

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The :
East Ohio Gas Company d/b/a/ : Case No. 13-2410-GA-UNC
Dominion East Ohio to Implement a :
Capital Expenditure Program. :

In the Matter of the Application of The :
East Ohio Gas Company d/b/a/ : Case No. 13-2411-GA-AAM
Dominion East Ohio for Authority to :
Change Accounting Methods. :

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

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INTRODUCTION AND BACKGROUND

On December 19, 2013, the Dominion East Ohio Gas Company d/b/a Dominion East Ohio (DEO or Company) filed an application (Application) in these cases seeking authority from the Public Utilities Commission of Ohio (Commission) to continue its capital expenditure program (CAPEX Program) for the period January 1, 2014 through December 31, 2014. DEO seeks to modify its accounting procedures to provide for: (1) capitalization of post-in-service carrying costs (PISCC) on certain assets; (2) deferral of depreciation expense and property taxes related to those assets; and, (3) creation of a reg-

ulatory asset to defer the PISCC, depreciation expense, and property tax expense for recovery in a future proceeding.¹

DEO filed its Application under R.C. 4909.18 and 4929.111 that allows implementation of a CAPEX Program for any of the following:

1. Any infrastructure expansion, infrastructure improvement, or infrastructure replacement program;
2. Any program to install, upgrade, or replace information technology systems;
3. Any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction.

To approve such an application under R.C. 4929.111(C), the Commission must find both that the program is consistent with the natural gas company's obligation to furnish necessary and adequate services and facilities, under R.C. 4905.22, and that the services and facilities are just and reasonable. Further, the statute provides that the Commission shall authorize the natural gas company to create a regulatory asset for PISCC on that portion of the CAPEX Program assets that have been placed into service but not yet reflected in base rates as plant-in-service as well as for incremental depreciation and property tax expense future recovery.

¹ *In the Matter of the Application of The East Ohio Gas Company d/b/a/ Dominion East Ohio to Implement a Capital Expenditure Program and for Authority to Change Accounting Methods*, Case No. 13-2410-GA-UNC, *et al.* (Application at 1) (Dec. 19, 2013) (DEO Application).

DEO here seeks authority to implement the Company's third CAPEX Program and related deferral authority. In Case Nos. 11-6024-GA-UNC, *et al.*, the Commission approved DEO's initial CAPEX Program and deferrals covering the period October 1, 2011 through December 31, 2012.² The Commission's Finding and Order in that case also established the following requirements:

- DEO should calculate the total monthly deferral, PISCC, depreciation expense, property tax expense, and incremental revenue by using the specific formulas set forth in Staff comments filed in that case.
- DEO should offset the monthly regulatory asset amount charged to the CAPEX by revenues generated from the assets included in the CAPEX for SFV³ customers, non-SFV customers, and any other revenue sources directly attributable to CAPEX investments.
- DEO should maintain sufficient records to enable Staff to verify that all revenue generated from CAPEX investments is accurately excluded from the total monthly deferral.
- DEO should submit an annual filing by April 30 of each year that details the monthly CAPEX investments and the calculations used to determine the associated deferrals as recommended by Staff.
- DEO may accrue CAPEX deferrals only up to the level where the accrued deferrals, if included in rates, would cause the rates charged to the GSS class of customers to increase more than \$1.50 per month. Accrual of all future CAPEX-related deferrals should cease once the \$1.50 per month threshold is surpassed, until such time as DEO files to recover the existing accrued deferrals.

² *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Implement a Capital Expenditure Program*, Case Nos. 11-6024-GA-UNC, *et al.* (Finding and Order) (Dec. 12, 2012).

³ "SFV" is an acronym meaning straight fixed variable.

On October 9, 2013, the Commission approved DEO's second CAPEX Program application in Case Nos. 12-3279-GA-UNC, *et al.*, subject to certain recommendations made in Staff Comments filed in that case.⁴ Specifically, the Commission ordered that:

1. Approval of the Application was contingent on DEO's commitment to adhere to the requirements and formulas for determining the PISCC, depreciation expense, property tax expense, and incremental revenue amounts for deferral that were established in 11-6024-GA-UNC case;⁵
2. DEO should include revenue data from all potential revenue sources and work with Staff to confirm that necessary data is included in the Company's annual informational filing due on April 30, 2014;⁶ and,
3. Only accounting authority was being approved and that recovery of the deferred amounts would be considered in the future in a separate proceeding.⁷

Staff timely submits these comments as per the deadline established in the Attorney Examiner's January 13, 2014 Entry issued in this docket.

DEO'S APPLICATION AND PROPOSED DEFERRALS

DEO seeks authorization to implement a CAPEX Program for calendar year 2014 with an estimated budget totaling \$110.0 million. DEO states that the capital spending under the CAPEX Program specifically excludes capital expenditures associated with

⁴ *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Implement a Capital Expenditure Program*, Case Nos. 12-3279-GA-UNC, *et al.* (Finding and Order at 4) (Oct. 9, 2013) (Case No. 12-3279-GA-UNC Finding and Order).

⁵ *Id.* at 3.

⁶ *Id.* at 5.

⁷ *Id.*

non-jurisdictional services.⁸ The CAPEX Program expenditures are segregated into three broad categories: (1) “Infrastructure Expansion, Improvement or Replacement;” (2) “Installation, Upgrade or Replacement of Information Technology”; and (3) “Programs Reasonably Necessary to Comply with Commission Rules, Regulations and Orders.”⁹ Estimated annual amounts for these categories are shown below in Table 1.

Table 1 – DEO’s Estimate of Annual CAPEX Program Spending by Category¹⁰ (\$Millions)

CAPEX Program Category	1/1 – 12/31/2014 Est.
Infrastructure Expansion, Improvement or Replacement	42.0
Installation, Upgrade or Replacement of Information Technology	9.0
Programs Reasonably Necessary to Comply with Commission Rules, Regulations and Orders	59.0
Total CAPEX Program Capital Spending	110.0

DEO notes that the actual amounts of assets placed in-service under the program may vary from the budgeted estimates listed in Table 1 due to timing differences between the date cash expenditures are made and the date plant is placed in-service.¹¹ In addition,

⁸ *DEO Application* at 3.

⁹ *Id.* at 2-3.

¹⁰ *Id.* at Exhibit A

¹¹ *Id.* at 3.

DEO indicates that it may reallocate its CAPEX Program investments among the Program categories as it deems necessary to meet the needs of its customers and gas delivery system.¹² In doing so, however, DEO indicates that it will be “mindful that substantial and frequent modifications that impair Staff’s ability to monitor DEO’s CAPEX Program may cause the Commission to reexamine the Company’s deferrals” in accordance with the Commission’s Finding and Order in Case No. 12-3279-GA-UNC.¹³ The Company delineates the three CAPEX Program categories as follows:

- **Infrastructure Expansion, Improvement or Replacement** – This category includes capital expenditures for distribution system improvements; pipeline, regulating station, or other improvements or replacements, including non-billable pipeline relocations, associated with DEO’s distribution, transmission, storage, and production/gathering systems not already covered by DEO’s Automated Meter Reading Device (AMRD) and Pipeline Infrastructure Replacement (PIR) programs; storage well and compression station improvements or replacements; and new customer main line extensions, main-to-curb and curb-to-meter service line and meter installations.¹⁴
- **Installation, Upgrade or Replacement of Information Technology** – This category includes capital expenditures for upgrades to or replacement

¹² *DEO Application* at 3.

¹³ *Id.* (making reference to the Case No. 12-3279-GA-UNC Finding and Order).

¹⁴ *Id.* at 2.

of computer systems utilized for accounting, billing, and utility operations, as well as communication systems which may include costs for hardware, software purchases or development, installation, and associated licenses or other costs.¹⁵

- **Programs Reasonably Necessary to Comply with Commission Rules, Regulations and Orders** – This category includes capital expenditures for required pipeline integrity, environmental compliance, metering, facilities, fleet, and other general plant associated with providing DEO’s regulated services.¹⁶

DEO states that CAPEX Program costs include applicable supervisory, engineering, general and administrative overheads and Allowance for Funds Used During Construction (AFUDC) and are net of any contributions, deposits, or other aid to construction.¹⁷ In addition, it maintains that the CAPEX Program is consistent with its obligation to furnish necessary and adequate service and facilities pursuant to R.C. 4905.22.¹⁸

DEO also requests ongoing authority to continue its CAPEX Program and related deferral authority until such time as the \$1.50 per month cap established in the 11-6024-GA-UNC case is reached. The Company states that, in lieu of annual CAPEX applications, it will continue to provide information similar to that provided in the Application

¹⁵ *DEO Application* at 2-3.

¹⁶ *Id.* at 4.

¹⁷ *Id.*

¹⁸ *Id.* at 4.

and in its annual update filings. DEO recommends that the Commission adopt the same 30-day automatic approval process for its annual update filings as that established for Vectren Energy Delivery of Ohio, Inc. in Case No. 13-1890-GA-UNC.¹⁹

Lastly, DEO acknowledges that recovery of any amounts deferred under the Application should be addressed in a separate proceeding subject to “continuation of the requirements established in the Commission’s December 12, 2012 and October 9, 2013 decisions in Case Nos. 11-6024 and 12-3279-GA-UNC, respectively.”²⁰

STAFF’S REVIEW, COMMENTS, AND RECOMMENDATIONS

The Staff has reviewed DEO’s Application and the various matters addressed therein to determine if the proposed CAPEX Program and associated deferrals are just and reasonable under R.C. 4929.111 and that they generally comport with sound rate-making principals regarding creation and the potential future recovery of cost deferrals as well as with the Commission’s Findings and Orders in the 11-6024-GA-UNC and 12-3279-GA-UNC cases. While the Staff takes no position here on the level or ultimate recoverability of the capital spending proposed in the CAPEX Program, the Staff does not waive its ability to object to or argue against future recovery of the investments or related deferred amounts. Staff will investigate and recommend any necessary adjust-

¹⁹ DEO Application at 5-6 (citing *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1890-GA-UNC (Finding and Order at 6-7) (Dec. 4, 2013)).

²⁰ *Id.* at 5.

ments to the deferral when DEO applies to recover the deferred assets in a future proceeding.

DEO's Application expressly acknowledges that recovery of any deferred amounts pursuant to the Application will be decided in a future proceeding. The Company also expressly agrees to adhere to the requirements established in the Commission's Findings and Orders approving its previous CAPEX Programs and related deferrals. In addition, DEO has worked cooperatively with the Staff to ensure that its annual update filings (due each year by April 30) are complete and contain the information that is necessary for the Staff to adequately monitor the Company's CAPEX Programs. Subject to these DEO acknowledgments, agreements, and ongoing cooperation, the Staff recommends that the Commission approve DEO's Application as filed.

Respectfully Submitted,

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/s/ William L. Wright

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio was served by electronic mail upon the following parties of record, this 24th day of April, 2014.

/s/ William L. Wright

William L. Wright
Section Chief

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Summary: Comments submitted by Assistant Attorney General William Wright on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio