

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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

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November 13, 2013

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INTRODUCTION AND BACKGROUND

On August 22, 2013, Vectren Energy Delivery of Ohio, Inc. (“VEDO” or “Company”) filed an application in the above captioned case (“Application”) requesting authority to continue and modify the Distribution Replacement Rider program (“DRR” or “Program”) that was authorized by the Public Utilities Commission of Ohio (“Commission”) in Case No. 07-1080-GA-AIR.¹ The purpose of the DRR was to allow VEDO to recover a return of and on investments to replace by the end of 2028 all aging bare steel and cast iron (“BS/CI”) natural gas pipelines in its system with lines made from newer materials, recover the costs of assuming ownership and repair of previously customer-owned service lines, and recover the cost of replacing prone-to-fail risers. The Commission authorized the DRR Program for an initial five-year period, which is scheduled to

¹ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters*, Case No. 07-1080-GA-AIR (Opinion and Order) (Jan. 7, 2009).

end on February 22, 2014.² VEDO indicates that it filed its Application in this case pursuant to R.C. 4929.05, R.C. 4929.051(B), R.C. 4929.11, and R.C. 4909.18, which, among other things, provide for utility alternative rate plans, review of alternative rate plan applications, continuation of rate plans, and automatic rate adjustment mechanisms.

In its Application, VEDO requests authority to continue the DRR through calendar year 2017 and proposes certain modifications to the Program, including: acceleration of pipeline replacement in order to replace all BS/CI lines by the end of 2023; no longer including the costs to replace prone-to-fail risers, as all such risers have been replaced; adding replacement and retirement of ineffectively coated steel infrastructure to the Program scope; adding replacement of obsolete pipe and related appurtenances and vintage plastic pipe when done in conjunction with a BS/CI replacement project to the scope of the Program; and recovery of the non-reimbursable portion of replacement or relocation project costs incurred as a result of a public works project where a majority of the infrastructure replaced is BS/CI.³

On September 13, 2013, the Office of the Ohio Consumers' Counsel ("OCC") filed a motion to intervene in the case. On September 26, 2013, the Attorney Examiner assigned to this case issued an Entry establishing a procedural schedule for Initial Com-

² The Opinion and Order in Case No. 07-1080-GA-AIR (Jan. 7, 2009) authorized the DRR for a five year period from the effective date of rates filed in Case No. 07-1081-GA-ALT, which was February 22, 2009.

³ *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 (*In re VEDO*) (Application at 3-4) (Aug. 22, 2013).

ments (due October 30, 2013) and Reply Comments (due November 13, 2013). On October 30, 2013, the Staff of the Public Utilities Commission of Ohio (“Staff”) and OCC filed Comments. The Staff is submitting these Reply Comments in response to the Comments filed by the OCC pursuant to the Attorney Examiner’s schedule.

STAFF’S REPLY COMMENTS

A. Clarification of the Staff’s use of the term “actual savings” while discussing VEDO’s proposal for determining operation and maintenance savings resulting from the DRR Program.

In Initial Comments, both the Staff and OCC recommend modifying VEDO’s proposed Operation and Maintenance (“O&M”) Savings process to reflect the “actual” savings that VEDO experienced during the first four years of the DRR Program. However, Staff and OCC differ on the actual O&M savings that VEDO achieved. The Staff believes that this difference in the use of the term “actual” in reference to the O&M savings that VEDO achieved in its first four years should be explained. To compute the O&M savings recommendation contained in its Comments, the Staff determined that VEDO achieved an average annual O&M savings amount of \$294,116. Staff arrived at this amount by adding the average of the actual amounts reported by VEDO as the “Annualized Maintenance Adjustment,” or O&M savings, (\$310,253) in the revenue requirement calculations for the mains to the average “Annualized Maintenance Adjustment” (-16,137) reported in the revenue requirement calculations for the service lines . The average “Annualized Maintenance Adjustment” for the service lines is negative because VEDO experienced increases in O&M spending related to service lines during

three of the first four years of the DRR Program. Staff then used this “net” amount of actual O&M savings to recommend modifications to VEDO’s proposed O&M savings methodology as described in Staff’s Initial Comments. OCC, on the other hand, did not net the O&M savings reported for the mains against the savings reported for the service lines. Instead, it utilized only the savings reported for the mains by dividing the cumulative savings reported for the mains during the Program’s first four years by the cumulative miles of replaced BS/CI mains to determine an estimate of the average annual O&M savings per mile achieved. OCC then used this figure to arrive at the recommendations for modifying VEDO’s proposed O&M savings methodology described in its Comments.

B. If the Annual DRR Rate Caps proposed in OCC’s Comments are a more accurate projection of the future rates VEDO expects, then those rate caps should be adopted.

OCC recommends that if the Commission approves VEDO’s proposed extension of the DRR, then it should adopt the annual rate caps for the Residential and Group 1 General Service customers specified in its Comments rather than the rate caps recommended in VEDO’s Application. The OCC’s recommended rate caps range between \$0.02 and \$0.10 less than the annual caps proposed by VEDO.⁴ OCC maintains that the rate caps posited in its Comments were provided by VEDO in response to a discovery request and are VEDO’s own projections of the annual rates necessary to recover each

⁴ *In re VEDO* (Comments by the Office of the Ohio Consumers’ Counsel at 19) (Oct. 30, 2013).

year's estimated revenue requirement during the extended DRR period.⁵ If the rate caps advocated by OCC were provided by VEDO and were derived from VEDO's estimates of the annual revenue requirements needed to fully recover its annual DRR investments (including factoring in the Company's proposed acceleration of the implementation pace of the Program and expansion of its scope), then the Staff agrees with OCC. The most accurate projections of future rate caps should be adopted.

C. OCC's recommendation that the Commission require VEDO to file a base rate case in conjunction with any future request to extend the DRR beyond the five years sought in the current Application has merit.

OCC recommends that, if the Commission authorizes extension of the DRR for an additional five-year period in this case as advocated by VEDO, then any subsequent extension request that the Company makes should be contingent on it filing the extension request in conjunction with a base rate application filed pursuant to R.C. 4909.18 and 4909.19.⁶ The Staff believes that this recommendation has merit. VEDO's Application in this case would extend the DRR for Program investments through 2017 and rate recovery until August 31, 2019.⁷ This means that by the time VEDO finishes recovering the DRR investments authorized in this case it will have been more than ten years since the Commission last approved base distribution rates for VEDO. Similarly, VEDO's Appli-

⁵ *In re VEDO* (Comments by the Office of the Ohio Consumers' Counsel at 19) (Oct. 30, 2013).

⁶ *Id.*

⁷ *In re VEDO* (Application Alternative Rate Plan Exhibits at 9) (Aug. 22, 2013).

cation provides that the rate cap that will be in place for Residential and Group 1 General Service class of customers will be an additional \$9.25 per customer per month charge over and above the customers' monthly base distribution rates.

RECOMMENDATIONS TO THE COMMISSION

The Staff respectfully recommends that the Commission consider the clarifications and recommendations contained herein in addition to the recommendations contained in Staff's Initial Comments.

Respectfully submitted,

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/s/ Ryan P. O'Rourke

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 13th day of November, 2013.

/s/ Ryan P. O'Rourke

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Summary: Reply Comments submitted by Assistant Attorney General Ryan P. O'Rourke on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio