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

REPLY COMMENTS OF VECTREN ENERGY DELIVERY OF OHIO, INC.

In accordance with the Commission's September 26, 2013 Entry, Vectren Energy Delivery of Ohio, Inc. (VEDO) hereby offers its reply to the comments of the Commission's Staff and the Office of the Ohio Consumers' Counsel (OCC). VEDO will respond to Staff's comments first, then OCC's.

I. REPLY TO STAFF

For the most part, VEDO and Staff agree on the appropriate treatment and scope of the Distribution Replacement Rider (DRR). VEDO accepts without reservation Staff's recommendations regarding:

- ineffectively coated pipelines (Staff Comments 13);
- obsolete pipe and appurtenances (*id*. at 13–14);
- vintage plastic pipe (*id*. at 14);
- public works projects involving relocation of VEDO facilities (*id*. at 14); and
- annual increases to the DRR rate cap (*id*. at 21).

With respect to Staff's remaining recommendations, VEDO would propose the following modifications and clarifications.

A. VEDO proposes a modification to Staff's proposed completion targets.

Staff generally supports VEDO's proposal to accelerate the pace of replacement from 15 to 10 years. (Staff Comments 15.) But Staff points out that the actual miles replaced through 5 years were less than what would have been necessary to complete the program in 20 years. (*Id.*)

Based on this difference, to "provide an incentive," Staff recommends that "the cost of replacing any cast-iron or bare steel pipe after the proposed December 31, 2023 program end date should not be recovered through the DRR Rider mechanism." (*Id*. at 16.)

In response, VEDO would highlight first that on the key issue—whether to accelerate the pace of replacement—Staff and the Company agree. And VEDO, although it does not endorse Staff's proposal as written, accepts the general expectation that it should aim to complete the program in the time period proposed. In that spirit, it would propose a revision to Staff's recommendation.

Rather than a firm end-of-2023 expiration date for the DRR, VEDO proposes the following: by the end of 2023, if VEDO has replaced 85-percent of the total system mileage of bare-steel and cast-iron pipe (that is, 598 miles over the life of the program), it should be permitted to request further extension of the program to allow its completion and recovery via the DRR. Such latitude recognizes that certain factors over time are beyond VEDO's absolute control. For example, much of the pipe is within cities—coordinating street repairs, closings, or even interruptions can be difficult and can impact project pace. Weather also can be an issue at times. Some leeway simply accommodates such unpredictability. If VEDO fails to reach this benchmark, post-2023 BS/CI investments would be recovered through mechanisms other than the DRR, as appropriate (such as base rates or VEDO's capital expenditure program). This would provide a reasonable balance between Staff's concern for timely completion and VEDO's concern that it not be unduly penalized if it is making significant progress in installation.

Nevertheless, VEDO would also reserve the right to request in a future proceeding that the Commission revisit and modify this benchmark and deadline. It is nearly impossible to predict either what circumstances beyond VEDO's control will occur over the next decade or how VEDO's ability, financially or logistically, to complete the program may be impacted. The first five years of the program support this point. VEDO filed its original DRR application on November 20, 2007. But by the time the Commission actually approved the program, at the beginning of 2009, an official recession had just been announced and a historic financial crisis was well underway. VEDO could not be expected to predict this turn of events, but (as VEDO noted in its first update filing) this drove up the cost of capital and hindered VEDO's ability to invest. (Case No. 10-595-GA-RDR, Appl. Att. A. (Francis Dir.) at 11 (Apr. 30, 2010).) Indeed, in addition to the natural ramp-up period early in the program, the timing of the financial crisis is the primary reason VEDO's per-year mileage figures were lower than the proposed total-program average per year.

Accordingly, although VEDO would accept the benchmark proposed above, and although it would remain in place in the absence of later Commission action, VEDO would expressly reserve the right to seek to modify this provision in a future proceeding.

B. VEDO essentially agrees with Staff's comments regarding the inclusion of service-line investment in the DRR.

In its application, VEDO proposed substantially modifying the treatment of service-line investment under the DRR, largely moving away from the originally adopted, formulaic approach. Staff disagreed with VEDO's proposal and states that "the formula approach . . . properly recognizes that only a portion of the total service line replacement costs is incremental to what the Company was responsible for prior to the DRR." (Staff Comments 16–17.) Staff goes on, however, and states that "[i]f the Company can now identify and assign replacement costs to each service line segment and thus accurately identify the incremental service line replacement costs, then the Staff would support including the incremental cost in the DRR." (*Id.* at 17.)

VEDO accepts Staff's comments. Although VEDO continues to believe that the formula-based approach substantially understates VEDO's actual incremental costs, it acknowledges the reasonableness of Staff's concerns regarding the proper identification of those costs. That being the case, VEDO proposes that the Commission approve the following treatment of service-line investment: VEDO may recover its actual, incremental service line replacement costs to the extent it is able to accurately identify those costs. In advance of the next update filing, VEDO is willing to work with Staff to ensure that the incremental investment has been appropriately identified and can be adequately reviewed by the Commission. And if, for whatever reason, VEDO is unable to identify or demonstrate its incremental service line replacement costs, the previous, formula-based treatment of service line investment would continue.

C. VEDO disagrees with Staff's recommendation to limit the recovery of deferred above-cap costs to the succeeding year.

Staff supports VEDO's proposal to defer any above-cap costs for later recovery. (Staff Comments 20.) Staff recommends, however, that recovery of these costs be limited to the year immediately following that in which the costs were incurred. (*Id.*) VEDO appreciates Staff's agreement that above-cap costs may be deferred. But given Staff's other recommendations, VEDO believes that any above-cap deferrals should be permitted for recovery in any subsequent year of the DRR program.

Staff recommends elsewhere that the DRR should not be extended beyond the end of 2023. This recommendation, in conjunction with the limitation of recovery of above-cap costs to the succeeding year, could force VEDO into a dilemma. On one hand, a hard, end-of-2023 target would naturally lead the Company to err on the side of significant increases in expenditures, which could result in exceeding the annual cap. But on the other hand, a one-year limit on the recovery of deferred, above-cap costs could force VEDO to choose between a less-aggressive replacement plan in the succeeding year (which could jeopardize the meeting of the target completion date) or to wait to recover DRR investment until a later base-rate proceeding. The incentives created by these recommendations point in opposing directions. If VEDO will be subject to a hard completion target, as both Staff and OCC recommend, then it should be given more flexibility—not less—to recover any overages.

Not only does VEDO's proposed treatment provide correct incentives, but it appears identical to the treatment accorded Columbia Gas of Ohio. *See In re the Application of Columbia Gas of Ohio*, Case No. 11-5515-GA-ALT, Opin. and Order (Nov. 28, 2012) (11-5515 Order). Columbia proposed that if it exceeded the rate caps during any year of its program, it could defer these costs and then "include [them] in any subsequent Rider IRP application during the five-year duration of Rider IRP," subject to the annual cap. (11-5515 Application at 10 (May 8, 2012).) The stipulation that followed stated that "the Application should be approved, with the modifications described herein," none of which appeared to revisit the carry-forward provision. (11-5515 Stipulation at 2 (Sept. 26, 2012).) The Commission then approved and adopted the stipulation. 11-5515 Order at 12. Based on these proceedings, VEDO believes that it is only requesting what was approved for Columbia.

Staff notes that its recommendation is "consistent with the Commission's treatment of a similar request by Dominion East Ohio Gas Company." (Staff Comments 20.) The Dominion case is less recent than Columbia, however, and Dominion is subject to a different form of rate cap (a relative increase each year) than Columbia and VEDO, who are (or will be) subject to fixed caps. The Columbia framework is more recent, involves an identical method of setting rate caps, and should be used here, too.

VEDO needs flexibility if it is to satisfy its accelerated deadline, and what it requests has been approved for another LDC. Accordingly, VEDO recommends that it be permitted to recover deferred above-cap costs in any program year, not just the immediately succeeding year.

D. VEDO's rate caps should not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered.

In its application, VEDO proposed that "the caps on the monthly DRR charge shall not include any adjustments attributable to the reconciliation of costs recoverable and costs actually recovered." (Appl. 4.) Staff recommends rejecting this proposal. (Staff Comments 20.)

VEDO does not agree with Staff's recommendation. VEDO's proposal is identical to the Commission's approved treatment of reconciliation adjustments under Dominion East Ohio's replacement program. *See In re the Application of Dominion East Ohio*, Case No. 11-2401-GA-ALT, Opin. and Order (Aug. 3, 2011). There, the Commission approved a reconciliation adjustment to account for any over- or under-recovery and approved a provision under which this reconciliation does not count against DEO's annual rate caps. *Id.* at 6. There is no reason that the Commission should treat VEDO's adjustment differently than Dominion's.

Staff argues that excluding the reconciliation adjustment from the annual rate caps is inconsistent with the very concept of rate caps themselves. (*See* Staff Comments 20–21.) VEDO disagrees. The reconciliation calculation recognizes that VEDO may fail to recover its just and reasonable investments owing to factors entirely outside its control (such as reductions in the number of customers or volume of usage) and that it is unfair to hold such fluctuations against VEDO.

Finally, this proposal further exacerbates the difficulty of complying with a hard, end-of-2023 completion target. Staff's proposal would tend to force more dollars above the rate cap, which would further limit VEDO's ability to timely recover just and reasonable program investments. The incentives under the program should align. If Staff favors timely program completion, VEDO believes Staff should not support other provisions that limit VEDO's ability to timely recover its investments.

E. Staff's modifications to VEDO's O&M savings proposal would substantially overstate the savings attributable to bare-steel and cast-iron retirements.

Staff also recommends a pair of changes to the operations and maintenance (O&M) savings calculation proposed by VEDO. First, Staff recommends "replacing the $274,919 O&M savings amount from the most recent DRR filing with an average of the O&M savings reported in the Program's first four years," which it states is $294,116. (Staff Comments 18–19.) Second, Staff recommends modifying the per-mile credit based on average savings from 2010 through 2013, which increases the credit from $4,500 per mile to $5,882 per mile. (*Id*. at 19.) VEDO is willing to accept Staff's first recommendation. VEDO disagrees, however, with Staff's second recommendation. Although VEDO understands the direction of Staff's reasoning, there is a critical problem in the details.

The O&M savings reported in past cases do *not* provide an accurate basis for projecting future savings from bare-steel and cast-iron retirements. The reason is that the retirement of bare-steel and cast-iron infrastructure did not account for all of the past savings reflected in DRR filings. In the early years of the program, VEDO reviewed total costs for leak repairs and meter-order work and then allocated those costs to bare-steel or cast-iron assets based on leak rates. Thus, the savings calculation reflected costs and savings *beyond those* associated with leak repair on bare-steel and cast-iron assets. Specifically, VEDO's assumption of responsibility of service lines required VEDO to spend more time replacing service lines (which would be reflected as a capital investment) than on repairing leaks on mains (an operational expense). This recognition of work drove down O&M leak-repair costs and thus generated greater overall savings.

In other words, the savings experienced in the first four years of the DRR reflected much more than the replacement of bare-steel and cast-iron assets. VEDO used this approach because it lacked sufficient information at the outset to project a savings rate tied specifically to these assets. Now, with four years' experience creating detailed project estimates, identifying assets and leaks for retirement, and quantifying the benefits specifically associated with bare-steel and cast-iron retirements, VEDO has greatly improved its understanding of the actual costs and savings involved.

The quantitative outcome of that learning process is the file provided in response to the OCC's fourth and fifth requests for the productions of documents. That file, called "BS & CI Benefits Tracking Sheet VEDO.xls," provides the actual savings associated with assets retired under the DRR program. The cumulative savings add up to $503,057 over four years, which provides a per-mile savings achieved of $4,471.62 ($503,057 divided by 112.5 miles retired). VEDO rounded this up to the proposed $4,500 per mile. This file shows VEDO's actual historical experience, and it does not support Staff's recommendation, but shows that Staff's proposed credit would overstate the future savings achievable by the program.

If a credit-per-mile method will be used, the savings should be tied to the assets from which those miles are derived. VEDO recommends that Staff's recommended increase to the savings credit be rejected.

II. REPLY TO OCC

OCC's comments fall into two categories: those that recommend rejecting VEDO's application, and those that recommend modifications. For the most part, OCC's comments should be disregarded.

A. OCC has not identified any legal obstacle to approving VEDO's application.

OCC's first comment is that VEDO has not supported its request to extend the DRR. OCC raises a number of comments, which boil down to two rationales: first, that VEDO "has failed to provide evidence of an imminent or verifiable safety threat," and second, that "the DRR is not the exclusive cost recovery mechanism available." (OCC Comments 8.) Neither position has merit.

