. Dosker
Stand Energy Corporation
1077 Celestial Street
Suite 110
Cincinnati, OH 45202-1629
JDosker@stand-energy.com

/s/ Andrew J. Campbell
One of the Attorneys of Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Form of Regulation	)))	Case No. 13-1571-GA-ALT

DIRECT TESTIMONY OF JAMES M. FRANCIS
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

TABLE OF CONTENTS

Direct Testimony of
James M. Francis

I. INTRODUCTION

Q1. Please state your name, business address.

A. My name is James M. Francis and my address is One Vectren Square, Evansville, Indiana.

Q2. What position do you hold with Applicant Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company")?

A. I am Director of Engineering & Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of VEDO. I hold the same position with the three utility subsidiaries of VUHI: VEDO, Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North"), and Southern Indiana Gas and Electric Company d/b/a/ Vectren Energy Delivery of Indiana, Inc. ("Vectren South").

Q3. What are your duties in your present position?

A. I have responsibility for engineering and technical support for VEDO utility operations. My specific responsibilities include System Design and Planning, Corrosion Control, Project Engineering, Compliance, Standards, Asset Management, Pipeline Integrity Management, and Capital Planning and Management. Additionally, I am responsible for identifying and implementing many of VEDO's asset management programs.

Q4. Please describe your work experience.

A. I have been employed by VEDO since April 8, 2004, as the Director of Technical Services. My title has subsequently been changed to Director of Engineering & Asset Management. Prior to my current position, I have been employed with VEDO since the purchase of the gas assets of the Dayton Power & Light Company by Vectren

Corporation in 2000. Immediately prior to my current position, I was the Regional Manager of the Troy Operating Region with responsibility for field operations. I also held other positions at VEDO, including Planning Manager and Measurement Supervisor. Prior to my employment with VEDO, in 1991, I became an employee of Dayton Power & Light serving as a Project Engineer, System Planner, and Measurement Supervisor.

Q5. What is your educational background?

A. I received a Bachelor of Science in mechanical engineering from the University of Dayton in 1993. I received a Masters in Business Administration from The Ohio State University in 2000.

Q6. Are you involved in any gas industry association activities?

A. Yes. I am active in the American Gas Association's ("AGA") Operating Section. I am currently a member of the AGA's Distribution and Transmission Engineering Committee.

Q7. Have you previously testified before this Commission?

A. Yes. I testified in VEDO's most recent general rate case, Case No. 07-1080-GA-AIR ("Rate Case") in support of the need for recovery of certain costs under the Distribution Replacement Rider ("DRR") proposed in that proceeding. I also testified in VEDO's annual DRR filings in Case Nos. 10-0595-GA-RDR, 11-2776-GA-RDR, 12-1423-GA-RDR, and VEDO's pending 2013 DRR proceeding, Case No. 13-1121-GA-RDR.

Q8. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide details on the progress of VEDO's existing accelerated bare steel and cast iron ("BS/CI") replacement program ("Replacement Program"). I will then explain the basis for the proposed extension and expansion of the Replacement Program to include replacement of additional types of aging infrastructure in order to further improve reliability and address the continued national focus on pipeline safety. I will also discuss how VEDO will manage the Replacement Program. Finally, I will describe additional federal pipeline safety regulations anticipated later this year that further support these efforts and will likely drive increasing infrastructure upgrades over time.

Q9. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

- JMF-1 – Distribution Pipeline Replacement Program Progress;
- JMF-2 – Inside Meter Move Out Counts;
- JMF-3 – 2012 Leak Rate Comparison;
- JMF-4 – Service Line Diagram;
- JMF-5 – Breakdown of 2012 Service Replacements;
- JMF-6 – Service Replacement Budget;
- JMF-7 – Ineffectively Coated Steel Replacement Budget;
- JMF-8 – Public Improvement with BS/CI Forecast;
- JMF-9 – Total DRR Forecast through 2017; and
- JMF-10 –DRR Annualized Cost Savings Estimate.

Q10. How is your testimony organized?

A. My testimony is organized in four sections:

- Bare Steel and Cast Iron Replacement Program Progress;
- Replacement Program Extension;
- Replacement Program Scope Expansion; and
- Federal Pipeline Safety Activity.

II. BARE STEEL AND CAST IRON REPLACEMENT PROGRAM PROGRESS

Q11. Please provide a historical overview of the use of BS/CI mains in the natural gas utility industry within the United States.

A. When natural gas distribution systems originated in the 1800s, most pipelines were constructed of cast iron. In the 1920s, local distribution companies ("LDCs") transitioned to using bare steel pipelines, primarily because welding was a superior joining method, although other methods of joining (such as coupling and screw fittings) remained in use. During the Great Depression and World War II, cast iron distribution mains reentered use as steel supplies became scarce and as steel transmission pipelines began stretching across the continent. Installation of new cast iron mains generally ceased after the 1940s as steel pipelines again became the material of choice. Steel's prevalence lasted until the 1970s with the introduction of plastic pipelines. Although the transition from bare steel to coated steel pipelines began to occur in the 1950s, bare steel was allowed for use until 1971. That year, the U.S. Department of Transportation ("DOT") introduced the original minimum safety standards, codified at Title 49 Code of Federal Regulations Part 192, stipulating the materials approved for use in natural gas transmission and distribution systems. These regulations eliminated BS/CI mains and fittings from the approved materials list for construction of new distribution systems.

Q12. Please describe how the use of different pipe materials evolved in the VEDO system.

A. VEDO's predecessor companies used a variety of pipe materials in their distribution systems. Throughout the territory, cast iron mains were used to distribute gas to the first customers around the turn of the century. Cast iron remained the distribution pipe of choice into the 1920s and continued to be installed through the 1940s. In the late 1910s, bare steel mains were introduced, with a significant increase in usage in the 1920s and again from the 1940s through the early 1950s, when installation techniques transitioned to field-applied coating on steel mains. Coatings and coating processes improved over the years, and VEDO's systems integrated the improved technologies as available.

Q13. Please provide a brief update on the status of VEDO's Replacement Program.

A. As of the end of 2012, VEDO had approximately 443 miles of bare steel main and 147 miles of cast iron main remaining in its system.

Q14. How many years did VEDO originally propose for completing the replacement of BS/CI mains and service lines?

A. VEDO proposed "to complete the accelerated replacement of all remaining [BS/CI] infrastructure over a 20-year period." (See Case No. 07-1081-GA-ALT, Appl. Alt. Rate Exhibit A at 3.)

Q15. How many miles of replacement per year would VEDO have needed to average to complete the program in 20 years?

A. VEDO reported 708 miles of BS/CI infrastructure in its original application. (*Id*. at 3.) If that figure is divided by 20, it results in an average of approximately 35 miles replaced per year.

Q16. How many miles of BS/CI infrastructure has VEDO actually retired, including expected retirements through the end of 2013, under its Replacement Program?

A. From 2009 through the end of 2012, VEDO retired 88 miles of bare steel and 24.5 miles of cast iron mains and is in the process of retiring approximately 42 miles in 2013, which brings total retirements through 2013 to 154.4 miles of main. Applicant's Exhibit JMF–1 shows in detail how VEDO's BS/CI mains inventory has changed since 2008.

Q17. How many miles of BS/CI infrastructure does VEDO expect it will have retired on average, over the first five years of the Replacement Program?

A. Expected retirements of 154.5 miles results in an average of approximately 31 miles of BS/CI main retired per year.

Q18. Does this mean that VEDO's Replacement Program is behind schedule?

A. Not necessarily. VEDO proposed a 20-year replacement schedule; it did not necessarily propose replacing or retiring exactly 35 miles per year for 20 years. Although VEDO provided an estimate of average, per-year costs in its initial filing, it expressly noted that the level of investment "may vary from year to year depending on the size of individual projects undertaken in each year and changes in the availability and cost of labor, equipment and materials." (*Id*. at 7.)

It is not uncommon for a large program to take some time to ramp up, and that certainly occurred in the first year of the Replacement Program. Due to the timing of the initial program and the challenges of starting such a large undertaking, VEDO was only able to complete construction during a portion of the first year. The mileage figures show that this rate has been increasing, as VEDO exceeded 35 miles in 2011 and 2012 and expects to do so again in 2013.

Moreover, as VEDO noted in its filings in its various DRR update cases, the early years of the program also coincided with a major economic downtown, and this directly and significantly impacted VEDO's capital investments at that time.

Nevertheless, having said all this, VEDO agrees that it is necessary for the pace of replacement to continue to increase to enable it to hit the accelerated Replacement Program completion date as proposed herein.

Q19. Did the Replacement Program include certain plastic pipe replacement costs?

A. Yes. Paragraph 10(a) of the Stipulation and Recommendation to the Rate Case ("Stipulation") requires that the annual Replacement Program construction plans be provided to the Rate Case parties on February 1 of each year and shall include, among other things, the "investment in infrastructure replacement under the program (including service line replacement costs and the other cost components included in the Company's application)." The Rate Case Application, Alt. Reg. Exhibit A, Page 4, discusses in detail the replacement of plastic pipe as a part of the Replacement Program. Additionally, Paragraph 10(c) of the Stipulation requires that the annual application to establish the DRR rate "include[s] the information described in Paragraph 10(a) above for the costs incurred during the previous calendar year," which, as already indicated, includes the cost components, including plastic pipe replacement, that were included in the Rate Case Application. Finally, Scott E. Albertson's Rate Case direct testimony, page 5, confirms that the replacement of plastic pipe was included within the Replacement Program from its inception. Consistent with this, VEDO has recovered costs associated with the efficient replacement of plastic pipe in each of its annual DRR filings.

VEDO has retired a total of 3.85 miles of plastic main within the replacement projects completed through the end of 2012. There are a number of reasons why plastic main segments have been retired as part of the Replacement Program, which were discussed in my testimony in the Rate Case and in previous DRR filings. Some short segments of plastic main are interspersed in the BS/CI systems, and it would have been more costly to salvage such main rather than replace it. Also, sections of plastic main at the ends of some distribution systems being retired no longer served any customers; therefore, there was no reason to continue to maintain those segments.

Q20. Does VEDO intend to continue to recover these kinds of plastic pipe replacement costs in the next five years of the Replacement Program?

A. Yes, it continues to make economic sense to do so.

Q21. Has VEDO moved any meters outside as part of the Replacement Program?

A. Yes. VEDO has moved 9,658 meters outside since the Replacement Program began in 2009. Newly installed mains operate at a higher pressure and require the installation of a service regulator. It is more expensive to install a service regulator, however, than to move the meters outside. Moreover, moving the meters outside is expected to improve operational efficiency associated with future meter order work and will eliminate the need for inside-atmospheric-corrosion inspections on those facilities. Exhibit JMF-2 provides annual meter move-out totals since inception of the Replacement Program.

Q22. Does VEDO intend to continue to move meters outside as part of the Replacement Program?

A. Yes.

Q23. Does VEDO believe that the Replacement Program is achieving or will achieve the benefits originally anticipated?

A. Yes. VEDO expects to continue to experience improved service reliability and safety through the reduction of leakage and the replacement or retirement of the mains and service lines that contribute most to system leaks. VEDO has historically repaired approximately one leak per mile per year on the mains retired. Additionally, as quantified below, there are active leaks and meter orders that will be eliminated as a result of replacing the targeted infrastructure. Proactive replacement of this pipe, moving meters outside, and retiring older assets will continue to drive workforce efficiencies. The Company has been able to achieve improved capital utilization by retiring more existing main infrastructure than it was necessary to replace. Customers and property owners will experience reductions in the number and frequency of disturbances and inconveniences (such as leak repairs and service interruptions) as the older sections of main are retired. Finally, VEDO expects long-term benefits to the communities it serves by reducing future construction activity from leak repair and maintenance work in public road rights-of-way. This impact has been evident by the working relationships that have been established to ensure the best outcome for the communities and VEDO.

Q24. What operational benefits has VEDO achieved as a result of the Replacement Program thus far?

A. VEDO has achieved a number of operational benefits as a result of the Replacement Program. The replacement of targeted assets has reduced the number of active leaks in VEDO's system; is expected to reduce the occurrence of future leaks and leak repair work; and will reduce interruptions, inconveniences, and disturbances to customers going forward. Specifically, replacement projects have allowed VEDO to eliminate 435 active leaks, as well as an estimated 105 new leaks annually that would have reasonably been expected to occur had the targeted mains and service lines not been retired. This estimate is based on an average rate of leaks repaired per mile of main during the five-year period prior to the Replacement Program commencing.

Based on the number of Outside Gas Leak, Gas Emergency, Water in Line, and No Gas meter orders VEDO receives annually, the Company estimates that the Replacement Program process to date has reduced those types of orders by approximately 500 per year. This estimate was based on the actual number of meter orders, of the above mentioned types, experienced on the mains retired since the inception of the Replacement Program. These meter orders are those that are associated with the BS/CI infrastructure.

As stated above, VEDO has moved 9,658 inside meters outside. This eliminates the requirement for a separate atmospheric-corrosion check, reduces inconveniences to the customer, and improves employee safety and operational efficiencies. Certain system components that had been used to address issues associated with assets in poor condition have been eliminated, such as the 345 "drips" (which are connections to the pipeline that can be connected to a pump) formerly used to remove water from low-pressure mains.

Finally, VEDO has been able to eliminate various inspection and maintenance activities through the retirement of these targeted facilities, including 30 regulator stations, 5 casings, 20 valves, and 573 corrosion test stations. Ultimately, these types of improvements provide reliability and safety benefits to VEDO's customers and property owners who live near the replacement projects.

Q25. How are VEDO's customers benefiting from the transfer of service line responsibility to VEDO?

A. VEDO continues to view the transfer of service line responsibility to the Company as a positive for both the Company and its customers. In general, VEDO's assumption of service line responsibility has been a benefit to its customers. Customers are no longer required to schedule the services of a plumber to repair or replace their service line, minimizing inconvenience and out-of-pocket costs. VEDO's response times to investigate and repair leaks also reduce the amount of time customers are out of service. Also, confusion over customer responsibility for the service line has been essentially eliminated because there is now a clear delineation of responsibility between the customer and VEDO. Because these costs are incremental to VEDO, it is appropriate that they continue to be tracked in the DRR going forward.

III. REPLACEMENT PROGRAM EXTENSION

Q26. Why is VEDO requesting an extension and further acceleration of its Replacement Program?

A. Currently, 443 miles of bare steel and 147 miles of cast iron mains remain active in VEDO's distribution pipeline system. VEDO must still investigate and remediate leaks on these assets. The continuation of VEDO's Replacement Program is essential and necessary to maintain the safe and reliable delivery of natural gas throughout the service territory. VEDO's initial intent remains unchanged, which is to accelerate the replacement of BS/CI pipelines and to provide safe and reliable service to customers.

Moreover, since approval of the Replacement Program, federal pipeline safety regulations have continued to evolve. In 2009, pursuant to the Pipeline Inspection, Protection Enforcement and Safety Act of 2006, the DOT's Pipeline and Hazardous Materials and Safety Administration ("PHMSA") issued its Distribution Integrity Management Rules ("DIMP Rules"). The DIMP Rules require each LDC to implement a risk modeling program that (*1*) evaluates data related to the nature of its facilities and the potential risks thereto and (*2*) ranks and prioritizes those risks and the mitigating actions that can be undertaken to address them. Through its Distribution Integrity Management Program ("DIMP"), VEDO has identified that the Replacement Program is the most appropriate risk mitigation activity to address and remediate the most significant threats associated with the BS/CI assets. The Replacement Program allows VEDO to continue to implement its systematic replacement strategy of targeting and replacing the riskiest BS/CI pipe. While the Replacement Program has improved pipeline safety and system reliability and has achieved many of the benefits originally contemplated, the remaining BS/CI assets continue to manifest leakage and repair rates consistent with the assets retired thus far and significantly greater than rates associated with protected steel and plastic pipelines. In 2012, on average, BS/CI mains required seven times more leaks to be repaired per mile than plastic mains. Exhibit JMF-3 provides a breakdown of the 2012 leak rates by material type.

VEDO is certainly not the only utility pursuing this type of replacement of BS/CI assets in an accelerated manner, as many other utilities throughout the country are doing the same. Incidents throughout the country in 2010 and 2011, particularly those in Philadelphia and Allentown, Pennsylvania, have highlighted on a national level the need to retire these assets in an accelerated manner. As DIMP processes mature and more data is captured about the performance of specific assets, I expect that other accelerated replacement programs will become even more common as mitigating measures to reduce risk.

Q27. Will the Company continue to implement the Replacement Program under its current strategy?

A. Yes, although as discussed further below, the Company believes that further acceleration of the program makes sense. While the program targets the poorest performing assets or those identified as being the highest risk, VEDO will continue to structure its plans to optimize capital spend and minimize inconvenience to its customers and communities served. The program continues to contemplate that with the replacement of the mains, the associated service lines (from the main through the meter setting) will be replaced as needed; meters inside customer premises will continue to be moved out as originally contemplated; and sections of plastic may be retired along with the BS/CI mains. The Company will continue to competitively bid construction projects and evaluate each bid package based on overall cost and the contractors' resources and performance history.

Q28. Will customers continue to receive the benefits originally contemplated with the extension of this Replacement Program?

A. Yes, customers will continue to receive benefits from the Replacement Program. I will discuss projected direct financial benefits which will offset future DRR charges later in my testimony.

IV. REPLACEMENT PROGRAM EXPANSION

Q29. Is VEDO proposing to expand the scope of Replacement Program cost recoverable in the DRR?

A. Yes. Similar to the more recently approved replacement programs being conducted by Dominion East Ohio ("DEO") and Columbia Gas of Ohio ("Columbia"), VEDO proposes to expand the scope of the Replacement Program costs to be included in the DRR as follows:

1. further accelerate the replacement/retirement of the BS/CI assets to enable completion of that program by the end of 2023, five years ahead of the original target of 2028;
2. include the replacement and retirement of ineffectively coated steel infrastructure;
3. include the replacement and retirement of obsolete pipe and appurtenances and vintage plastic pipe performed in conjunction with BS/CI replacement/retirement projects; and
4. include the non-reimbursable portion of any projects that require the replacement, retirement, or relocation of existing infrastructure as a result of a public works project (such as a federal, state, or local road, storm, or sanitary projects), when a majority of the infrastructure replaced is BS/CI.

In addition, while the DRR already includes incremental costs related to service line replacements, VEDO seeks to clarify the recoverable amount of such costs going forward.

Q30. Describe VEDO's plans to further accelerate the pace of replacement of BS/CI assets.

A. VEDO intends to increase the pace of replacement to enable completion of the Replacement Program by the end of 2023. VEDO's original application contemplated completion by 2028.

Q31. Why is VEDO proposing to further accelerate the pace of replacement?

A. As discussed previously, the DIMP Rules require each LDC to implement measures that mitigate risks associated with their system. Additionally, the DIMP rules require LDCs to measure the effectiveness of their mitigating activities. Through its DIMP, VEDO has identified that the Replacement Program is the most appropriate risk mitigation activity to address and remediate the most significant threats associated with the BS/CI assets. The Replacement Program allows VEDO to continue to implement its systematic replacement strategy of targeting and replacing the riskiest BS/CI pipe. As discussed previously, while the Replacement Program has improved pipeline safety and system reliability and has achieved many of the benefits originally contemplated, the remaining BS/CI assets continue to manifest leakage and repair rates consistent with the assets retired thus far and significantly greater than rates associated with protected steel and plastic pipelines. VEDO has experienced the benefits from the Replacement Program thus far (as was described and quantified earlier), has been provided feedback from its workforce regarding the operational and safety benefits, and has seen the potential for even greater pipeline safety and system integrity benefits from further acceleration (as experienced in other areas of Vectren's operating territory).

The focus on such replacement programs nationally has increased over the last few years, as evidenced by Congress's requirement that PHMSA study the pace of replacement of cast iron infrastructure. Additionally, at a more local level, other LDCs within the State of Ohio have also recognized the need to further accelerate the pace of replacement of BS/CI assets. These types of accelerated replacement programs are precisely the kinds of outcomes that the DIMP process is intended to achieve. Thus, VEDO believes that further acceleration is the best measure to improve system integrity, pipeline safety, and reliability.

Q32. What steps will VEDO take to ensure it completes the Replacement Program at a more accelerated pace?

A. The Company is currently in the process of hiring additional engineering, construction, and administrative staff to manage the increased Replacement Program workload. It is also increasing its budgets to reflect the increased investment needed to accelerate the Replacement Program. It also has added engineering contract resources and intends to add construction contract resources as needed to execute the increased workload.

Q33. How much does VEDO estimate it will annually invest in the replacement and retirement of BS/CI infrastructure as part of the Replacement Program?

A. VEDO estimates that it will invest approximately $28 million annually to replace and retire its entire remaining BS/CI infrastructure as part of the Replacement Program.

Q34. To what does the term "Ineffectively Coated Steel Pipe" refer?

A. This term refers to steel pipe that received inadequate field-applied coatings and is now degrading due to corrosion, sometimes to the point of a leak. VEDO annually monitors the performance of its steel pipelines through its cathodic protection system and uses the measurements acquired through this monitoring to evaluate the condition of its steel pipelines. Along with leak history, this information provides a key performance indicator that the coating may have deteriorated.

The coating types and application methods used before 1971 were less likely to produce consistent results, creating variability in the application and thickness of these coatings. These coating types and application methods failed to maintain the required current to adequately protect the line from corrosion.

Q35. How much of this pipe exists within VEDO's system?

A. The precise amount is unclear. VEDO's system includes approximately 1,900 miles of coated-steel distribution main that was installed prior to 1971. VEDO is evaluating the performance of these pipelines, and it has identified segments that are exhibiting characteristics of being ineffectively coated, including leakage history, and that require regular additions of anodes to maintain proper cathodic protection. While these issues do not appear to impact the entire coated-steel system, some segments do appear to be ineffectively coated, particularly (but not exclusively) older vintage lines. In these situations, VEDO will support replacement decisions with appropriate analysis.

