

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**DIRECT TESTIMONY
OF
STEVEN B. HINES**

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

January 14, 2014

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1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

4 ***A1.*** My name is Steven B. Hines. My business address is 10 West Broad Street, Suite
5 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio
6 Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Principal
7 Regulatory Analyst.

8

9 ***Q2. WHAT IS YOUR EDUCATIONAL BACKGROUND?***

10 ***A2.*** I earned a Master of Business Administration degree from Ashland University in
11 2000. I also earned a Master of Arts degree from The Ohio State University in
12 1981 and a Bachelor of Fine Arts degree from Ohio University in 1978.

13

14 ***Q3. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.***

15 ***A3.*** I joined the OCC in April 1984 as an Investigator I. During the course of my
16 employment at OCC, I have held the positions of Investigator II, Utility Rate
17 Analyst III, Utility Rate Analyst Supervisor, Regulatory Analyst, Senior
18 Regulatory Analyst and Principal Regulatory Analyst. My current duties as a
19 Principal Regulatory Analyst include research, review and analysis of utility
20 applications for increases in rates through base rates, riders and gas cost recovery
21 filings. I also participate in special projects and investigations, and provide
22 training on technical issues when necessary.

23

1 **Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED**
2 **BEFORE THIS COMMISSION?**

3 **A4.** Yes. I have submitted testimony and/or testified before the Public Utilities
4 Commission of Ohio (“PUCO”) in the cases listed in Attachment SBH-A.

5
6 **II. PURPOSE OF TESTIMONY**

7
8 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A5.** The purpose of my testimony, if the PUCO approves an expansion and extension
11 of the Distribution Replacement Rider Program, is to advocate that the customers
12 of Vectren Energy Delivery of Ohio, Inc. (“Vectren” or “the Utility”) should not
13 pay for certain costs and charges that Vectren seeks in its Application for
14 Approval of an Alternative Rate Plan (“Application”). Additionally, I
15 recommend specific consumer protections that the PUCO should adopt to protect
16 Vectren’s customers from paying unjust and unreasonable charges. I will be
17 addressing the following in regard to Vectren’s Application:

- 18 • obsolete pipe and appurtenances;
- 19 • interspersed sections of plastic pipe;
- 20 • non-reimbursed public works projects;
- 21 • costs related to the analysis of coated steel lines;
- 22 • rate caps;
- 23 • Operation & Maintenance (“O&M”) cost savings calculation: and

- 1 • the filing of a distribution rate case.
- 2

3 **III. OBSOLETE PIPE AND APPURTENANCES**

4

5 ***Q6. WHAT HAS VECTREN PROPOSED IN ITS APPLICATION WITH***
6 ***REGARD TO OBSOLETE PIPE AND APPURTENANCES?***

7 **A6.** In its Application, Vectren proposed to expand its Bare Steel/Case Iron (“BS/CI”) Replacement Program (“DRR Program” or “Replacement Program”) to include the replacement of what it claims are obsolete pipe and appurtenances -- costs of which would then be collected from customers through the Distribution Replacement Rider (“DRR”).¹ Vectren proposes that only obsolete pipe and appurtenances² encountered during the replacement of BS/CI or ineffectively-coated steel pipe should be included for recovery through the DRR. Vectren generally defines obsolete pipe and appurtenances as pipelines and system components for which replacement parts and related materials are no longer available.³ According to Vectren, 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.⁴

¹ Application at Alternative Rate Plan Exhibits at 3 (August 22, 2013).

² Direct Testimony of James M. Francis at 16-17 (August 22, 2013). Obsolete appurtenances refer to those pipeline system components for which replacement parts and related materials are no longer available. The most common obsolete appurtenances are associated with regulators and regulator station components.

³ Application at Alternative Rate Plan Exhibits at 3 (August 22, 2013).

⁴ Application at Alternative Rate Plan Exhibits at 3 (August 22, 2013).

1 **Q7. WHY IS VECTREN INCLUDING OBSOLETE PIPE AND**
2 **APPURTENANCES IN ITS DISTRIBUTION REPLACEMENT RIDER**
3 **PROGRAM?**

4 **A7.** Vectren claims it is including obsolete pipe and appurtenances in the DRR
5 Program because replacement parts and related materials are no longer available;
6 leak or damage repair materials must be custom fabricated, resulting in high cost
7 to repair; inefficient and extended repair times; and increased risk of reoccurrence
8 of leaks or leakage migration.⁵ However, despite making this claim, Vectren did
9 not provide any documentation or support as to how much it has cost to fabricate
10 these parts in the past or how much it would cost to fabricate the parts in the
11 future. Vectren did not perform any cost benefit analysis that would have
12 determined any savings due to replacing rather than manufacturing the parts or
13 materials needed to make the repair. Also, if the cost to custom-fabricate the parts
14 or materials is less than replacing them, Vectren has failed to include the cost
15 savings in the calculation of its O&M cost savings.

16
17 **Q8. IN ITS COMMENTS, DID THE PUCO STAFF HAVE ANY OBJECTION TO**
18 **VECTREN INCLUDING OBSOLETE PIPE AND APPURTENANCES IN ITS**
19 **DISTRIBUTION REPLACEMENT RIDER PROGRAM?**

20 **A8.** No. The PUCO Staff supports Vectren's proposal to recover the cost of these
21 facilities through the DRR. However, PUCO Staff emphasized that Vectren
22 should only be allowed to recover obsolete pipe and appurtenances through the

⁵ Application at Alternative Rate Plan Exhibits at 3 (August 22, 2013).

1 DRR when they are encountered during the replacement of BS/CI or
2 ineffectively-coated steel pipe.⁶ PUCO Staff, however, also did not quantify the
3 alternatives of custom fabricating versus repairing obsolete pipe and
4 appurtenances, or address the fact that Vectren did not support its claim with any
5 documentation.

6

7 ***Q9. SHOULD THE COSTS ASSOCIATED WITH OBSOLETE PIPE AND***
8 ***APPURTENANCES BE COLLECTED FROM CUSTOMERS THROUGH***
9 ***THE DISTRIBUTION REPLACEMENT RIDER?***

10 ***A9.*** No. Vectren has not demonstrated that there are safety and reliability issues
11 surrounding obsolete pipe and appurtenances that sufficiently warrant the
12 inclusion of these facilities in the DRR- - the costs of which customers will pay.
13 The DRR Program is intended to be a safety-related program, but Vectren's
14 attempt to expand the DRR Program to include obsolete pipe and appurtenances
15 appears to be driven by economics rather than safety.

16

17 ***Q10. WHAT IS YOUR RECOMMENDATION WITH REGARD TO OBSOLETE***
18 ***PIPE AND APPURTENANCES?***

19 ***A10.*** The Replacement Program should not be expanded to include the replacement of
20 obsolete pipe and appurtenances -- the costs of which would then be collected

⁶ Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 13-14 (October 30, 2013).

1 from customers through the DRR. Instead, Vectren should address this economic
2 issue through traditional distribution ratemaking.⁷

3

4 However, if the PUCO allows the inclusion of these facilities in the DRR
5 Program, then all of the associated O&M cost savings from including obsolete
6 pipe and appurtenances should be quantified and reflected in the calculation of the
7 DRR rate. For example, the O&M cost savings from not having to custom
8 fabricate parts should be quantified and included. In its proposed annual cost
9 savings formula,⁸ Vectren did not document or identify any O&M cost savings
10 related to the inclusion of obsolete pipe and appurtenances. Instead, Vectren only
11 assumed an O&M cost savings of \$28.38 per mile⁹ for the retirement of all other
12 assets which include obsolete pipe and appurtenances.¹⁰ In making this
13 projection, Vectren only rounded up from \$4,471.62, which, according to
14 Vectren, is the actual savings associated with assets retired under the Distribution
15 Replacement Rider Program, to the \$4,500 cost savings per mile it used in its
16 proposed annual O&M cost savings calculation.¹¹ Although Vectren recognizes
17 there should be cost savings associated with the replacement of obsolete pipe and

⁷ R.C. 4909.18 or R.C. 4929.111.

⁸ Direct Testimony of James M. Francis at 23 (August 22, 2013).

⁹ Reply Comments of Vectren Energy Delivery of Ohio, Inc. at 8. (November 13, 2013). \$4,500 per mile less \$4,471.62 per mile = \$28.38 per mile.

¹⁰ Vectren Response to OCC Interrogatory No. 74 (Attachment SBH-B).

¹¹ Reply Comments of Vectren Energy Delivery of Ohio, Inc. at 8 (November 13, 2013).

1 appurtenances¹² they provide no documentation, quantification or analysis of
2 what these cost savings should be.

3

4 **IV. INTERSPERSED SECTIONS OF PLASTIC PIPE**

5

6 ***Q11. WHAT HAS VECTREN PROPOSED IN ITS APPLICATION WITH***
7 ***REGARD TO INTERSPERSED SECTIONS OF PLASTIC PIPE?***

8 ***A11.*** In its supporting testimony, Vectren proposed including the replacement of
9 sections of plastic pipe interspersed in the BS/CI systems in the DRR Program
10 because it continues to make economic sense to do so.¹³ However, again,
11 Vectren did not document or explain or include any analysis of what would
12 constitute “economic sense” for the inclusion of plastic pipe in the DRR Program
13 in its Application.

14

15 ***Q12. DID THE PUCO STAFF ADDRESS VECTREN’S PROPOSAL TO INCLUDE***
16 ***INTERSPERSED SECTIONS OF PLASTIC PIPE IN THE DISTRIBUTION***
17 ***REPLACEMENT RIDER PROGRAM?***

18 ***A12.*** No. PUCO Staff only specifically addressed the replacement of “vintage” plastic
19 pipe when replaced in conjunction with a replacement project focusing on BS/CI
20 or ineffectively-coated steel pipe.¹⁴ PUCO Staff did not address the replacement

¹² Vectren Response to OCC Interrogatory No. 74 (Attachment SBH-B).

¹³ Direct Testimony of James M. Francis at 7 (August 22, 2013).

¹⁴ Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 14 (October 30, 2013).

1 of all types of plastic pipe that would be encountered during the replacement of
2 BS/CI or ineffectively-coated steel pipe. The Utility defines “vintage plastic
3 pipe” as several different kinds of plastic pipe -- the most common being Aldyl-A
4 -- which was one of the first to be used by natural gas companies as an alternative
5 for steel piping.¹⁵ Also, again the PUCO Staff did not address the lack of any
6 documentation or analysis regarding the interspersed plastic pipe issue.

7

8 ***Q13. SHOULD THE COSTS OF REPLACING INTERSPERSED SECTIONS OF***
9 ***PLASTIC PIPE BE COLLECTED FROM CUSTOMERS THROUGH THE***
10 ***DISTRIBUTION REPLACEMENT RIDER?***

11 ***A13.*** Yes, but only under certain conditions. Vectren’s testimony states that it will
12 replace plastic pipe segments interspersed within the BS/CI systems because it
13 continues to make economic sense to do so.¹⁶ However, Vectren has not defined
14 in its Application what constitutes “economic sense” and has failed to perform a
15 study or other analysis to determine what constitutes the length of a segment of
16 plastic pipe that is more economical to replace rather than leave it in the ground
17 and tie the new pipe into it.¹⁷

18

¹⁵ Direct Testimony of James M. Francis at 17-18 (August 22, 2013).

¹⁶ Id.

¹⁷ Vectren’s response to OCC Interrogatory No. 2 (Attachment SBH-C).

1 **Q14. DO YOU HAVE A RECOMMENDATION AS TO WHAT METRICS SHOULD**
2 **BE USED TO DETERMINE WHETHER THE PLASTIC SECTIONS OF**
3 **PIPE ARE MORE ECONOMICAL TO REPLACE WHEN ENCOUNTERED**
4 **DURING ITS DISTRIBUTION REPLACEMENT RIDER PROGRAM?**

5 **A14.** Yes. In the recent Columbia Gas of Ohio, Inc. (“Columbia”) Infrastructure
6 Replacement Program extension case, there was a metric established as the
7 economical replacement point.¹⁸ Because Vectren’s Application proposal failed
8 to address this issue, I recommend that same metric as was used in the Columbia
9 case be used in this case to determine whether the replacement cost of
10 interspersed plastic pipe should be included in the DRR and collected from
11 customers. Accordingly, plastic pipe should only be included in the DRR as
12 follows:

- 13 For 8 inch plastic pipe – if footage is less than or equal to 205 feet,
- 14 For 6 inch plastic pipe – if footage is less than or equal to 250 feet,
- 15 For 4 inch plastic pipe – if footage if is less than or equal to 365 feet, and
- 16 For 2 inch plastic pipe – if footage if is less than or equal to 435 feet.¹⁹

17
18 For example, if the Utility is replacing a two inch line, and there is an interspersed
19 section of plastic pipe of 435 feet or less, then the Utility can replace that
20 interspersed section of plastic pipe as part of the DRR Program, and collect those
21 replacement costs from customers. However, if the interspersed section of two

¹⁸ *In re Columbia Gas of Ohio, Inc. Infrastructure Replacement Rider Extension Case*, Case No. 11-5515-GA-ALT, Testimony of Columbia Gas of Ohio witness Eric Belle at Attachment ETB-1 (May 8, 2012).

¹⁹ *In re Columbia Gas of Ohio, Inc. Infrastructure Replacement Rider Extension Case*, Case No. 11-5515-GA-ALT, Testimony of Eric Belle at Attachment ETB-1 (May 8, 2012).

1 inch plastic pipe is longer than 435 feet, then the Utility must tie into the
2 interspersed section or not recover the costs of the plastic pipe as part of the DRR
3 Program.

4

5 **V. NON-REIMBURSED PUBLIC WORKS PROJECTS**

6

7 ***Q15. WHAT IS VECTREN REQUESTING IN REGARD TO NON-REIMBURSED***
8 ***PUBLIC WORKS PROJECTS?***

9 ***A15.*** Vectren is requesting to expand the DRR Program to include collection from
10 customers for costs associated with non-reimbursed public works projects.²⁰

11

12 ***Q16. SHOULD VECTREN BE ALLOWED TO INCLUDE COSTS IN THE***
13 ***DISTRIBUTION REPLACEMENT RIDER THAT CUSTOMERS PAY***
14 ***RELATED TO NON-REIMBURSED PUBLIC WORKS PROJECTS?***

15 ***A16.*** No. The Utility offered no evidence to indicate that these public works projects
16 are related to customer safety that was at the heart of the DRR Program at its
17 inception. Instead, this is an economic issue. These costs should not be paid by
18 customers through the DRR.

19

²⁰ Application, Alternative Rate Plan Exhibits at 4 (August 22, 2013).

1 ***Q17. IF THE PUCO WERE TO DETERMINE THAT THE COSTS ASSOCIATED***
2 ***WITH NON-REIMBURSED PUBLIC WORKS PROJECTS SHOULD BE***
3 ***PAID BY CUSTOMERS THROUGH THE DISTRIBUTION REPLACEMENT***
4 ***RIDER, THEN WHAT IS YOUR RECOMMENDATION?***

5 ***A17.*** If the PUCO allows the inclusion of non-reimbursable public works projects in
6 the DRR Program, I recommended that costs be limited to only projects that are
7 relocations where the Utility is in a public right-of-way, and there is a verifiable
8 formal governmental request to relocate its facilities. In addition, any collection
9 of costs from customers through the DRR associated with governmental
10 relocation projects should be limited to those projects where such relocation
11 includes 25% plastic, or less.²¹

12
13 ***Q18. WHAT IS THE PUCO STAFF'S POSITION WITH REGARD TO THE***
14 ***INCLUSION OF NON-REIMBURSED PUBLIC WORKS PROJECTS IN***
15 ***THE DISTRIBUTION REPLACEMENT RIDER PROGRAM?***

16 ***A18.*** The PUCO Staff supports Vectren's proposal for inclusion in the DRR Program,
17 but only if at least 75% of the pipe footage being retired on a given relocation
18 project is BS/CI or ineffectively-coated steel pipe.²² The PUCO Staff
19 recommends that if a relocation project does not meet the 75% threshold, then it
20 should be excluded from DRR cost collections from customers.²³

²¹ See *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of an Alternative Form of Regulation*. Case No. 11-5515-GA-ALT, Opinion and Order at 7 (November 28, 2012).

²² Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 14-15 (October 30, 2013).

²³ Id at 15.

1 ***Q19. DO YOU AGREE WITH THE PUCO STAFF'S RECOMMENDATION?***

2 ***A19.*** Yes, in part. The PUCO Staff's recommendation with regard to the 75%
3 threshold is essentially the same as the recommendation I made previously.
4 However, the PUCO Staff did not address in its Reply Comments the OCC
5 recommendation that in order for such public works projects to be recoverable
6 from customers under the DRR Program, the public works projects in question
7 must be ones where: (1) the Utility is in a public right-of-way and (2) where the
8 relocation is at the formal request of the governmental entity.²⁴ Those two
9 threshold questions must be answered in the affirmative before the 25% issue
10 comes into play.

11

12 **VI. COSTS RELATED TO THE ANALYSIS OF COATED STEEL LINES**

13

14 ***Q20. WHAT IS VECTREN PROPOSING WITH RESPECT TO THE COSTS***
15 ***RELATED TO THE ANALYSIS OF COATED STEEL LINES?***

16 ***A20.*** In its Application, Vectren proposes to expand the DRR Program to allow for the
17 collection from customers of costs for replacing sections of steel pipe that are
18 found to be ineffectively-coated.²⁵ Vectren is also proposing to expand the DRR
19 Program to include the costs associated with the analysis that identifies such
20 projects.²⁶

²⁴ Comments by the Office of the Ohio Consumers' Counsel at 14 (October 30, 2013).

²⁵ Application, Alternative Rate Plan Exhibits at 2-3 (August 22, 2013).

²⁶ Id. at 3.

1 ***Q21. WHAT IS THE PUCO STAFF PROPOSING IN TERMS OF THE***
2 ***TREATMENT OF COSTS RELATED TO THE ANALYSIS OF COATED***
3 ***STEEL LINES?***

4 ***A21.*** In its Comments, the PUCO Staff agrees that Vectren should be allowed to
5 recover the cost of replacing coated pipe installed between 1955 and 1971 if such
6 pipe fails a cathodic protection test.²⁷ According to the PUCO Staff, the cost of
7 testing should be recoverable through the DRR when the test results indicate that
8 the pipe fails the cathodic protection test and Vectren is able to document such
9 results.²⁸ Presumably then, the testing costs associated with coated pipe installed
10 between 1955 and 1971 that does not fail cathodic protection testing will not be
11 included in the DRR Program.

12
13 ***Q22. WHAT IS THE MAGNITUDE OF THE POTENTIAL COSTS TO***
14 ***VECTREN'S CUSTOMERS TO ANALYZE COATED STEEL LINES?***

15 ***A22.*** Based on Vectren's estimate, over the next five years of the Replacement
16 Program (2013-2017), the cost for just analyzing coated steel pipe could range
17 from \$500,000 to \$1,250,000.²⁹ The cost for replacing the pipe would be in
18 addition to these amounts. Hence, it is inappropriate for Vectren to expect
19 customers to pay for these costs without knowing the magnitude of such costs. In
20 the Application, Application Exhibits and Testimony filed in this case, it is
21 unclear if the Utility is requesting collection through the DRR of the cost of the

²⁷ PUCO Staff Comments at 13 (October 30, 2013).

²⁸ PUCO Staff Comments at 13 (October 30, 2013).

²⁹ Id. (\$100,000 x 5 (years of the DRR) = \$500,000. \$250,000 x 5 (years of the DRR) = \$1,250,000.

1 analysis of all coated steel pipe or only the cost of the analysis related to sections
2 of coated steel pipe that were found to be ineffectively coated.

3

4 ***Q23. HAS THE PUCO PREVIOUSLY ADDRESSED THE TREATMENT OF***
5 ***COSTS RELATED TO THE ANALYSIS OF COATED STEEL LINES?***

6 ***A23.*** Yes, in the Dominion East Ohio (“Dominion”) case, the PUCO ordered Dominion
7 to modify its Pipeline Infrastructure Replacement Program so that “the cost of
8 testing any segment found to be effectively coated shall not be included under the
9 [Pipeline Infrastructure Replacement] charge.”³⁰

10

11 In the Columbia Alternative Form of Regulation case, the PUCO stated that “the
12 cost of testing any segment found to be effectively coated shall not be included in
13 Rider [Infrastructure Replacement Rider].”³¹

14

15 Consistent with those PUCO Orders, I recommend that Vectren’s costs of testing
16 any segment found to be effectively coated should not be included in the DRR
17 Program.

18

³⁰ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Modify and Further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs*, Case No. 11-2401-GA-ALT, Opinion and Order at 4 (August 3, 2011).

³¹ *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of an Alternative Form of Regulation*, Case No. 11-5515-GA-ALT, Opinion and Order at 6 (November 28, 2012).

1 ***Q24. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE***
2 ***INCLUSION OF COSTS IN THE DISTRIBUTION REPLACEMENT RIDER***
3 ***TO ANALYZE COATED STEEL LINES?***

4 ***A24.*** I recommend that Vectren only be allowed to collect through the DRR the cost of
5 the analysis that identifies sections of coated steel pipe that were actually
6 ineffectively coated. Over the extended five-year period of the Vectren DRR
7 Program, this action could prevent customers from being charged between
8 \$500,000 and \$1,250,000 through the DRR if no ineffectively coated steel pipe is
9 discovered. Vectren estimates it will spend approximately \$100,000 to \$250,000
10 annually for personnel to perform this analysis.³²

11
12 ***Q25. SHOULD THE PUCO GRANT VECTREN'S REQUEST TO EXPAND THE***
13 ***DISTRIBUTION REPLACEMENT RIDER PROGRAM TO INCLUDE THE***
14 ***COSTS OF INEFFECTIVELY COATED STEEL PIPE?***

15 ***A25.*** No, Vectren's proposal to include steel pipe that might be ineffectively coated is
16 premature because the magnitude of the replacement costs is unknown. In
17 response to an OCC Interrogatory, the Utility states that it has more than 2,000
18 miles of pre-1971 coated steel pipe.³³ However, the Utility has not yet
19 determined the number of miles of steel lines that are ineffectively coated.³⁴
20 Thus, Vectren is proposing to expand the DRR Program without any estimate of
21 the magnitude of the potential cost of the expansion. Customers should know the

³² Vectren response to OCC Interrogatory No. 25 (Attachment SBH-E).

³³ Vectren response to OCC Interrogatory No. 17 (Attachment SBH-D).

³⁴ Vectren response to OCC Interrogatory No. 17 (Attachment SBH-D).

1 magnitude of the costs they are expected to pay, before the Utility is authorized to
2 include such costs in the Replacement Program.

3

4 **VII. DISTRIBUTION RATE CASE FILING**

5

6 ***Q26. IF THE PUCO WERE TO GRANT VECTREN A FIVE-YEAR EXTENSION***
7 ***OF ITS DISTRIBUTION REPLACEMENT RIDER PROGRAM AS***
8 ***REQUESTED, DO YOU HAVE ANY RECOMMENDATIONS AS TO WHAT***
9 ***SHOULD OCCUR AT THE END OF THAT FIVE-YEAR PERIOD?***

10 **A26.** Yes. In the event the PUCO authorizes the extension of the DRR Program for an
11 additional five-year period in this case, then Vectren should be prohibited from
12 seeking any other extensions of its DRR Program until it files an application to
13 review its distribution rates pursuant to R.C. 4909.18 and 4909.19.

14

15 ***Q27. DID THE PUCO STAFF PROVIDE ANY COMMENTS IN THIS REGARD?***

16 **A27.** Yes. The PUCO Staff believes this recommendation has merit. The PUCO Staff
17 points out that if the DRR Program is extended another five years, with DRR rate
18 recovery occurring through August 2019, it will be more than ten years since the
19 PUCO last approved a distribution rate case for Vectren.³⁵ The PUCO Staff
20 observes further that the rate cap that will be in place for Residential and Group 1

³⁵ Reply Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 5 (November 13, 2013).

1 General Service classes of customers will be an additional \$9.25 per customer per
2 month over the monthly distribution base rates of these customers.³⁶

3

4 **VIII. RATE CAPS**

5

6 **Q28. HAS VECTREN PROPOSED RATE CAPS IN THIS CASE?**

7 **A28.** Yes. In its Application, Vectren proposes the monthly DRR charges for
8 Residential and Group 1 General Service customers be subject to certain rate
9 caps.³⁷ These rate caps are as follows:

	<u>Rider Recovery Period</u>	<u>Cap as filed</u>
10		
11	September 1, 2014 – August 31, 2015	\$4.05
12	September 1, 2015 – August 31, 2016	\$5.45
13	September 1, 2016 – August 31, 2017	\$6.70
14	September 1, 2017 – August 31, 2018	\$8.00
15	September 1, 2018 – August 31, 2019	\$9.25

16

17 **Q29. DO YOU AGREE WITH THE RATE CAPS PROPOSED BY VECTREN?**

18 **A29.** No. In its Application, Vectren provided no detailed explanation as to how the
19 proposed caps in its Application were derived other than “they are directly related
20 to the projected annual DRR revenue requirement and the proposed allocation of
21 costs to be incurred under the expanded Replacement Program.”³⁸ There is no

³⁶ Id. at 6.

³⁷ Application at 4.

³⁸ Direct Testimony of Scott E. Albertson, at Page 7, lines 6-8 (August 22, 2013).

1 documentation and analysis that supports these figures. In addition, these capped
2 amounts are higher than the caps that Vectren provided in responses to OCC
3 discovery.³⁹ The Utility has provided no sufficient explanation for the
4 discrepancy between the two set of rate cap numbers included in its Application
5 and those provided to OCC through its discovery responses.

6
7 The capped amounts provided through discovery were a part of a complex
8 calculation (“Caps as Calculated”) of the revenue requirement for each program
9 year through 2017.⁴⁰ A comparison of the as-filed and as-calculated⁴¹ caps is
10 shown below:

<u>Rider Recovery Period</u>	<u>Cap as filed</u>	<u>Cap as calculated</u>
September 1, 2014 – August 31, 2015	\$4.05	\$3.96
September 1, 2015 – August 31, 2016	\$5.45	\$5.36
September 1, 2016 – August 31, 2017	\$6.70	\$6.68
September 1, 2017 – August 31, 2018	\$8.00	\$7.94
September 1, 2018 – August 31, 2019	\$9.25	\$9.15

17

³⁹ Application at 4 (August 22, 2013).

⁴⁰ Vectren Response to OCC Request to Produce No. 1, Tab SMK-1 in each Excel file provided (Attachment SBH-F).

⁴¹ Id.

1 **Q30. WHAT IS THE TOTAL DOLLAR DIFFERENCE IF THE CAPS “AS**
2 **CALCULATED” WERE TO BE APPROVED BY THE PUCO?**

3 **A30.** Over the five-year extended DRR collection period, the difference in revenue
4 collected from Residential and Group 1 General Service customers between the
5 “as filed” and “as calculated” rate cap figures would be approximately \$1,317,000
6 more, using the higher rate caps in the Application. (See Schedule SBH-1.)
7

8 **Q31. DO YOU RECOMMEND THAT THE “AS-CALCULATED” RATE CAPS**
9 **SHOULD BE APPLIED DURING THE DISTRIBUTION REPLACEMENT**
10 **RIDER PAYMENT PERIOD (SEPTEMBER 1, 2014 THROUGH AUGUST**
11 **31, 2019)?**

12 **A31.** If the PUCO elects to extend and expand the DRR Program, then the rate caps
13 Vectren used in the detailed revenue requirement calculation (provided to OCC in
14 discovery) should be applicable during the five - year DRR extension period.

15 There is more support for the Utility’s calculation and thus more validity in those
16 rate caps than the unsupported rate caps proposed in Vectren’s Application.
17

18 **Q32. DID THE PUCO STAFF ADDRESS THE ISSUE OF RATE CAPS IN ITS**
19 **COMMENTS?**

20 **A32.** Yes. The PUCO Staff supports Vectren’s proposed rate caps in its Application
21 because they are in-line with annual cap increases approved by the PUCO in the
22 infrastructure replacement cases of the other Ohio major gas utilities.⁴² However,

⁴² PUCO Staff Comments at 21.

1 the PUCO Staff indicated through its Reply Comments that, “if the rate caps
2 advocated by OCC were provided by VEDO and were derived from VEDO’s
3 estimates of the annual revenue requirements needed to fully recover its annual
4 DRR investments (including factoring in the Company’s proposed acceleration of
5 the implementation pace of the Program and expansion of its scope), then the
6 Staff agrees with OCC.”⁴³ The PUCO Staff further stated that the most accurate
7 projections of future rate caps should be adopted.⁴⁴

8

9 ***Q33. DID VECTREN ADDRESS THE ISSUE OF RATE CAPS IN ITS REPLY***
10 ***COMMENTS?***

11 **A33.** Yes. Vectren disagrees with the position taken by OCC in its Comments on the
12 rate caps.⁴⁵ In its Reply Comments, Vectren noted that OCC’s claim that Vectren
13 had provided caps in response to OCC discovery is a misrepresentation. In its
14 Reply Comments, Vectren claims that it explained to OCC that it had considered
15 projected revenue requirements and then used its judgment to determine a
16 reasonable annual cap.⁴⁶

17

⁴³ Staff Reply Comments at 5.

⁴⁴ Id.

⁴⁵ OCC Comments at 18.

⁴⁶ Vectren Reply Comments at 17.

1 ***Q34. HOW DO YOU RESPOND TO VECTREN'S ASSERTIONS IN THIS***
2 ***REGARD?***

3 ***A34.*** OCC discovery regarding the rate caps proposed by Vectren in its Application
4 requested that Vectren provide a detailed, step-by-step description of the
5 calculations in rider DRR for the various recovery periods.⁴⁷ In its response,
6 Vectren provided revenue requirements for each of these years which contained a
7 calculation of DRR rates for each of the recovery periods,⁴⁸ but it did not provide
8 an explanation as to its assumptions that were behind its “judgment” that it claims
9 also factored into its proposed rate caps.⁴⁹ The revenue requirements provided by
10 Vectren in its response to OCC discovery does show that the capital costs, along
11 with the associated expenses, accelerate progressively for each program period.
12 Specifically, the information Vectren provided indicates that each annual revenue
13 requirement is based off of the change in plant balances due to additions and
14 retirements and other plant-related costs (i.e. depreciation, property tax, etc.).⁵⁰

⁴⁷ Vectren Reply Comments, Attachment A, Inter. No. 8.

⁴⁸ Vectren Reply Comments, Attachment A, Response to Inter. No. 8.

⁴⁹ Vectren Reply Comments at 17.

⁵⁰ Vectren Response to OCC Request to Produce No. 1, Tab JCS-2 in each Excel file provided (Attachment SBH-G).

1 **IX. OPERATIONS AND MAINTENANCE COST SAVINGS CALCULATION**

2

3 ***Q35. IS VECTREN PROPOSING TO INCLUDE OPERATIONS AND***
4 ***MAINTENANCE COST SAVINGS IN THE CALCULATION OF THE***
5 ***DISTRIBUTION REPLACEMENT RIDER PAID BY CUSTOMERS?***

6 **A35.** Yes. In its Application, Vectren is proposing that costs collected from customers
7 through the DRR continue to be offset by Operations and Maintenance cost
8 savings.⁵¹ However, the Utility proposes a new O&M cost savings methodology
9 in which it would: 1) Carry forward as an ongoing annual credit the actual O&M
10 savings in 2012 of \$274,919; and 2) Apply a credit of \$4,500 per mile of Bare
11 Steel and Cast Iron main retired beginning in 2013.⁵² The existing methodology
12 compares the O&M Expenses in any given program year to a 2007 baseline of
13 actual O&M Expenses set in Vectren's last base rate case.⁵³ The Utility proposes
14 to do away with the existing methodology for calculating O&M Savings.

15

16 Vectren witness James Francis further describes Vectren's proposed methodology
17 for determining O&M savings in his testimony where he estimates that Vectren
18 will achieve \$225,000 in annual incremental savings associated with the
19 Replacement Program in 2013, growing to an estimated \$1,125,000 of savings in

⁵¹ Application at 5.

⁵² Id. at 5.

⁵³ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase Rates and Charges for Gas Service and Related Matters*, Case No. 07-1080-GA-AIR et al., Stipulation and Recommendation at 10 (September 8, 2008).

1 2017 (over 5 years).⁵⁴ According to Mr. Francis, this would equal approximately
2 \$4,500 of annual cost savings per mile of BS/CI retired. Vectren would also carry
3 forward the 2012 O&M savings amount of \$274,919 as a part of the total O&M
4 Savings.⁵⁵ According to the calculation of the O&M savings in witness Francis'
5 testimony, the total estimated amount of BS/CI O&M savings would be
6 \$1,399,919 ($(\$225,000 \times 5 \text{ years} = \$1,125,000) + \$274,919 = \$1,399,919$).⁵⁶

7

8 ***Q36. DO YOU AGREE WITH VECTREN'S PROPOSED METHODOLOGY FOR***
9 ***DETERMINING OPERATIONS AND MAINTENANCE COST SAVINGS?***

10 **A36.** No. I disagree with Vectren's proposed methodology because the resulting O&M
11 cost savings is not a reasonably sufficient benefit for customers to warrant the
12 additional cost of the DRR Program expansion. As a more balanced alternative
13 for calculating O&M cost savings, I propose using the actual O&M cost savings
14 amounts from the four previous DRR filings⁵⁷ to set a methodology going-
15 forward. Reliance on actual data produces a cost savings per mile of \$11,032
16 instead of the \$4,500 per mile that the Utility has proposed. (See Schedule SBH-
17 2.) Also, instead of using 50 miles of BS/CI main replaced per year that Vectren
18 used, in part, to develop the \$225,000 estimated annual savings amount, I
19 recommend that 53.6 miles be used as the target amount of BS/CI main replaced

⁵⁴ Direct Testimony of James M. Francis, at 23, lines 6-9 (August 22, 2013).

⁵⁵ Id. at 23 lines 17-19.

⁵⁶ Id. at 23 lines 22-25.

⁵⁷ Case No. 13-1121-GA-RDR, Vectren Application Exhibit No. JCS-2. Case No. 12-1423-GA-RDR, Vectren Application Exhibit No. JMB-2. Case No. 11-2776-GA-RDR, Vectren Application Exhibit No. JMB-2. Case No. 10-595-GA-RDR, Vectren Application Exhibit No. JMB-2.

1 per year. In testimony attached to its Application, the Utility indicated that it had
2 590 miles of BS/CI main left to replace.⁵⁸ Dividing this amount by the 11 years
3 left in the Replacement Program would result in an average BS/CI main
4 replacement rate of 53.6 miles per year.⁵⁹

5
6 ***Q37. HOW DID YOU DETERMINE THE TOTAL OPERATIONS AND***
7 ***MAINTENANCE COST SAVINGS USING YOUR METHODOLOGY?***

8 ***A37.*** I determined the total O&M cost savings from 2013 to 2017 by multiplying the
9 53.6 miles times the \$11,000 cost savings per mile to arrive at a total cost savings
10 per year of \$589,600. This number compares to the \$225,000 cost savings per
11 year set forth on page 23 of James Francis' testimony. I then multiplied the cost
12 savings per year of \$589,600 times the five-year DRR collection period proposed
13 by Vectren⁶⁰ to arrive at the total cost savings of \$2,948,000 over the five-year
14 period. This number compares to the \$1,125,000 total cost savings set forth in
15 James Francis' testimony.⁶¹ Finally, adding on the \$274,919 credit for year
16 2012⁶² brings the total O&M cost savings passed back to customers to
17 \$3,222,919, over the five-year DRR collection period. Although not stated in the
18 Application or testimony, the total cost savings estimate proposed by Vectren,

⁵⁸ Direct Testimony of James M. Francis at 5, line 5. (443 miles of Bare Steel mains plus 147 miles of Cast Iron mains remaining in the system).

⁵⁹ Application at 3. (Vectren is proposing to replace all targeted pipe by the end of 2023.)

⁶⁰ Application at 4. (The five-year collection period from September 1, 2014 to August 31, 2019 would collect DRR costs for Program Years 2013 through 2017).

⁶¹ Direct Testimony of James M. Francis at 23.

⁶² Id.

1 would be \$1,399,919 over the five-year period (\$1,125,000 + \$274,919).⁶³ My
2 recommended calculation, as shown on Schedule SBH-3, would generate an
3 additional \$1,823,000 in savings passed back to customers over the five-year
4 DRR collection period, and would more fairly balance the cost of the program
5 with actual benefits for customers.

6

7 ***Q38. DO YOU HAVE ANY FURTHER RECOMMENDATIONS WITH RESPECT***
8 ***TO OPERATIONS AND MAINTENANCE COST SAVINGS?***

9 ***A38.*** Yes. I also recommend that a guaranteed minimum level of O&M cost savings be
10 established for each DRR Program Year. In previous infrastructure replacement
11 rider cases filed by Duke Energy of Ohio Inc., Dominion East Ohio and Columbia
12 Gas of Ohio, Inc., the PUCO has approved the concept of a guaranteed minimum
13 level of O&M cost savings.⁶⁴ I recommend that, if, in any Program Year, the
14 actual O&M cost savings (using the existing methodology comparing the O&M
15 Expenses in any given Program Year to a 2007 baseline of actual O&M Expenses
16 set in Vectren's last base rate case.⁶⁵) would be greater than the amount as
17 proposed in Schedule SBH-3, the larger amount should be deducted from the

⁶³ Id.

⁶⁴ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Modify and Further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs*, Case No. 11-2401-GA-ALT, Opinion and Order at 6-7 (August 3, 2011). *In the Matter of the Application of Duke Energy Ohio, Inc. for an Adjustment to Rider AMRP Rates*, Case No. 09-1849-GA-RDR, Opinion and Order at 5 (April 28, 2010). *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of an Alternative Form of Regulation*, Case No. 11-5515-GA-ALT, Opinion and Order at 7-8 (November 28, 2012).

⁶⁵ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase Rates and Charges for Gas Service and Related Matters*, Case No. 07-1080-GA-AIR et al. Stipulation and Recommendation at 10 (September 8, 2008).

1 DRR revenue requirement calculated for that year. For example, for Program
2 Year 2013, if the actual O&M Savings for that year is \$900,000 -- that is the
3 amount that should be deducted from the revenue requirement instead of
4 \$864,519 as shown on Schedule SBH-3. On the other hand, if the actual O&M
5 cost savings for Program Year 2016 is \$500,000 -- the greater amount of
6 \$589,600 as proposed by OCC on Schedule SBH-3 should be used to reduce the
7 revenue requirement for that year.

8

9 ***Q39. WHAT OPERATIONS AND MAINTENANCE COST SAVINGS***
10 ***METHODOLOGY DOES THE PUCO STAFF RECOMMEND?***

11 **A39.** The PUCO Staff, in its Comments, uses a methodology that varies slightly from
12 Vectren's proposal. The PUCO Staff recommends that the "average of the O&M
13 savings reported in the 2010 through the 2013 filing years (covering investment
14 years 2009 through 2012)"⁶⁶ of \$294,116 be used instead of the O&M savings
15 reported for the most recent year-2012 (\$274,919).⁶⁷ PUCO Staff also
16 recommends using the \$294,116 to compute an average savings-per-mile of
17 \$5,882 based upon a 50 miles-per-year replacement rate.⁶⁸ In calculating the
18 average annual O&M Savings amount of \$294,116, the PUCO Staff netted the
19 O&M cost savings reported for the mains against the savings reported for the
20 service lines.⁶⁹

⁶⁶ PUCO Staff Comments at 18-19 (October 30, 2013).

⁶⁷ Id. at 19.

⁶⁸ Id. at 19.

⁶⁹ Staff Reply Comments at 3-4 (November 13, 2013).

1 **Q40. DO YOU HAVE ANY RECOMMENDATIONS WITH REGARD TO THE**
2 **OPERATIONS AND MAINTENANCE COST SAVINGS METHODOLOGY**
3 **PROPOSED BY THE PUCO STAFF?**

4 **A40.** Yes. The PUCO should adopt the use of a historical four-year average as the
5 PUCO Staff proposes. But the PUCO should reject the PUCO Staff's proposal to
6 net the O&M cost savings related to mains against the costs for replacement of
7 service lines.⁷⁰

8
9 The PUCO Staff's inclusion of service line replacements in the O&M cost savings
10 calculation is contrary to the original intent of the DRR Program -- which was to
11 accelerate the replacement of bare steel and cast iron high pressure distribution
12 lines because of the alleged safety threat.⁷¹ The Utility never identified service
13 lines as a safety concern.⁷² The inclusion of service line replacements was done
14 because Vectren argued that it was more cost efficient to replace the service lines
15 as part of distribution line replacement rather than going back and replacing them
16 afterwards.⁷³ Because the DRR Program has been touted as a safety-focused
17 program, the O&M cost savings should be based on the segment of the system
18 that impacts safety -- the distribution mains only. The inclusion of service lines in
19 the O&M cost savings calculation completely changes the costs and benefits
20 balance achieved by the original DRR Program.

⁷⁰ Id. at 18.

⁷¹ *In re Vectren Rate Case*, Case No. 07-1080-GA-AIR, et al. James Francis Direct Testimony at 7 (December 4, 2007).

⁷² Id.

⁷³ Id.

1 The inclusion of service line replacements in the O&M cost savings calculation
2 unreasonably reduces the customer benefits from the DRR Program. The
3 category of mains compares a baseline maintenance expense to actual
4 maintenance expenses, while the service lines category has no baseline for
5 maintenance expense. This is because Vectren did not have responsibility for
6 service line maintenance prior to the DRR Program which was approved in the
7 last rate case,⁷⁴ and thus there was not a valid baseline amount established at that
8 time to measure actual service maintenance costs against. Instead only actual
9 maintenance expenses are included, that serve to fully reduce the O&M cost
10 savings. Accordingly, the PUCO should reject the PUCO Staff's
11 recommendation to include service line replacements in the calculation of the
12 O&M cost savings. If the PUCO decides to include service lines in the O&M cost
13 savings calculation, then a surrogate baseline for which to measure service line
14 O&M cost savings needs to be created to maintain a balance of benefits for
15 customers.

16
17 As stated above, I agree with PUCO Staff's use of a four-year historical average
18 to determine an estimate of overall O&M cost savings going forward, but disagree
19 with PUCO Staff's proposed methodology as it relates to the determination of
20 O&M cost savings per year and savings-per-mile. Instead I recommend a more
21 detailed average savings-per-mile calculation based on a four-year historical
22 average of actual mains savings divided by a four-year (2009-2012) average of

⁷⁴ Testimony of James M. Francis at 20-23, Case No. 07-1080-GA-AIR (December 4, 2007).

1 actual miles of main replaced.⁷⁵ The PUCO Staff proposes that the PUCO adopt
2 a methodology that nets the O&M cost savings related to mains against the costs
3 for replacement of service lines for years 2009-2012.⁷⁶ Also, the PUCO Staff's
4 methodology does not consider actual average miles of main replaced during the
5 2009-2012 timeframe in the calculation of its estimated savings-per-mile.

6
7 My methodology excludes the negative impact on O&M cost savings from the
8 replacement of service lines as advocated by the PUCO Staff.⁷⁷ Specifically, the
9 PUCO Staff recommendation results in a \$5,882 savings-per-mile; a cost savings
10 per year of \$294,116 and an overall savings of \$1,764,616 for the period 2013-
11 2017.⁷⁸ My proposal results in \$11,000 savings-per-mile and a total cost savings
12 per year of \$589,600 with a total cost savings for the upcoming five-years (2013-
13 2017) of the DRR Program of \$3,222,919.⁷⁹ This compares to Vectren's
14 proposed \$4,500 savings-per-mile; \$225,000 cost savings per year; and overall
15 savings of \$1,399,919.⁸⁰ And my recommendation of \$11,000 savings-per-mile
16 reflects the Utility's actual savings-per-mile method except that it employs two
17 more years (2009-2010) of actual mains maintenance savings and four years

⁷⁵ Schedule SBH-2.

⁷⁶ PUCO Staff Comments at 18 (October 30, 2013).

⁷⁷ Id. at 18.

⁷⁸ Id. at 19.

⁷⁹ Schedule SBH-3.

⁸⁰ Direct Testimony of James M. Francis at 23 (August 22, 2013).

1 (2009-2012) of actual miles of main replaced to arrive at a more accurate savings-
2 per-mile figure.⁸¹

3
4 My method of determining savings-per-mile, cost savings per year and overall
5 mains replacement savings is reasonable and should be adopted by the PUCO.
6 My methodology incorporates more comprehensive information (based on the
7 Utility's actual experience during the first four-years of the DRR Program) than
8 the method proposed by the Utility that relies only on a smaller subset of data
9 from selected years.

10

11 ***Q41. DID THE PUCO STAFF ADDRESS THE ISSUE OF GUARANTEED***
12 ***MINIMUM LEVEL OF OPERATIONS AND MAINTENANCE COST***
13 ***SAVINGS IN ITS COMMENTS?***

14 ***A41.*** No. The PUCO Staff did not include in its Comments a recommendation for a
15 guaranteed minimum level of savings.⁸² I recommend that a guaranteed
16 minimum level of O&M cost savings be recognized for each DRR Program Year,
17 as had been approved in previous infrastructure replacement rider cases.⁸³ I

⁸¹ Schedule SBH-2, Columns (A) and (B). Through discovery, Vectren responded that the \$4,500 credit per mile of BS/CI main replaced is based on a two-year average of historical mains maintenance savings (2011-2012). See Vectren response to OCC Interrogatory No. 74, attached hereto as Attachment SBH-B.

⁸² PUCO Staff Comments at 17-19 (October 30, 2013).

⁸³ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Modify and Further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs*, Case No. 11-2401-GA-ALT, Opinion and Order at 6-7 (August 3, 2011). *In the Matter of the Application of Duke Energy Ohio, Inc. for an Adjustment to Rider AMRP Rates*, Case No. 09-1849-GA-RDR, Opinion and Order at 5 (April 28, 2010). *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of an Alternative Form of Regulation*, Case No. 11-5515-GA-ALT, Opinion and Order at 7-8 (November 28, 2012).

1 recommended that if the actual O&M cost savings are greater, for example, than
2 \$864,519 in 2013, then the greater amount should be used as the O&M cost
3 savings that should be deducted from the revenue requirement calculation for that
4 year. If the PUCO grants an extension of the DRR Program, then any extension
5 should include a guaranteed minimum level of O&M cost savings requirement,
6 consistent with OCC's Comments.

7

8 **X. CONCLUSION**

9

10 ***Q42. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

11 ***A42.*** Yes. However, I reserve the right to incorporate new information that may
12 subsequently become available through outstanding discovery or otherwise.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Direct Testimony of Steven B. Hines on Behalf of the Office of the Ohio Consumers' Counsel* was served on the persons stated below via electronic service this 14th day of day of January 2014.