1. OCC misses the point in arguing that VEDO has failed to provide evidence of an imminent safety threat.

OCC first asserts that VEDO has not provided evidence of an imminent safety threat. But OCC's position is problematic for several reasons.

To begin with, it is not clear what OCC means in saying that VEDO has not provided evidence of an imminent safety threat. This lack of clarity makes it difficult to respond. VEDO assumes that OCC is *not* suggesting the DRR should be contingent on a certain number of presently active leaks or pipeline safety incidents. It goes without saying that VEDO will always deal with its system to the best of its abilities, and if an unsafe situation develops, VEDO will respond quickly and authoritatively to resolve it. And that, of course, is one of the primary points of the DRR: to eliminate such situations before they occur, primarily by identifying and replacing the facilities that pose the greatest risks. The fact that VEDO has effectively managed leaks on its system, while proactively eliminating their source, is not a basis for denying the application.

Moreover, OCC has cited no authority that requires VEDO to provide evidence of an "imminent safety threat" in support of its case. OCC leans exclusively on a recent decision from the Ohio Supreme Court for this proposition. (*See id*. at 5 (discussing *In re Complaint of Cameron Creek Apartments*, Slip Opin. No. 2013-Ohio-3705).) But *Cameron Creek* is plainly inapposite. In that case, the Commission ruled that an LDC could not compel a customer to spend thousands of dollars to adhere to a certain safety code when the customer's premises already complied with applicable building codes and the utility had provided "no evidence of any imminent or verifiable safety threat." *Id*. ¶ 31. The Court affirmed this portion of the order, but not on the merits; it affirmed because the appellant had not demonstrated prejudice. *Id*. ¶ 33. The case had nothing to do with infrastructure riders, much less with the conditions necessary for their approval. *Cameron Creek* is irrelevant here.

A Supreme Court decision that *is* on point is *Utility Service Partners v. Pub. Util. Comm.*, 124 Ohio St. 3d 284, 2009-Ohio-6764. That case proves that programs addressing natural gas infrastructure, such as those recovered through the DRR, have a necessary and substantial tie to public safety. *Utility Service Partners* involved review of a component of an infrastructure program, namely, an LDC's assumption of responsibility for service lines. *See id*. ¶ 11. The Court rejected a challenge to the Commission's statutory authority to approve such a step. Noting the intrinsic risks posed by natural gas, the Court held that "the order [regulating service lines] was related to the protection of the public safety" and thus properly authorized under Ohio law. *Id*. ¶ 14. Like Columbia's proposal, VEDO's Replacement Program is designed to proactively manage pipeline risks and efficiently deploy capital to that end. At bottom, OCC's reasoning is flawed: it assumes that a safe system and a program designed to reduce and prevent safety risks are mutually exclusive. That is simply not true.

Moreover, OCC ignores Mr. Francis' discussion of the DOT's DIMP regulations that require identification and mitigation of system risks. VEDO's pipeline replacement programs are based on risk modeling and address issues in an appropriate manner in compliance with pipeline safety regulations. OCC's objections to such programs are not in line with previous efforts to modernize systems.

The DRR program—which exclusively concerns the condition of the pipes and appurtenances that carry natural gas—bears a direct connection to public safety. OCC's comments to the contrary are incorrect and should be disregarded.

2. OCC fails to explain why the existence of "traditional ratemaking" supports disapproval of the DRR.

OCC's second point is that "the DRR is not the exclusive cost recovery mechanism available" and that "traditional ratemaking is an alternative available." (OCC Comments 6 & 8.) But OCC fails to explain how this justifies the rejection of VEDO's application.

It is true that "traditional ratemaking is an alternative available" (*id*. at 6), in the sense that R.C. 4909.18 is a law on the books. But it is not the only alternative, and OCC does not address the substantial problems posed by traditional ratemaking in the context of an infrastructure program, most especially the loss of gradualism, the substantial transactional costs of base-rate applications, and the imposition of regulatory lag. OCC merely *asserts* that traditional ratemaking "provides an adequate mechanism for cost recovery to address pipeline replacement expenditures" (*id*.), but neither *explains* why this is so nor cites any authority to that end.

Notably, OCC does not challenge the applicability of the laws that VEDO *did* file under, and these laws expressly permit alternative rate plans and automatic adjustment mechanisms. *See* R.C. 4929.05, 4929.051, and 4929.11. Nor does OCC point out any way in which VEDO's application fails to comply with those laws. Whether VEDO could have filed a different application is irrelevant. Ohio law allows VEDO's request, and OCC has not shown otherwise.

In short, OCC has not identified any legal obstacle to extending and expanding the DRR program.

B. OCC's recommendations to modify the DRR generally lack merit.

OCC also presents a number of recommended modifications to the proposed DRR. Most of these recommendations are unreasonable, however, and should be rejected.

1. OCC's O&M modifications would drastically overstate savings.

OCC proposes two modifications to VEDO's proposed O&M savings calculation. First, it proposes a figure of $11,032 savings per mile, and it proposes an assumed replacement rate of 53.6 miles per year. According to OCC, this would "generate an additional $1,823,000 in savings passed back to customers" over the next five years. (OCC Comments 10.) OCC "also recommends that a guaranteed minimum level of O&M Savings be established for each Program Year." (*Id*. at 11.)

VEDO disagrees with OCC's comments. For the same reasons given in response to Staff's recommendations regarding the O&M savings calculations, OCC's recommended per-mile figures drastically overstate the savings that could be expected from the retirement of bare-steel and cast-iron assets.

As for OCC's recommendation for a guaranteed-minimum credit, it is superfluous. VEDO's proposal to use a per-mile figure essentially *is* a guaranteed-savings method; it does not depend on actual savings in any particular year. If VEDO replaces less than the projected number of miles in a future program year, the savings credit will be less, but the charge will be less, too. There is no basis for a guaranteed minimum credit if a per-mile credit is already being used.

2. OCC's recommendations regarding obsolete appurtenances should be rejected.

OCC opposes the inclusion of obsolete pipes and appurtenances, asserting that VEDO "has failed to demonstrate that there are safety and reliability issues surrounding these facilities that sufficiently warrant the inclusion of these facilities in the DRR." (OCC Comments 12.)

VEDO disagrees. In its application, it explained the rationale for including obsolete pipes and appurtenances, which can and do present safety and reliability issues. VEDO witness James Francis testified that when such assets fails, "[l]eak or damage repair materials must be fabricated to fit the non-standard size," and that this can result "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." (Francis Dir. 17.) OCC does not provide any reason to doubt this testimony—it does not even acknowledge it.

Contrary to OCC's comments, VEDO has supported the inclusion of obsolete pipes and appurtenances in the DRR.

3. OCC has not supported its recommendations to modify the treatment of plastic pipe.

OCC does not oppose including the replacement of plastic pipe in the DRR if it is more economical to replace it than to tie it into the existing system. This is the standard that has been used from the beginning of the DRR. But OCC proposes that to make this determination, VEDO should either adopt a metric agreed to in a different case or provide support for another metric. (OCC Comments 12–13.) OCC also proposes an upper limit on how much plastic pipe may be included in the DRR, namely, 435 feet. (*Id*. at 14.)

OCC's recommendations are unnecessary. Plastic pipe has been included in the DRR from the beginning of the program. Other than OCC's annual rite of questioning whether plastic pipe should be included at all, no party has ever raised an issue regarding VEDO's decisions to replace plastic pipe or regarding the total amount of pipe included. The fact that another utility agreed to rely on a particular metric to govern replacement decisions is irrelevant. VEDO does not know whether or why such a metric-based system was necessary; nor does it know whether that metric is an appropriate indicator. But OCC plainly has not demonstrated that the same metric (or any metric) would be appropriate here.

OCC has not shown that the plastic-pipe element of the DRR is broken, so there is no need for the asserted fix. Its proposal should be rejected.

4. OCC's recommended limit on the inclusion of vintage plastic pipe is excessive and should be rejected.

OCC also does not oppose including the replacement of vintage plastic pipe in the DRR, but asserts that "the inclusion of such vintage plastic pipe should be limited to no more than 1% of the total feet of pipe replaced through the DRR program in any one year." (OCC Comments 14.) The only reason offered for this limitation is that VEDO has allegedly not presented "documentation to show that there is any imminent or verifiable threat" and that the DRR "was initiated as a cast iron and bare steel program." (*Id*.)

VEDO appreciates OCC's concession that vintage plastic pipe should be included in the DRR. But while VEDO accepts the five-percent-of-total-footage limit proposed by Staff (*see* Staff Comments 14), VEDO disagrees with OCC's proposed one-percent limit. First, the predicate for OCC's recommendation—that there is no imminent or verifiable threat associated with vintage plastic pipe—is wrong. VEDO's testimony shows that in 1998, a federal safety agency concluded "that such plastic pipe was susceptible to premature brittle-like failures when subjected to stress intensification and thus represented a potential safety hazard." (Francis Dir. 18.) Safety concerns require that VEDO address these lines.

OCC's other rationale—that the DRR was "initiated as a cast iron and bare steel program"—is incorrect and irrelevant. (OCC Comments 14.) First, plastic pipe replaced in conjunction with a Replacement Program project *has* been included in the DRR from the very beginning, so there is nothing intrinsic to the program that requires excluding plastic pipe. And VEDO is only proposing to replace such pipe "when it is encountered in association with a Replacement Program project." (Francis Dir. 18.) Finally, the objective of VEDO's Replacement Program has always been to eliminate poorly performing, higher risk assets. So the inclusion of vintage plastic pipe within the DRR in no way reflects a change in the focus of the program.

OCC's recommendation regarding vintage plastic pipe should be rejected.

5. VEDO accepted a similar recommendation regarding public works projects made by Staff.

Regarding public works projects, OCC asserts that only "relocations where the Utility is in a public right-of-way, and is required to relocate its facilities at the government's request" should be included in the DRR. (OCC Comments 14.) And OCC asserts that such projects should be limited to those "includ[ing] 25 percent plastic, or less." (*Id*. at 15.)

VEDO has accepted a similar, and perhaps identical, proposal by Staff, so there is no need to offer additional comments here.

6. OCC's recommendation to permanently prohibit certain recoveries if VEDO does not meet OCC-recommended benchmarks is unreasonable.

OCC notes VEDO's proposal to complete the Replacement Program within 15 years, by the end of 2023. OCC then recommends that if VEDO fails to replace over 422.4 miles of pipe by the end of 2017, it should be prohibited from ever recouping these costs from customers. (OCC Comments 16.)

This is an unreasonable proposal and should be rejected. First, leaving aside for a moment the other problems with OCC's proposal, its referenced mileage target of 422.4 miles is substantially overstated. OCC assumed a rate of 53.6 miles per year for five full years starting in 2013. But as VEDO explains in Mr. Francis's testimony, VEDO's replacement target for 2013 is 42 miles, which will bring total mileage to 154.5. Assuming that VEDO replaces 53.6 miles a year over the four years following 2013, total mileage replaced by the end of 2017 will be 369 miles (112.5 plus 42 plus 214.4 (*i.e.*, 53.6 times 4)). OCC's proposed target of 422.4 miles is over 53 miles higher, and it would essentially require VEDO to fit six years' worth of replacement into the next five years. VEDO cannot be held to a total miles replaced amount equal to the OCC proposal.

Beyond being overstated, OCC's proposal is unnecessary. The DRR already includes natural and appropriate provisions to protect the interests of customers: only the actual costs of actual replacements or retirements will be charged to customers, no more and no less, with a credit for savings achieved. VEDO fully intends to complete the DRR within the timeframe specified in the application. But if for whatever reason VEDO has not replaced precisely 53.6 miles of pipe per year at the end of 2017, there is no basis for permanently disallowing those costs. Customers will not have paid for more than they received, and there is no reason for authorizing a windfall of free investment. Indeed, OCC's recommendation to provide VEDO with zero recovery or return on needed investment would likely raise substantial constitutional questions were it adopted.

In its response to Staff, VEDO has proposed a reasonable response to any concerns regarding timely completion. OCC's proposal to forever bar recovery is not reasonable. It should be rejected.

7. VEDO has accepted a similar recommendation regarding the recovery of the cost of analysis to identify ineffectively coated pipe.

Regarding the costs of identifying ineffectively coated steel pipe, OCC recommends that VEDO "only be allowed to collect through the DRR the cost of the analysis that identifies sections of coated steel pipe that are ineffectively coated," and exclude costs associated with pipe determined to be effectively coated. (OCC Comments 18.)

VEDO has accepted a similar recommendation made by the Staff (*see supra* at 1).

8. VEDO has not "overstated" its proposed rate caps.

OCC asserts that VEDO "provided no detailed explanation as to how the proposed caps in its Application were derived" and that the proposed caps "are higher than the caps that Vectren provided in responses to OCC discovery." (OCC Comments 18.) OCC proposes that an alternate, lower sets of caps be used.

There are numerous problems with OCC's recommendation. First, OCC's claim that VEDO provided "caps . . . in responses to OCC discovery" is simply a misrepresentation. In a pair of discovery requests, OCC asked VEDO to identify the calculations used to establish the proposed rate caps. (*See infra,* Attachment A (VEDO Resp. to OCC Inter. No. 8 and RFP No. 1).) In its responses to OCC, VEDO made clear that the proposed caps did *not* simply represent the bottom line of a certain set of calculations. The Company explained that it had considered projected revenue requirements (which were necessarily based on numerous assumptions and estimations) and then used its judgment to determine "a *reasonable* annual cap." (*Id*. (emphasis added).) In providing them to OCC, VEDO made clear that these calculations were "illustrative"—not determinative—of the proposed caps. (*Id*.) VEDO provided supporting material to OCC; it did not provide an alternate set of caps.

More to the point, the calculations that VEDO provided to OCC do *not* show that the proposed caps are inaccurate or inappropriately high. On the contrary, these calculations confirm that the proposed caps are based on careful analysis and consideration. While it is true that the proposed caps are a few pennies higher than the estimated revenue requirements, this margin reflects reasonable business judgment. The cost assumptions underlying VEDO's calculations did *not* account for general inflation, nor for numerous local factors that could reasonably be expected to increase costs (such as heightened contractor demand, rising property-tax rates, and higher costs associated with urban locations). VEDO accordingly rounded up the caps by a few pennies to ensure that they adequately supported VEDO's investment goals, particularly in the later years where these factors, including inflation, will put pressure on the calculations.

If VEDO's proposed caps were dollars distant from the projected revenue requirements, the Company could better understand OCC's concerns. But the *maximum* difference separating the competing rate caps is ten cents, and trimming a few pennies from VEDO's rate caps would have no practical impact on customers. But as OCC recognizes, these pennies will have a substantial cumulative impact on VEDO's ability to timely recover the costs of program investment. And ultimately, this shows a lack of consistency in OCC's position: one moment, OCC recommends permanent disallowance if VEDO does not meet ambitious investment targets, but the next, it recommends curbing VEDO's ability to recover its necessary costs, while providing no real benefit to customers.

VEDO's rate caps are reasonable, and the Commission should reject OCC's proposal to reduce them.

9. OCC provides no support for its recommendation for a distribution rate case filing.

OCC also recommends that "any subsequent extension request filed by Vectren should be contingent upon the Utility filing such an extension request in conjunction with an application to review [VEDO's] distribution rates." (OCC Comments 19.)

OCC provides no support for this recommendation, neither citation of authority nor argument. The one reason that would arguably justify a new base-rate filing—to ensure that benefits and costs are both recognized—is already accounted for by the O&M savings offset. VEDO does not agree that this condition is necessary or appropriate. It should be rejected.

10. OCC has not shown that VEDO's existing customer-assistance programs are inadequate.

Finally, OCC "proposes that Vectren commit to fund, through shareholder contributions, a fuel fund for bill payment assistance for low-income and other residential customers at risk for disconnection in the amount of $250,000" as long as its current base rates remain in effect. (OCC Comments 20.)

OCC notes the general benefits of a fuel fund, but it does not provide any argument that such a fund is required or that VEDO's current customer-assistance programs are insufficient. VEDO explained in its application and testimony how millions of dollars are spent annually on energy-efficiency and conservation programs, including programs focused on low-income customers. And this is in addition to larger, state-sponsored programs like the winter-reconnect order and percentage-of-income-payment programs. VEDO cannot agree with this recommendation. OCC's proposal should be rejected.

III. CONCLUSION

VEDO appreciates the opportunity to respond to the comments filed regarding its application. It respectfully requests that it approve VEDO's application in accordance with VEDO's comments set forth above.

Dated: November 13, 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, Suite 1590
88 East Broad Street
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 VEDO's Reply Comments was served by electronic mail this 13th day of November, 2013 to the following:

Joseph P. Serio
Larry S. Sauer
Office of the Ohio Consumers' Counsel
10 West Broad Street,
18th Floor Columbus, OH 43215-3485
serio@occ.state.oh.us
sauer@occ.state.oh.us

William L. Wright
Ryan P. O'Rourke
Assistant Attorney General
Public Utilities Section
180 E. Broad St. 6th Floor
Columbus, OH 43215-3793
william.wright@puc.state.oh.us
ryan.orourke@puc.state.oh.us

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

ATTACHMENT A

RESPONSE: VEDO objects that "certain projects" and "significant BS/CI system pipe" are vague and undefined. VEDO further objects that this interrogatory cannot be answered on its own terms as it calls for VEDO to describe specified effects on "certain projects," without explaining or describing what those projects are. Subject to and without waiving these objections, VEDO answers as follows: No. VEDO selects projects based on the performance of BS/CI assets, primarily driven by leak rate. The amount of plastic pipe in a given distribution system is not identified until the design phase of the project.

Inter. No. 7: If the Company's response to OCC Interrogatory No. 6 is affirmative, please explain why.

RESPONSE: Not applicable.

Inter. No. 8: Referring to the Application at page 4, please provide a detailed, step-by-step description of the calculations involved in Rider DRR till it reaches:

a. The proposed cap of $4.05 per month for September 1, 2014;

b. The proposed cap of $5.45 per month for September 1, 2015;

c. The proposed cap of $6.70 per month for September 1, 2016;

d. The proposed cap of $8.00 per month for September 1, 2017, and

e. The proposed cap of $9.25 per month for September 1, 2018

RESPONSE: VEDO objects that "step-by-step description" and "calculations involved in" are vague and undefined. VEDO further objects that this interrogatory calls for VEDO to posit and construct potentially tens of thousands of future transactions and calculations and hence is overbroad and unduly burdensome to answer. Subject to and without waiving this objection, VEDO answers as follows: VEDO's proposed caps were derived from projected revenue requirements for each year of the proposed Replacement Program, based on estimated capital expenditures (per JMF-9), O&M Savings (per JMF-10 and the Alternative Rate Plan Exhibits), and other estimations (in-service timing, retirements, cost of removal, residential customers, etc.). These calculations, based on the same calculation supplied in the annual DRR filings, are illustrative and primarily utilized to determine a reasonable annual cap based on these assumptions. These figures are based on current information and expectations and are thus subject to change based on future events, and they should not be interpreted as representations or promises regarding future performance. Please reference the documents provided in response to RFP-1 for the detailed calculations.

Inter. No. 9: Referring to the Application at page 4, did the Company perform, directly, or by a contractor on its behalf, any study to arrive at the above proposed caps?

RESPONSE: VEDO objects that "study" is vague and undefined. Subject to and without waiving this objection, VEDO answers as follows: VEDO directly performed all calculations for the proposed caps.

Inter. No. 10: Referring to the Application at page 4, what is Vectren's long-term debt rate at which the carrying charges for the deferred costs, if any, will be calculated?

RESPONSE: VEDO's long-term debt rate is 7.02 percent, as provided in the Stipulation and Recommendation approved in Case No. 07-1080-GA-AIR. VEDO has used this long-term debt rate in past DRR filings (Case Nos. 13-1121-GA-RDR, 12-1423-GA-RDR, 11-2776-GA-RDR, and 10-0595-GA-RDR).

III. RESPONSES TO REQUESTS FOR PRODUCTION OF DOCUMENTS

RFP No. 1: Please provide in electronic format the schedules and workpapers supporting the allocation of the estimated maximum annual increase in revenues for each year during the period 2014–2018 for each rate schedule to which Rider DRR will apply. Include billing determinants for each rate schedule.

RESPONSE: VEDO has not performed this calculation. As noted in response to Inter. No. 8, VEDO has prepared estimated revenue requirements for each year specifically to identify the annual cap for residential customers. This estimated calculation allocates the revenue requirement between rate schedules using the same allocation percentages utilized in the annual DRR filing. Please see attached, labeled as RFP-1.zip, for these estimated calculations.

RFP No. 2: Please provide copies of all Staff Data Requests (formal as well as informal) and the responses thereto, (Please update as they become available).

RESPONSE: VEDO will provide copies of responses to Staff Data Requests as they become available.

RFP No. 3: Please provide copies of all Data Requests (formal as well as informal) from other parties and the responses thereto, (Please update as they become available).

RESPONSE: VEDO will provide the requested documents when they become available.