Q36. How does VEDO propose to address ineffectively coated steel pipe in its Replacement Program

A. VEDO proposes to replace sections of ineffectively coated steel pipe and to include those costs in the Replacement Program. VEDO also proposes to include in the DRR the costs associated with any analysis that identifies such projects. VEDO will also track its findings with respect to these segments so that such information can be reviewed as part of the annual DRR filing process. Exhibit JMF-7 provides an estimated annual investment in the replacement of ineffectively-coated steel pipe.

Q37. How will VEDO support its replacement decisions?

A. Various data (such as cathodic protection read history, anode installation history, leak history, and pipe examinations) provide adequate guidance to support repair and replacement decisions. Additional studies, such as close-interval or direct-current-voltage-gradient surveys, may also be used to confirm whether a coating is effective.

Q38. To what does the term "Obsolete Pipe and Appurtenances" refer?

A. Obsolete Pipe refers to older, non-standard pipe in VEDO's distribution system. Obsolete Appurtenances refer to those pipeline system components for which replacement parts and related materials are no longer available.

Historically, during wartime, steel production was allocated to meet the needs of the military, which among other things resulted in inconsistent quality specifications for steel pipe installed during these eras. For example, pipe installed for gas mains was often pipe that had been manufactured for other purposes. Sizes were non-standard; material grades were non-standard; and the manufacturing process was non-standard. Today, repair materials for such pipe are unavailable. Leak or damage repair materials must be fabricated to fit the non-standard size, resulting in a high cost to repair, inefficient and extended repair times, and increased risk of reoccurrence of leaks or leakage migration due to the longer lead time of making the repair. The most common obsolete appurtenances are associated with regulators and regulator station components.

Q39. What does VEDO propose regarding the replacement of obsolete pipe and appurtenances in the Replacement Program?

A. VEDO proposes that the costs of replacing obsolete pipe and appurtenances be included in the DRR when these assets are encountered during the replacement of BS/CI or ineffectively coated steel pipe.

Q40. How much does VEDO estimate it will annually invest in the replacement of obsolete pipe and appurtenances as part of the Replacement Program?

A. VEDO estimates that it will invest approximately $250,000 annually to replace obsolete pipe and appurtenances as part of projects included in the Replacement Program.

Q41. To what does the term "Vintage Plastic" refer?

A. Vintage Plastic includes several different kinds of manufactured plastic pipe—the most common of which is called Aldyl-A, a DuPont brand name—and was one of the first plastic materials to be widely used in the natural gas distribution industry as an alternative for steel piping. Vintage plastic pipe has been in use by VEDO and predecessor companies since the late 1960s. VEDO has approximately 384 miles of vintage plastic pipeline currently active in its system. The use of plastic pipe has been accepted as a generally safe and economical alternative to steel pipe. However, a special investigation report completed by the National Transportation Safety Board on April 23, 1998, concluded that between the 1960s through the early 1980s the procedure used in the United States by manufacturers may have overrated the strength of vintage plastic pipe and its resistance to brittle-like cracking. The investigation further clarified that such plastic pipe was susceptible to premature brittle-like failures when subjected to stress intensification and thus represented a potential safety hazard.

The early vintage plastics are prone to cracking and are impacted by the effects of stray currents from electrical lines and lightning that can result in leakage. These pipelines are known to become hardened and brittle the longer they remain in service. This results in more serious damage to the pipe if struck by equipment, which is particularly concerning in situations where a plastic pipeline is being squeezed-off with mechanical equipment during emergency shutdown procedures. The brittleness also increases costs, because pipe must be replaced in many occasions when repairs are not possible.

Q42. How does VEDO propose to address these assets in its Replacement Program?

A. VEDO will continue to perform all routine monitoring and inspecting activities to ensure that the vintage plastic pipe within our system continues to operate safely. However, given the industry's general safety concerns, VEDO proposes to replace vintage plastic pipe when it is encountered in association with a Replacement Program project. This will help mitigate issues associated with standard squeeze-off operations performed to control or stop gas flow when connecting the existing vintage plastic pipe to newly installed plastic pipe. This is the most effective approach to mitigate the potential premature failures and any resulting hazards. VEDO proposes to include the costs associated with this replacement activity in the DRR. VEDO will track its findings with respect to vintage plastic pipe that is replaced as part of a Replacement Program project so that such information can be reviewed as part of the annual DRR filing process.

Q43. How much does VEDO estimate it will invest on an annual basis in the replacement of vintage plastic mains as part of the Replacement Program?

A. VEDO estimates that it will invest approximately $250,000 annually in the replacement of vintage plastic mains as part of projects included in the Replacement Program.

Q44. What is a public works project?

A. A public works project is a project that is initiated by a third-party government entity (such as the Ohio Department of Transportation, a county, or a city) and that requires VEDO to relocate existing facilities located within a public right-of-way and within the boundary of the project.

Q45. Does VEDO plan to include costs for public works projects in its Replacement Program?

A. Yes. In situations where some or all of the infrastructure being relocated is BS/CI and results in the retirement of those BS/CI assets and the installation of new assets, VEDO proposes to include those costs in the DRR. Only those costs that are non-reimbursable by the government entity would be included.

Q46. How much does VEDO estimate it will invest on an annual basis in the replacement of BS/CI as a result of public works projects?

A. The replacement on an annual basis will vary from year to year. Recent experience suggests that VEDO could spend approximately $250,000 annually on the retirement of BS/CI assets as part of public works projects. However, this amount will fluctuate depending on the specific projects being pursued by the various cities. Exhibit JMF-8 provides an estimated annual spend for this type of project work.

Q47. Has VEDO been including costs in its DRR for the replacement of service lines included as part of a project within the Replacement Program?

A. Yes. As part of its Replacement Program, VEDO has been including the costs to replace steel service lines and to tie-over existing plastic service lines if they are a part of a project within the scope of the Replacement Program.

Q48. Does VEDO propose to continue to include such costs in the Replacement Program?

A. Yes.

Q49. Does VEDO currently recover the costs of replacing service lines that are *not* a part of a project otherwise included in the Replacement Program?

A. Yes. Currently, for any service lines that are replaced but *not* as part of a project otherwise in the Replacement Program, VEDO includes in the DRR only what is assumed to be the incremental investment required to replace that portion of the service line, namely, from the curb valve through the meter setting. This segment of the service line was the customer's responsibility before VEDO assumed responsibility in 2009.

Q50. How has such incremental investment been calculated to this point?

A. The incremental amount has essentially been derived from the difference between the average cost of a service line replacement before the transfer of responsibility and the present, average cost of replacement. This difference is then multiplied by the number of service lines actually replaced to calculate the amount included in the DRR for recovery.

Q51. Does this methodology adequately identify the incremental investment required since VEDO assumed the responsibility for service line replacements?

A. No. The current process does not reflect VEDO's actual, incremental investment to replace service lines; rather, it significantly understates it. The method excludes a substantial amount of investment and replacement work that should otherwise fall within the scope of the DRR. Moreover, in many cases, replacement work is entirely focused on portions of the service lines that were previously owned by customers (*e.g.*, the replacement of a meter setting). But even though such projects are *entirely* incremental to VEDO's previous service line responsibility, the current method only recovers a small portion of the actual investment work.

Q52. Please elaborate.

A. Most of the service lines that VEDO replaces are steel lines. For example, in 2012, 69 percent of service lines replaced were steel. (*See* Exhibit JMF-5.) Based on my review of VEDO's records, and as confirmed by discussions with the operations personnel who perform service line replacement, the substantial majority of steel service lines require replacement because they are either bare or ineffectively coated and have corroded. This kind of replacement work is the core focus of the Replacement Program and the DRR. Regardless of where the corrosion has occurred—whether upstream or downstream of the curb valve—this work is required for the same reasons, therefore the costs should be included in the DRR.

Q53. You also mentioned that the current method fails to recover the actual incremental investment. Please explain.

A. The current method assumes that only a portion of each replacement job involves work on a portion of the line previously owned by customers. Before assuming responsibility for service lines, VEDO was responsible for the service line up to and including the curb valve, and the customer was responsible for the line from the curb valve through the meter setting. (Exhibit JMF-4 provides a drawing depicting the make-up of a service line.) Thus, any replacement work from the curb valve through the meter setting is *actually* incremental to VEDO's previous responsibility.

This is most clear with respect to the replacement of a meter setting. Such a job solely involves work on a part of the system formerly owned by the customer—thus, the entire job is incremental in comparison to VEDO's pre-2009 responsibility. Yet the current method of calculating incremental investment would recognize only a portion of the work as incremental.

Q54. Please summarize how VEDO proposes to include the replacement of service lines in the Replacement Program and DRR going forward.

A. VEDO proposes to do the following:

- Continue to recover all costs of replacing steel service lines, and tying over existing plastic service lines, when included as a component of a defined BS/CI main replacement project.
- For work not otherwise associated with a defined BS/CI main replacement project:
    - Continue the current method of calculating incremental investment for plastic service line replacements.
    - Recover all costs related to the replacement of steel service lines.
    - Recover all costs related to the replacement of meter settings.

Q55. How much does VEDO plan to spend on the replacement of service lines not associated with BS/CI projects on an annual basis?

A. Exhibit JMF-6 provides a five-year estimate on the investments assumed to be included in the Replacement Program and recovered in the DRR. VEDO estimates that it will spend approximately $6,500,000 annually on the replacement of service lines. VEDO proposes to include these costs within the DRR, which currently captures approximately $1 million annually in the replacement of service lines not specific to a defined BS/CI replacement project.

Q56. What is the total estimated capital investment that VEDO expects to make over the next five years with the Replacement Program?

A. As detailed in Exhibit JMF-9, VEDO estimates a total capital investment of $186,750,000 through 2017.

Q57. Does VEDO expect cost savings associated with the DRR investments?

A. Yes. VEDO estimates that it will achieve approximately $225,000 in annual incremental savings associated with the Replacement Program in 2013, growing to an estimated $1,125,000 of savings in 2017. This equals approximately $4,500 of annual cost savings per mile of BS/CI main retired. VEDO estimated the cost savings based on a review of savings it has achieved through each year since the inception of the Replacement Program. Exhibit JMF-10 provides a detailed breakdown of the costs savings and provides an average annual savings from projects completed in 2011 and 2012. This amount was then adjusted upward based on the estimated, approximate increase in mileage replaced.

Q58. Will VEDO include an offset for O&M savings in future DRR filings under this proposal?

A. Yes. First, VEDO will carry forward as an ongoing annual credit the actual O&M savings in 2012 of $274,919 that were included in its 2013 annual DRR filing (Case No. 13-1121-GA-RDR). Then, beginning with retirements in 2013 and going forward, VEDO will apply a $4,500 credit for each mile of BS/CI main retired, and include those savings as an offset to costs recoverable in the DRR in its annual filings going forward. Savings credits would be cumulative. For example, if VEDO retired 40 miles of BS/CI main in 2013, the credit for that year would be $454,919 (40 times $4,500 ($180,000), plus the 2012 credit of $274,919). If VEDO retired the same amount in 2014, the credit would increase by another $180,000 in the following year (for a total credit of $634,919). VEDO proposes this treatment only for Replacement Program investments through the end of 2017. At this time, it neither proposes nor agrees that any savings offset determined based on investments through 2017 should be carried forward in any filing or recovery pertaining to post-2017 investment.

V. FEDERAL PIPELINE SAFETY ACTIVITY

Q59. Will PHMSA be implementing new regulations that will likely impact VEDO's future investments in pipeline infrastructure?

A. Yes. PHMSA has begun sharing its plans with the industry for upcoming regulations that will impact VEDO's need to invest in the replacement or upgrade of its infrastructure, as well as increase operating and maintenance expenses to execute new or modified programs to comply with pipeline safety regulations. PHMSA, acting on congressional mandates and recommendations from the National Transportation Safety Board, the Office of Inspector General, and the General Accounting Office, has begun preparation on new or modified regulations to address these mandates and recommendations. PHMSA has scheduled a series of workshops that will address some specific areas of pipeline safety. These workshops include Public Awareness, Safety Management Systems, Integrity Verification Process, Integrity Management, and DIMP, and will likely provide PHMSA with an opportunity to share its plans for upcoming regulations and provide operators and the industry to participate in the process.

Q60. Does PHMSA have any draft regulations in process?

A. Yes. PHMSA is in the process of issuing Notices of Proposed Rulemakings ("NPRM") for:

- the expansion of the use of excess flow valves beyond single family residences;
- the safety of gas transmission lines, which will include regulations to address integrity management requirements; and

- other miscellaneous code changes to address a variety of issues.

Additionally, VEDO expects that PHMSA will be issuing a "Mega Rule" near the end of this year to address many of the items that have been mandated or recommended to them by the groups mentioned above.

Q61. How does VEDO believe these new regulations and any existing regulations will impact future investments in pipeline infrastructure?

A. VEDO believes that these new regulations, along with the existing DIMP regulation, will require investment in infrastructure modifications to allow for the execution of additional operations and maintenance requirements and to address specific threats to the pipeline system. Examples include the modification of transmission pipelines to allow for expanded integrity assessments; the replacement of certain distribution assets, such as service lines and older steel pipelines, to address mechanical coupling failures; and incremental surveys on, or replacement of, vintage plastic pipelines.

While specific details are not yet known, PHMSA has been collecting information in a number of areas, including mechanical-fitting failures, plastic-pipe failures, maximum allowable operating pressures, facility damage data, and cast iron inventory and replacement history. All of this data will likely factor into the pending regulations. Given that these potential regulatory changes will have significant impacts on resource requirements and the manner in which VEDO operates its system, the Company is uncertain today of potential impacts and reserves the opportunity to propose a different recovery mechanism for those mandated costs as federal rules continue to evolve.

Q62. Does this conclude your testimony?

A. Yes.

VEDO Replacement Program Progress
Through 2012

		Retirements during DRR				
Material Type	**Initial DRR Mileage**	**2009**	**2010**	**2011**	**2012**	**Remaining**
Bare Steel	531	18.02	13.46	29.4	27.11	443.0
Cast Iron	172	6.45	3.45	5.3	9.3	147.5
Total	703	24.47	16.91	34.7	36.41	590.5

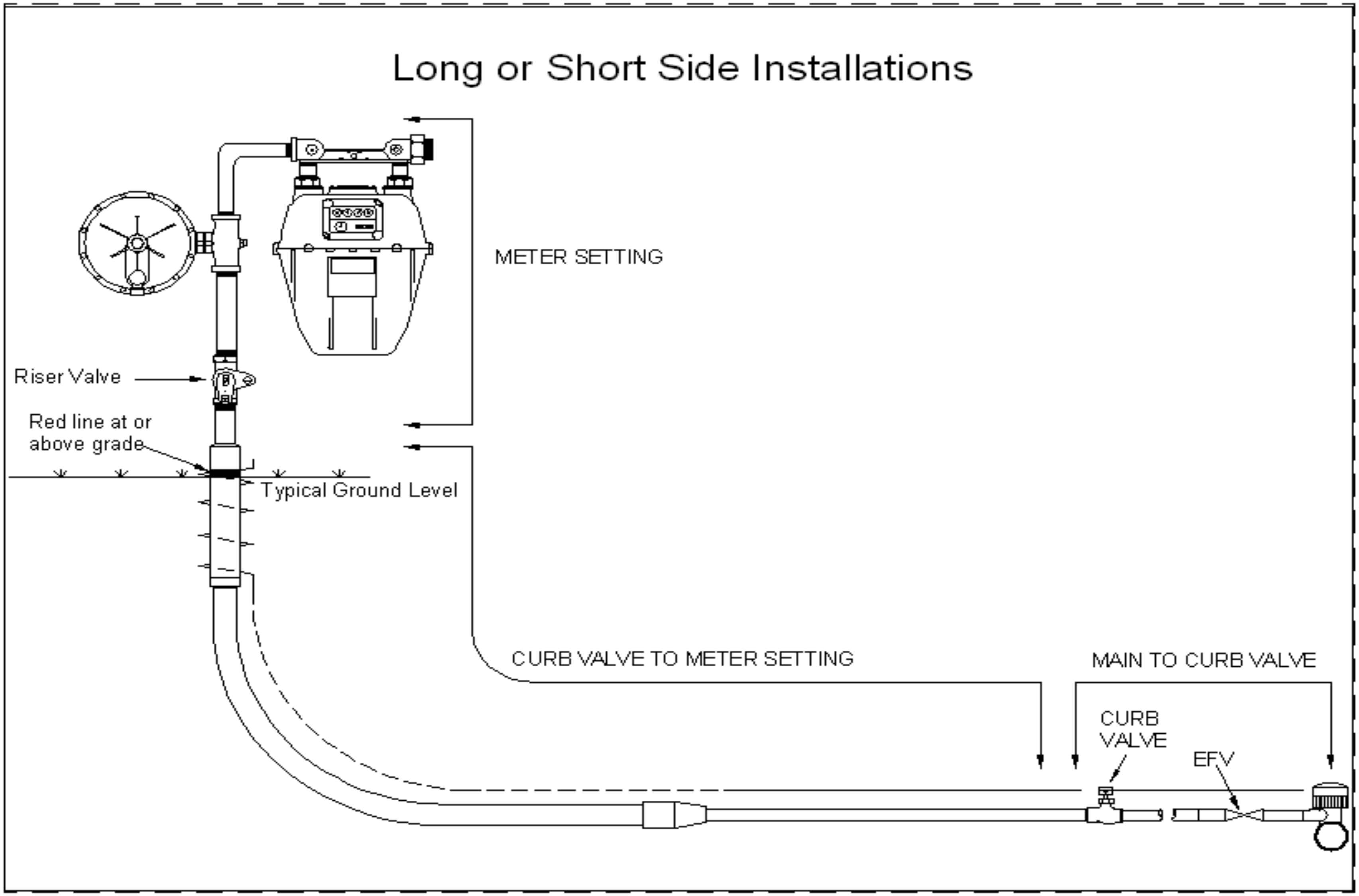
VEDO Meter Move Out Counts

2009	2010	2011	2012	Total
1977	1847	2552	3282	9658

VEDO 2012 Leak Rates by Material Type

Material Type	2012 Leak Rate
Bare Steel	0.49
Cast Iron	0.32
Plastic	0.06
BS & CI Combined	0.45

Service Line Diagram



VEDO Breakdown of 2012 Service Replacements

Material or Component	Count of Replacements	Percent of Total
Steel Service Line	893	69%
Meter Setting	291	23%
Plastic Service Line	109	8%
Total	1293	100%

VEDO Service Replacement Budget

2013	2014	2015	2016	2017	Total 5 Year
$ 6,000,000	$ 6,500,000	$ 6,500,000	$ 6,500,000	$ 6,500,000	$ 32,000,000

VEDO Ineffectively Coated Steel Replacement Budget

2013	2014	2015	2016	2017	Total 5 Year
$ 1,000,000	$ 3,500,000	$ 2,500,000	$ 2,500,000	$ 2,500,000	$ 12,000,000

VEDO Public Improvement with BS/CI Forecast

2013	2014	2015	2016	2017	Total 5 Year
$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,250,000

VEDO Total DRR Forecast through 2017

Category	2013	2014	2015	2016	2017	Total 5 Year
Bare Steel/Cast Iron	$ 27,000,000	$ 28,000,000	$ 28,000,000	$ 28,000,000	$ 28,000,000	$ 139,000,000
Service Replacements	$ 6,000,000	$ 6,500,000	$ 6,500,000	$ 6,500,000	$ 6,500,000	$ 32,000,000
Ineffectively Coated Steel	$ 1,000,000	$ 3,500,000	$ 2,500,000	$ 2,500,000	$ 2,500,000	$ 12,000,000
Obsolete Pipe & Appurtenances	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,250,000
Vintage Plastic	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,250,000
Public Improvements	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,250,000
Total	$ 34,750,000	$ 38,750,000	$ 37,750,000	$ 37,750,000	$ 37,750,000	$ 186,750,000

VEDO DRR Annualized Cost Savings Estimate

Activity	2011 - 2012 Average Annual Savings	Projected Annual Savings
Regulator Station Inspections	$ 4,400	$ 6,600
Casings	$ 20	$ 30
Critical Valve Inspections	$ 450	$ 650
Cathodic Protection Reads	$ 820	$ 1,200
Residential Leak Surveys	$ 850	$ 1,270
Leaks Repaired	$ 97,000	$ 145,500
Leak Rechecks	$ 11,000	$ 16,500
Meter Orders	$ 7,500	$ 11,250
Meter Moveouts & Changes	$ 32,000	$ 40,000
Drips	$ 1,350	$ 2,000
Total	$ 155,390	$ 225,000

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of James M. Francis was served by electronic mail to the following persons on this 22nd day of August, 2013:

Maureen Grady
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215
grady@occ.state.oh.us

Vern Margard
Assistant Attorney General
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215
Werner.Margard@puc.state.oh.us

Colleen Mooney
Ohio Partners for Affordable Energy
231 West Lima Street
PO Box 1793
Findlay, OH 45839-1793
cmooney2@columbus.rr.com

Trent Dougherty, Attorney
Ohio Environmental Council
1207 Grandview Ave.
Columbus, OH 43212-3449
trent@theoec.org

Mark Yurick
Taft Stettinius & Hollister LLP
65 East State Street, Suite 1000
Columbus, OH 43215-4213
myurick@taftlaw.com

W. Jonathan Airey
Gregory D. Russell
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street, PO Box 1008
Columbus, OH 43216-1008
wjairey@vorys.com
gdrussell@vorys.com

John M. Dosker
Stand Energy Corporation
1077 Celestial Street
Suite 110
Cincinnati, OH 45202-1629
JDosker@stand-energy.com

/s/ Andrew J. Campbell
One of the Attorneys of Vectren Energy Delivery of Ohio, Inc.