/s/ Larry S. Sauer

Larry S. Sauer

Assistant Consumers' Counsel

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Vectren Energy Delivery of Ohio
Case No. 13-1571-GA-ALT
Estimated DRR Rate Cap Revenue
For Residential and Group 1 Customers

Schedule SBH-1

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
				(A x 12)x C	(B x 12)x C	E - D	
<u>Rider Recovery Period</u>	<u>Monthly Cap (a)</u>	<u>As-filed Monthly Cap (b)</u>	<u>Number of Customers (c)</u>	<u>Total Estimated Revenue</u>	<u>Total Estimated Revenue</u>	<u>Difference in Total Estimated Revenue</u>	<u>Cumulative Difference</u>
September 1, 2014 - August 31, 2015	\$ 3.96	\$ 4.05	302,327	\$ 14,366,579	\$ 14,693,092	\$ 326,513	\$ 326,513
September 1, 2015 - August 31, 2016	\$ 5.36	\$ 5.45	303,170	\$ 19,499,894	\$ 19,827,318	\$ 327,424	\$ 653,937
September 1, 2016 - August 31, 2017	\$ 6.68	\$ 6.70	304,139	\$ 24,379,782	\$ 24,452,776	\$ 72,993	\$ 726,930
September 1, 2017 - August 31, 2018	\$ 7.94	\$ 8.00	305,810	\$ 29,137,577	\$ 29,357,760	\$ 220,183	\$ 947,113
September 1, 2018 - August 31, 2019	\$ 9.15	\$ 9.25	308,082	\$ 33,827,404	\$ 34,197,102	\$ 369,698	\$ 1,316,812
Total Revenue Collected from 2014 - 2019 (5 years)				\$ 121,211,236	\$ 122,528,048	\$ 1,316,812	

(a) Response to OCC RTP No. 1, Exhibit No. SMK-1, Column E

(b) Application Page 4

(c) Response to OCC RTP No. 1, Exhibit No. SMK-1, Column D,
Line 1 plus Line 3

Vectren Energy Delivery of Ohio
Case No. 13-1571-GA-ALT
Actual Annual O&M Savings Per Mile

Schedule SBH-2

	(A)	(B)	(C)	(D) (A) / (B)
Program <u>Year</u>	Actual Savings in DRR Cases <u>Mains (a)</u>	Actual BS/CI Miles <u>Replaced (b)</u>	Cumulative BS/CI Miles <u>Replaced</u>	Actual Annual O&M Savings <u>per Mile</u>
2009	\$ 347,765	24.47	24.47	\$ 14,211.89
2010	\$ 286,033	16.91	41.38	\$ 16,915.02
2011	\$ 350,190	34.7	76.08	\$ 10,091.93
2012	<u>\$ 257,022</u>	<u>36.41</u>	112.49	\$ 7,059.10
	\$ 1,241,010	112.49		\$ 11,032.18

(a) Exhibit No. JMB-S2, Line 21 from the Supplemental Direct Testimony of Janice M. Barrett filed July 23, 2010 in Case No. 10-595-GA-RDR.

Exhibit No. JMB-2, Line 21, in the Application filed April 29, 2011 in Case No. 11-2776-GA-RDR.

Exhibit No. JMB-2, Line 21, in the Application filed April 30, 2012 in Case No. 12-1423-GA-RDR.

Exhibit No. JCS-2, Line 24, in the Application filed May 1, 2013 in Case No. 13-1121-GA-RDR.

(b) From Exhibit JMF-1, Case No. 13-1571-GA-ALT filed on August 22, 2013

Vectren Energy Delivery of Ohio
Case No. 13-1571-GA-ALT
Total Five-Year O&M Savings Calculation

Schedule SBH-3

	<u>Vectren Proposed:</u>		<u>OCC Proposed:</u>	
Inputs:				
Annual Miles Replaced	50	(a)	53.6	(d)
2013-2017 Credit Per Mile	\$ 4,500	(b)	\$ 11,000	(e)
2012 Credit	\$ 274,919	(c)	\$ 274,919	(c)

Program	<u>Year</u>	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
	2013	\$ 499,919	\$ 499,919	\$ 864,519	\$ 864,519
	2014	\$ 225,000	\$ 724,919	\$ 589,600	\$ 1,454,119
	2015	\$ 225,000	\$ 949,919	\$ 589,600	\$ 2,043,719
	2016	\$ 225,000	\$ 1,174,919	\$ 589,600	\$ 2,633,319
	2017	\$ 225,000	\$ 1,399,919	\$ 589,600	\$ 3,222,919
Five-Year Total		\$ 1,399,919		\$ 3,222,919	

Additional O&M Savings Proposed by OCC \$ 1,823,000

- (a) Direct Testimony of James Francis, Page 23, Lines 6 -9
(\$225,000 / \$4,500 credit = 50 miles a year)
- (b) Direct Testimony of James Francis, Page 23, Line 8
- (c) Direct Testimony of James Francis, Page 23
- (d) Direct Testimony of James Francis, Page 5, Line 5
(443 miles of Bare Steel plus 147 miles of Cast Iron remaining in the system = 590 divided by 11 years left in the Program)
- (e) From Schedule SBH-2

**PRIOR TESTIMONY OF
STEVEN B. HINES**

- *Establishment of an Appropriate Recovery Method for Percentage of Income Payment Plan Arrearages* – Case No. 87-244-GE-UNC*
- *Eastern Natural Gas Company* – Case No. 89-1714-GA-AIR*
- *Columbia Gas of Ohio, Inc.* – Case Nos. 91-195-GA-AIR, 92-18-GA-GCR and 94-987-GA-AIR*
- *Monongahela Power Company* – Case No. 91-1610-EL-AIR
- *Ohio American Water Company* – Case Nos. 92-2299-WW-AIR, 95-935-WW-AIR, 01-626-WW-AIR, 03-2390-WS-AIR, 06-433-WS-AIR, 07-1112-WS-AIR, 09-391-WS-AIR* and 11-4161-WS-AIR
- *East Ohio Gas Company* – Case No. 93-2006-GA-AIR*
- *Consumers Ohio Water Company* – Case No. 95-1076-WW-AIR
- *Cincinnati Gas & Electric Company* – Case Nos. 95-656-GA-AIR*, 03-218-GA-GCR*, 05-218-GA-GCR and 01-1228-GA-AIR Calendar Year 2005).
- *East Ohio Gas Company d/b/a Dominion East Ohio* – Case Nos. 02-219-GA-GCR, 05-474-GA-ATA* and 07-829-GA-AIR
- *Aqua Ohio, Inc.* – Case No. 07-564-WW-AIR, 09-560-WW-AIR and 09-1044-WW-AIR
- *Duke Energy Ohio, Inc.* – Case Nos. 07-589-GA-AIR, 08-1250-GA-UNC, 12-1685- GA-AIR and 12-3028-GA-RDR*
- *Mohawk Utilities, Inc.* – Case No. 07-981-WW-AIR

* Cases where testimony before the Public Utilities Commission of Ohio was presented and subject to cross examination

RESPONSE: See response and objections to Inter. Nos. 11 and 69.

Inter. No. 71: Referring to the Company's response to OCC Interrogatory No. 11, what factors were determinative in the Company receiving no reimbursement for a public works project(s)?

RESPONSE: See response and objections to Inter. Nos. 11 and 69.

Inter. No. 72: Referring to Page 23, Line 6 of the Direct Testimony of James M. Francis, does the \$225,000 in annual incremental savings include savings related to service line replacement?

RESPONSE: No.

Inter. No. 73: If the response to OCC Interrogatory No. 72 is affirmative, what portion of the \$225,000 is related to service line replacement?

RESPONSE: See response to Inter. No. 72.

Inter. No. 74: Referring to Page 23, Line 8 of the Direct Testimony of James M. Francis, if the response to OCC Interrogatory No. 71 is affirmative, what portion of the \$225,000 in annual incremental savings is used as a basis to calculate the \$4,500 of annual cost savings per mile of BS/CI main retired?

RESPONSE: VEDO objects that the meaning of this interrogatory is not reasonably understandable in that Inter. No. 71 is not susceptible to either an affirmative or negative response. VEDO further objects that "portion," "basis," and "calculate" are vague and undefined. VEDO further objects that this interrogatory assumes without foundation that any particular portion of the \$225,000 in estimated, annual savings is used to "calculate" the amount

of annual cost savings per mile of BS/CI main retired. Subject to and without waiving these objections, VEDO responds as follows: The \$4,500-per-mile figure was derived using the historical average savings from 2011 and 2012, as identified in Exhibit No. JMF-10, and included all categories of savings as reflected in the exhibit. The actual average, based on the miles retired in those years, is less than \$4,500, but was rounded up for simplicity and to reflect the fact that there may be additional savings associated with the retirement of other assets (*e.g.*, obsolete equipment and vintage plastic).

Inter. No. 75: Through its Application in this case, for each year from 2013 through 2017, what is the amount of annual incremental savings that the Company is proposing related to the replacement of service lines?

RESPONSE: VEDO objects that the meaning of this interrogatory is not reasonably understandable: VEDO's application is prospective (2013–17) but this interrogatory's use of "related," in the past tense, renders this interrogatory vague. Subject to and without waiving this objection, VEDO responds as follows: The company is not proposing annual incremental savings associated with service line replacement. Since assuming ownership for the service lines, VEDO has experienced an increase in costs associated with those service lines. This is reflected in all past DRR filings (see Exhibits JMF-4 line 12, column C). The average cost increase to VEDO from 2009 to 2012 was approximately \$15,000.

Ohio Rules of Civil Procedure, “[a]n interrogatory seeks an admission or seeks information of major significance in the trial or in the preparation for trial. It does not contemplate an array of details or outlines of evidence, a function reserved by the rules for deposition.” *Penn Central Transp. Co. v. Armco Steel Corp.*, 27 Ohio Misc. 76, 77 (Montgomery Cty. 1971).

II. RESPONSES TO INTERROGATORIES

Inter. No. 1: Referring to the testimony of James Francis at page 7, what objective criteria will the Company use to determine when it “[makes] economic sense” to replace interspersed sections of plastic pipe contained within the bounds of BS/CI system pipe replacement projects, rather than to attempt to tie into the existing sections of pipe?

RESPONSE: VEDO objects that “objective criteria” is vague and undefined and that this interrogatory is overbroad and unduly burdensome to answer. Subject to and without waiving these objections, VEDO answers as follows: The Company considers the cost difference between (a) replacing the section of plastic pipe as compared to (b) the cost to maintain and tie into the existing section of plastic pipe when determining which course makes economic sense.

Inter. No. 2: Referring to the testimony of James Francis at page 7, regarding the discussion of plastic pipe, what is the breakeven point, by length and diameter of main, for determining when it is more cost effective to replace sections of plastic rather than to tie into the existing sections of pipe?

RESPONSE: VEDO objects that “cost effective” is vague and undefined. VEDO further objects that this interrogatory assumes without foundation that the appropriate analysis is describable in terms of either breakeven points or length and diameter of mains. VEDO further objects that page 7 of Mr. Francis’s testimony does not discuss the relative costs or benefits of

replacing versus “tying in” pipe. Subject to and without waiving these objections, VEDO answers as follows: There are too many factors that can impact the cost, and thus the breakeven point, of any particular replacement to develop a standard breakeven point by length and diameter of main. Replacement decisions must be made on a case-by-case basis. Numerous factors, such as location of the main, surface type, backfill requirements, material size, system pressure, foreign encroachments or obstacles, depth, length from new main location, all impact the cost, and therefore the breakeven point, of any particular replacement project.

Inter. No. 3: Referring to the testimony of James Francis at page 15, explain in detail the basis for Vectren’s concern that field-applied coatings used primarily on steel pipe prior to 1971, have or will become ineffective over time.”

RESPONSE: VEDO objects that this interrogatory is overbroad and unduly burdensome to answer. Subject to and without waiving this objection, VEDO answers as follows: The basis for the concern is that VEDO has observed areas of its coated, protected system that have experienced corrosion caused by ineffective coating, typically older, field-applied coal-tar coating, which was used prior to 1971. These coating issues result in regular added maintenance to the cathodic protection system and leak repairs. VEDO’s experience with field-applied coatings is not unique in the industry. In Case No. 11-2401, Dominion East Ohio received approval to include ineffectively coated pipe in their pipeline replacement program.

Inter. No. 4: Referring to Schedule JMF-10:

- a. Explain in detail the basis for the Projected Annual O&M Savings; and

Inter. No. 17: How many miles of coated steel pipe on Vectren’s Ohio transmission and distribution system does the Company consider to be ineffectively coated?

RESPONSE: VEDO has more than 2,000 miles of pre-1971 coated-steel pipe. VEDO’s analysis to determine the amount of ineffectively coated steel lines is ongoing and the specific amount of ineffectively-coated steel has not yet been determined.

Inter. No. 18: Referring to Alternative Rate Plan Exhibits at 3, are the obsolete pipe and appurtenances leaking and have they been identified as leaking?

RESPONSE: VEDO objects that this interrogatory’s use of the definite article assumes a set group of assets without specifying the characteristics of that group. Subject to and without waiving this objection, VEDO answers as follows: In some cases, Vectren has experienced leakage on or caused by these assets. See page 17, lines 5–10 of Mr. Francis’s testimony.

Inter. No. 19: Referring to James Francis Testimony at page 17, how many remaining regulator stations does Vectren have in its Ohio transmission and distribution systems that were constructed with steel installed in World War II?

RESPONSE: VEDO objects that “regulator station” is vague and undefined. VEDO further objects that this interrogatory contains apparent syntactical errors that require VEDO to speculate regarding its meaning. VEDO further objects that this interrogatory mischaracterizes the testimony as including entire regulator stations within the category of “Obsolete Appurtenances.” Subject to and without waiving these objections, VEDO answers as follows: VEDO has identified 262 regulator stations with obsolete equipment. Of these, approximately 148 have regulators from the World War II era or pre-1950.

the date of manufacture. Given these facts, VEDO does not believe that a claim for recovery from the manufacturer would be meritorious or cost-effective to pursue.

Inter. No. 24: What percentage of dollars paid to contractors selected to do the replacement of mains, services and risers related to the DRR program, have been paid to Vectren affiliates?

RESPONSE: VEDO objects that “related to” is vague and undefined. Subject to and without waiving this objection, VEDO answers as follows: Since the inception of the DRR, 48 percent of the investment in contractors to perform construction work on DRR projects has been performed by an affiliate.

Inter. No. 25: Referring to Exhibit No. JMF-7, VEDO Ineffectively Coated Steel Replacement Budget, for each year, what is the budgeted amount for the analysis that identifies such projects (see Page 3 of “Alternative Rate Plan Exhibits”)?

RESPONSE: VEDO objects that this interrogatory assumes without foundation that there is a budget item specifically associated with the identified activity. Subject to and without waiving this objection, VEDO answers as follows: VEDO has a staff of corrosion and DIMP personnel, whose responsibilities include analyzing the coated steel system and identifying replacement projects. The exact amount of time these personnel spend on this analysis will vary from year to year depending on the performance of the assets. VEDO will also employ contractors to perform analysis of its coated steel system. VEDO estimates that it will spend approximately \$100,000 to \$250,000 annually for these personnel to perform this activity.

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.

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (c) (Cof)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	\$2,186,346	\$7,299,088	\$9,485,433	285,461	\$2.77		
2	320/321/325	\$831,782	\$1,215,057	\$2,046,840				
3	Group 1			\$508,738 (d)	15,305	\$2.77		
4	Group 2 & 3			\$1,538,101 (d)			65,764,569	\$0.02339
5	341	\$162	\$193	\$355	2	\$14.80		
6	345	\$218,358	\$37,628	\$255,986			45,613,165	\$0.00561
7	360	\$319,571	\$16,656	\$336,227			92,910,461	\$0.00362
8	Total (a)	<u>\$3,556,218</u>	<u>\$8,568,623</u>	<u>\$12,124,841</u>				

(a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.

(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2

(c) 2013 Budget - Customer Count and Volumes

(d) From Exhibit No. SMK-1, Page 3

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (c) (Ccf)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	\$3,124,153	\$10,522,203	\$13,646,356	287,022	\$3.96		
2	320/321/325	\$1,188,566	\$1,751,600	\$2,940,165				
3	Group 1			\$727,294 (d)	15,305	\$3.96		
4	Group 2 & 3			\$2,212,872 (d)			65,764,569	\$0.03365
5	341	\$231	\$279	\$510	2	\$21.26		
6	345	\$312,020	\$54,244	\$366,264			45,613,165	\$0.00803
7	360	\$456,647	\$24,011	\$480,658			92,910,461	\$0.00517
8	Total (a)	\$5,081,616	\$12,352,337	\$17,433,953				

- (a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.
 (b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2
 (c) 2013 Budget - Customer Count and Volumes
 (d) From Exhibit No. SMK-1, Page 4

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue Requirement (b)	(B) Service Lines Allocated DRR Revenue Requirement (b)	(C) Total DRR Revenue Requirement (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer Per Month (C)/(D)/12	(F) Annual Volumes (c) (Ccf)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	\$4,169,306	\$14,344,129	\$18,513,436	287,865	\$5.36		
2	320/321/325	\$1,586,188	\$2,387,824	\$3,974,012				
3	Group 1			\$984,418 (d)	15,305	\$5.36		
4	Group 2 & 3			\$2,989,594 (d)			65,764,569	\$0.04546
5	341	\$309	\$380	\$689	2	\$28.70		
6	345	\$416,402	\$73,947	\$490,349			45,613,165	\$0.01075
7	360	\$609,413	\$32,733	\$642,146			92,910,461	\$0.00691
8	Total (a)	<u>\$6,781,618</u>	<u>\$16,839,014</u>	<u>\$23,620,632</u>				

- (a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.
(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2
(c) 2013 Budget - Customer Count and Volumes
(d) From Exhibit No. SMK-1, Page 4

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue <u>Requirement (b)</u>	(B) Service Lines Allocated DRR Revenue <u>Requirement (b)</u>	(C) Total DRR Revenue <u>Requirement</u> (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer <u>Per Month</u> (C)/(D)/12	(F) Annual <u>Volumes (c)</u> (Ccf)	(G) Proposed <u>DRR per Ccf</u> (C)/(F)
1	310/311/315	\$5,131,320	\$18,015,524	\$23,146,845	288,834	\$6.68		
2	320/321/325	\$1,952,180	\$2,998,990	\$4,951,171				
3	Group 1			\$1,226,849 (d)	15,305	\$6.68		
4	Group 2 & 3			\$3,724,322 (d)			65,764,569	\$0.05663
5	341	\$380	\$478	\$857	2	\$35.72		
6	345	\$512,482	\$92,874	\$605,356			45,613,165	\$0.01327
7	360	<u>\$750,027</u>	<u>\$41,111</u>	<u>\$791,138</u>			92,910,461	\$0.00852
8	Total (a)	<u>\$8,346,390</u>	<u>\$21,148,977</u>	<u>\$29,495,367</u>				

- (a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.
(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2
(c) 2013 Budget - Customer Count and Volumes
(d) From Exhibit No. SMK-1, Page 4

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue <u>Requirement (b)</u>	(B) Service Lines Allocated DRR Revenue <u>Requirement (b)</u>	(C) Total DRR Revenue <u>Requirement</u> (A) + (B)	(D) Customer <u>Count (c)</u>	(E) Proposed DRR per Customer <u>Per Month</u> (C)/(D)/12	(F) Annual <u>Volumes (c)</u> (Ccf)	(G) Proposed <u>DRR per Ccf</u> (C)/(F)
1	310/311/315	\$6,096,096	\$21,590,817	\$27,686,913	290,505	\$7.94		
2	320/321/325	\$2,319,224	\$3,594,159	\$5,913,382				
3	Group 1			\$1,458,260 (d)	15,305	\$7.94		
4	Group 2 & 3			\$4,455,122 (d)			65,764,569	\$0.06774
5	341	\$451	\$572	\$1,023	2	\$42.65		
6	345	\$608,837	\$111,305	\$720,143			45,613,165	\$0.01579
7	360	\$891,045	\$49,270	\$940,315			92,910,461	\$0.01012
8	Total (a)	<u>\$9,915,654</u>	<u>\$25,346,123</u>	<u>\$35,261,777</u>				

(a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.

