

**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)

**SUPPLEMENTAL DIRECT TESTIMONY
OF
BRUCE M. HAYES**

**ON BEHALF OF
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

10 West Broad St., 18th Floor
Columbus, Ohio 43215-3485

January 17, 2014

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Bruce M. Hayes. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Principal Regulatory Analyst.

Q2. ARE YOU THE SAME BRUCE HAYES WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A2. Yes.

II. PURPOSE OF TESTIMONY

Q3. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?

A3. My supplemental direct testimony addresses the Stipulation and Recommendation filed in this proceeding on January 17, 2014, regarding the request to extend and expand the Vectren Energy Delivery of Ohio, Inc. ("Vectren") Distribution Replacement Rider ("DRR") that is charged to Vectren's customers. The Stipulation does not represent a fair and reasonable compromise for customers, and should not be approved by the Public Utilities Commission of Ohio ("PUCO").

III. OPPOSITION TO THE STIPULATION AND RECOMMENDATIONS

Q4. WHY DO YOU RECOMMEND THE PUCO NOT APPROVE THE STIPULATION THAT VECTREN AND THE PUCO STAFF SIGNED IN THIS CASE?

A4. The Commission relies upon a three-prong standard when evaluating whether to approve a Stipulation. The Stipulation does not meet this standard.

Q5. WHAT ARE THE COMPONENTS OF THE PUCO'S THREE-PRONG STANDARD?

A5. The components are

1. Is the settlement a product of serious bargaining among capable, knowledgeable parties representing diverse interests?
2. Does the settlement, as a package, benefit customers and the public interest?
3. Does the settlement package violate any important regulatory principle or practice?

Q6. IN YOUR OPINION DOES THE STIPULATION IN THIS CASE ADHERE TO THE THREE COMPONENTS THAT THE COMMISSION ROUTINELY CONSIDERS WHEN DECIDING WHETHER TO ADOPT A STIPULATION?

A6. No.

1 ***Q7. DOES THE STIPULATION REPRESENT DIVERSE INTERESTS UNDER***
2 ***THE FIRST PRONG OF THE PUCO STANDARD?***

3 ***A7.*** No, not in its current form. The first prong of the PUCO standard requires that
4 the Stipulation be the product of serious bargaining among capable,
5 knowledgeable parties representing diverse interests. Contrary to the testimony of
6 Vectren witness Albertson (filed January 17, 2014), the Stipulation does
7 not “represent diverse interests.” OCC is the only party in this case that
8 represents the residential consumers. OCC did not sign the Stipulation.
9 Residential customers are by far the largest group of customers to be impacted by
10 the results of this case, and the customers who will absorb the lion’s share of any
11 associated revenue requirement. OCC opposes the Stipulation and is making
12 recommendations in the interests of residential consumers for the PUCO’s
13 decision.

14
15 ***Q8. IN YOUR OPINION, DOES THE STIPULATION, AS A PACKAGE,***
16 ***BENEFIT CUSTOMERS AND THE PUBLIC INTEREST?***

17 ***A8.*** No.
18

19 ***Q9. WHY DO YOU BELIEVE THE STIPULATION DOES NOT BENEFIT***
20 ***CUSTOMERS AND THE PUBLIC INTEREST?***

21 ***A9.*** The proposed charges to Vectren’s customers will be too high under the
22 Stipulation as drafted. One major reason for my opinion is that the Rate Caps are
23 too high, and not firm. Another major reason for my opinion is that the Operation

and Maintenance (“O&M”) Savings Credit, that serves as an offset (in customers’ favor) to Vectren’s DRR charges, is too small.¹

Q10. WHY DO YOU BELIEVE THE RATE CAPS ARE TOO HIGH?

A10. As pointed out in OCC Comments² and the Direct Testimony of Steven Hines,³ Vectren has overstated its rate caps. The Rate Caps should be reduced. The capped amounts provided through discovery were a part of a complex calculation of the revenue requirement for each program year through 2017.⁴ A comparison of the as-filed and as-calculated caps are shown below:

<u>Rider Recovery Period</u>	<u>As filed</u>	<u>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

As calculated by Mr. Hines, over the five-year extended DRR collection period, the difference in revenue collected from Residential and Group 1 General Service customers would be approximately \$1,317,000 more using the rate caps in the

¹ OCC Comments at 9-11.

² OCC Comments at 18-19.

³ Direct Testimony of Steven Hines at 17-21.

⁴ Vectren Response to OCC Request to Produce No. 1, Tab SMK-1 in each Excel file provided (attached hereto as Attachment 2 pages 6-11 of 11).

Application (as filed)⁵ rather than the Rate Caps provided to OCC in discovery (as calculated). The higher Rate Caps (meaning higher charges to customers) do not benefit customers and are not in the public interest.

Q11. ARE THERE OTHER PROBLEMS WITH THE RATE CAPS?

A11. Yes. The Stipulation states:

To the extent VEDO is unable to recover a reconciliation adjustment and any other costs otherwise recoverable due to caps on the monthly DRR charge, VEDO may defer the unrecovered portion of the adjustment and the unrecovered costs with carrying charges calculated at VEDO's long-term debt rate, and VEDO may include such deferral in any subsequent DRR application, so long as the inclusion of such deferral does not cause VEDO to exceed the applicable cap on the monthly DRR charge in that subsequent year.⁶

This provision of the Stipulation serves to guarantee Vectren collection of all DRR revenues despite loss of customers or load. For example, if heating-only customers leave the system in warm-weather months, and then reconnect in the winter, the DRR charges for those months that the heating-only customers left the system would be deferred and potentially charged to all other customers through

⁵ Direct Testimony of Steven Hines at 19.

⁶ Stipulation at Para. 9.

1 the reconciliation adjustment in subsequent periods. Therefore, some customers
2 may pay their DRR charges, as well as a share of DRR charges not paid by other
3 customers by collection through the reconciliation adjustment. This provision
4 therefore does not benefit customers and is not in the public interest.

5
6 ***Q12. DO YOU HAVE ADDITIONAL CONCERNS ON THE IMPACT OF THE***
7 ***CHARGES ON CUSTOMERS SO IMPORTANT IN THIS CASE?***

8 ***A12.*** Many customers in Vectren's service area have financial challenges. These
9 challenges are reflected in poverty levels, unemployment and utility
10 disconnections. I understand that one in six Ohioans lives in poverty.⁷
11 Furthermore, the situation is getting worse. Ohio's poverty rate increased by 3.2
12 percentage points, from 13.1 percent in 2007 to 16.3 percent in 2012.⁸ This
13 information should persuade the PUCO all the more to look closely at the charges
14 being approved in this case.

15
16 ***Q13. IN YOUR OPINION, DOES THE AMENDED STIPULATION PACKAGE***
17 ***VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE?***

18 ***A13.*** Yes it does.
19
20

⁷ OCC Comments at 20,
<http://digital.olivesoftware.com/Olive/ODE/DaytonDailyNews/PrintComponentView.htm> (October 29,
2013) (Last reviewed October 30, 2013) (Attached hereto as Attachment 3).

⁸ Id.

**Q14. WHAT ASPECT OF THE STIPULATION IN YOUR OPINION VIOLATES A
REGULATORY PRINCIPLE OR PRACTICE?**

A14. There is a provision in the Stipulation that provides cost recovery from customers in circumstances where Vectren is required to relocate its facilities due to a public works project. The provision in the Stipulation states:

VEDO may recover through Rider DRR the costs associated with replacing segments of pipe that include target pipe where VEDO's pipe is in a public right-of-way, and VEDO is required to relocate its facilities at the request of a governmental entity. VEDO may recover through Rider DRR such costs due to governmental relocations only if any plastic pipe associated with each relocation is less than or equal to 25% of the total footage of that governmental relocation.⁹

The concern with this provision is that certain public works relocations may be objectionable, and the PUCO should preserve parties' rights to challenge any such project in the future. It is important to provide for such reservation of rights to protect customers from, among other things, paying for relocating facilities in circumstances where the entity causing the costs should instead be charged (not customers).

In addition, the issue above related to deferral of costs also is inconsistent with a regulatory principle for basing charges on cost causation.

⁹ Stipulation at Para. 6.

1 **IV. CONCLUSION**

2

3 ***Q15. WHAT IS YOUR RECOMMENDATION?***

4 ***A15.*** The Commission should not approve the Stipulation for the reasons explained in
5 my testimony, and the Commission should adopt OCC's proposals.

6

7 ***Q16. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

8 ***A16.*** Yes. However, I reserve the right to incorporate new information that may
9 subsequently become available.

CERTIFICATE OF SERVICE

I hereby certified that a true copy of the foregoing Prepared Supplemental Direct Testimony of Bruce M. Hayes, on behalf of the Office of the Ohio Consumers' Counsel, was served via electronic service to the persons listed below, on this 17th day of January, 2014.

/s/ Larry S. Sauer

Larry S. Sauer
Assistant Consumers' Counsel

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Summary: Testimony Supplemental Direct Testimony of Bruce M. Hayes on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Sauer, Larry S.