(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2

(c) 2013 Budget - Customer Count and Volumes

(d) From Exhibit No. SMK-1, Page 4

**VECTREN ENERGY DELIVERY OF OHIO
DISTRIBUTION REPLACEMENT RIDER
DERIVATION OF CHARGES**

<u>Line</u>	<u>Rate Schedule</u>	(A) Mains Allocated DRR Revenue <u>Requirement (b)</u>	(B) Service Lines Allocated DRR Revenue <u>Requirement (b)</u>	(C) Total DRR Revenue <u>Requirement</u> (A) + (B)	(D) Customer Count (c)	(E) Proposed DRR per Customer <u>Per Month</u> (C)/(D)/12	(F) Annual <u>Volumes (c)</u> (Ccf)	(G) Proposed DRR per Ccf (C)/(F)
1	310/311/315	\$7,083,170	\$25,072,900	\$32,156,070	292,777	\$9.15		
2	320/321/325	\$2,694,750	\$4,173,811	\$6,868,561				
3	Group 1			\$1,680,489 (d)	15,305	\$9.15		
4	Group 2 & 3			\$5,188,072 (d)			65,764,569	\$0.07889
5	341	\$524	\$665	\$1,189	2	\$49.53		
6	345	\$707,420	\$129,256	\$836,676			45,613,165	\$0.01834
7	360	<u>\$1,035,322</u>	<u>\$57,216</u>	<u>\$1,092,538</u>			92,910,461	\$0.01176
8	Total (a)	<u>\$11,521,186</u>	<u>\$29,433,847</u>	<u>\$40,955,033</u>				

- (a) Mains and Service Revenue Requirement shown on Exhibit No. JCS-1, Lines 1 and 2 respectively.
(b) Reflects revenue requirement multiplied by allocation factors shown on Exhibit No. SMK-1, Page 2
(c) 2013 Budget - Customer Count and Volumes
(d) From Exhibit No. SMK-1, Page 4

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.

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

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2012</u>		
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	<u>Less: Accumulated Depreciation at December 31, 2012</u>		
7	Depreciation Expense - Mains	\$ (874,579)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	1,238,726	Exhibit JCS-2d, 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-2g, 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	<u>Operations and Maintenance Expenses</u>		
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-1 and Exhibit No. SMK-1, 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.

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

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2013</u>		
3	Additions - Main Replacements	\$ 39,472,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	(1,831,027)	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 37,641,373	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2013</u>		
7	Depreciation Expense - Mains	\$ (1,450,675)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	2,204,726	Exhibit JCS-2d, Column O, Line 2
9	Original Cost - Retired Mains	1,831,027	-Line 4
10	Total Accumulated Depreciation	\$ 2,585,078	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 2,358,777	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 425,351	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (825,572)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	\$ (7,743,145)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	\$ (148,873)	-Line 12 x 35%
16	Net Rate Base	\$ 34,292,989	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	\$ 4,001,992	Line 16 x Line 17
19	<u>Operations and Maintenance Expenses</u>		
20	Annualized Property Tax Expense	\$ 829,438	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	666,252	Line 5 x 1.77% ⁽¹⁾
22	Annualized PISCC Amortization Expense	36,858	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	6,598	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	(459,522)	(2)
25	Total Incremental Operating Expenses - Mains	\$ 1,079,624	Sum of Lines 20-24
26	Variance	\$ -	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	\$ 5,081,616	Line 18 + Line 25 + Line 26

(To Exhibit No. JCS-1 and Exhibit No. SMK-1, 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.

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

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2014</u>		
3	Additions - Main Replacements	\$ 51,616,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	<u>(2,316,787)</u>	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 49,299,613	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2014</u>		
7	Depreciation Expense - Mains	\$ (2,230,300)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	3,260,726	Exhibit JCS-2d, Column O, Line 2
9	Original Cost - Retired Mains	<u>2,316,787</u>	-Line 4
10	Total Accumulated Depreciation	\$ 3,347,213	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 3,191,681	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 624,068	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (1,117,088)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	\$ (8,507,540)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	<u>\$ (218,424)</u>	-Line 12 x 35%
16	Net Rate Base	\$ 46,619,523	Sum of Lines 5 and 10-15
17	Pre-Tax Rate of Return	<u>11.67%</u>	Case No. 07-1080-GA-AIR
18	Annualized Return on Rate Base - Mains	<u>\$ 5,440,498</u>	Line 16 x Line 17
19	<u>Operations and Maintenance Expenses</u>		
20	Annualized Property Tax Expense	\$ 1,070,672	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	872,603	Line 5 x 1.77% ⁽¹⁾
22	Annualized PISCC Amortization Expense	50,134	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	9,733	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	<u>(662,022)</u>	(2)
25	Total Incremental Operating Expenses - Mains	<u>\$ 1,341,120</u>	Sum of Lines 20-24
26	Variance	\$ -	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	<u>\$ 6,781,618</u>	Line 18 + Line 25 + Line 26

(To Exhibit No. JCS-1 and Exhibit No. SMK-1, 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.

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

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2015</u>		
3	Additions - Main Replacements	\$ 63,300,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	<u>(2,784,147)</u>	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 60,516,253	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2015</u>		
7	Depreciation Expense - Mains	\$ (3,221,808)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	4,276,726	Exhibit JCS-2d, Column O, Line 2
9	Original Cost - Retired Mains	<u>2,784,147</u>	-Line 4
10	Total Accumulated Depreciation	\$ 3,839,065	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 4,047,470	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 828,784	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (1,416,615)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	\$ (9,507,751)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	<u>\$ (290,074)</u>	-Line 12 x 35%
16	Net Rate Base	\$ 58,017,132	Sum of Lines 5 and 10-15
17	Pre-Tax Rate of Return	<u>11.67%</u>	Case No. 07-1080-GA-AIR
18	Annualized Return on Rate Base - Mains	<u>\$ 6,770,599</u>	Line 16 x Line 17
19	<u>Operations and Maintenance Expenses</u>		
20	Annualized Property Tax Expense	\$ 1,292,223	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	1,071,138	Line 5 x 1.77% ⁽¹⁾
22	Annualized PISCC Amortization Expense	63,949	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	13,003	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	<u>(864,522)</u>	(2)
25	Total Incremental Operating Expenses - Mains	<u>\$ 1,575,791</u>	Sum of Lines 20-24
26	Variance	<u>\$ -</u>	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	<u>\$ 8,346,390</u>	Line 18 + Line 25 + Line 26

(To Exhibit No. JCS-1 and Exhibit No. SMK-1, 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.

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

Line	Description	Amount	Reference
1	<u>Return on Investment:</u>		
2	<u>Plant In-Service at December 31, 2016</u>		
3	Additions - Main Replacements	\$ 74,984,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	(3,251,507)	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 71,732,893	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2016</u>		
7	Depreciation Expense - Mains	\$ (4,420,122)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	5,292,726	Exhibit JCS-2d, Column O, Line 2
9	Original Cost - Retired Mains	3,251,507	-Line 4
10	Total Accumulated Depreciation	\$ 4,124,111	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 4,868,283	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 1,025,114	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (1,703,899)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	\$ (10,155,274)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	\$ (358,790)	-Line 12 x 35%
16	Net Rate Base	\$ 69,532,438	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	\$ 8,114,435	Line 16 x Line 17
19	<u>Operations and Maintenance Expenses</u>		
20	Annualized Property Tax Expense	\$ 1,504,945	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	1,269,672	Line 5 x 1.77% ⁽¹⁾
22	Annualized PISCC Amortization Expense	77,431	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	16,193	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	(1,067,022)	(2)
25	Total Incremental Operating Expenses - Mains	\$ 1,801,219	Sum of Lines 20-24
26	Variance	\$ -	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	\$ 9,915,654	Line 18 + Line 25 + Line 26

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

(1) FERC Account 676 depreciation rate approved in Case No. 04-0571-GA-AIR.

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

Line	Description	Amount	Reference
1	Return on Investment:		
2	<u>Plant In-Service at December 31, 2017</u>		
3	Additions - Main Replacements	\$ 86,668,400	Exhibit JCS-2a, Column O, Line 2
4	Original Cost - Retired Mains	(3,718,867)	Exhibit JCS-2b, Column Q, Line 2
5	Total Plant In-Service	\$ 82,949,533	Line 3 + Line 4
6	<u>Less: Accumulated Depreciation at December 31, 2017</u>		
7	Depreciation Expense - Mains	\$ (5,825,242)	Exhibit JCS-2c, Column O, Line 2
8	Cost of Removal - Mains	6,308,726	Exhibit JCS-2d, Column Q, Line 2
9	Original Cost - Retired Mains	3,718,867	-Line 4
10	Total Accumulated Depreciation	\$ 4,202,351	Sum of Lines 7 - 9
11	Net Deferred Post In-Service Carrying Costs (PISCC) ⁽³⁾	\$ 5,675,408	Exhibit JCS-2e, Column O, Line 4
12	Deferred Depreciation Regulatory Asset Balance - Mains	\$ 1,218,204	Exhibit JCS-2h, Column B, Line 3
13	Net Deferred Tax Balance - PISCC	\$ (1,986,393)	-Line 11 x 35%
14	Deferred Taxes on Depreciation	\$ (10,198,062)	Exhibit No. JCS-2g, Line 19
15	Deferred Taxes on Deferred Depreciation Regulatory Asset	\$ (426,371)	-Line 12 x 35%
16	Net Rate Base	\$ 81,434,670	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	\$ 9,503,426	Line 16 x Line 17
19	Operations and Maintenance Expenses		
20	Annualized Property Tax Expense	\$ 1,708,778	Exhibit No. JCS-2f, Line 17
21	Annualized Depreciation Expense	1,468,207	Line 5 x 1.77% ⁽¹⁾
22	Annualized PISCC Amortization Expense	90,914	Exhibit JCS-2e, Column D, Line 13
23	Annualized Deferred Depreciation Amortization Expense - Mains	19,383	Exhibit JCS-2h, Column C, Line 21
24	Annualized Maintenance Adjustment	(1,269,522)	(2)
25	Total Incremental Operating Expenses - Mains	\$ 2,017,760	Sum of Lines 20-24
26	Variance	\$ -	Exhibit JCS-4, Line 15
27	Total Annual Revenue Requirement - Mains	\$ 11,521,186	Line 18 + Line 25 + Line 26

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

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in

Case No(s). 13-1571-GA-ALT

Summary: Testimony Direct Testimony of Steven B. Hines on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Sauer, Larry S.