

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of **Vectren** :
Energy Delivery of Ohio, Inc. for : Case No. 15-865-GA-RDR
Authority to Adjust its Distribution :
Replacement Rider Charges. :

COMMENTS AND RECOMMENDATIONS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

July 24, 2015

TABLE OF CONTENTS

Page

INTRODUCTION	1
BACKGROUND	2
VEDO’S APPLICATION	4
STAFF’S INVESTIGATION SUMMARY AND COMMENTS.....	6
A. VEDO’s Competitive Bidding Process	6
STAFF’S CONCLUSIONS AND RECOMMENDATIONS.....	7
PROOF OF SERVICE.....	9

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INTRODUCTION

In accordance with the Public Utilities Commission of Ohio's (Commission) Opinions and Orders adopting the Stipulations and Recommendations filed in Case Nos. 07-1080-GA-AIR and 13-1571-GA-ALT ("*2007 Rate Case*" and "*2013 DRR Extension Case,*" respectively), Vectren Energy Delivery of Ohio (VEDO or Company) filed an application (Application) in the above captioned case seeking authority to increase its Distribution Replacement Rider (DRR). The purpose of the DRR increase is to allow VEDO to: (1) recover a return of and on certain investments made in 2014 to replace aging natural gas pipeline infrastructure and (2) recover the costs of assuming ownership and repair of previously customer-owned service lines. These comments present a summary of the Commission Staff's (Staff) investigation of VEDO's Application and the Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 314,000 customers in west central Ohio.¹ It is a public utility under Sections 4905.02 and 4905.03 of the Ohio Revised Code and subject to the Commission's jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved the Stipulation and Recommendation (2007 Rate Case Stipulation) and authorized VEDO to establish the DRR for a period of five years or until new rates are approved pursuant to a base or alternative rate case. The Commission's Opinion and Order in Case No. 13-1571-GA-ALT approved a Stipulation and Recommendation (Case No. 13-1571-GA-ALT Stipulation) that authorized VEDO to continue the DRR Program for an additional five-year period (for recovery of investments made in years 2013 through 2017) and to expand the Program's scope. The purpose of the DRR is to permit VEDO to seek recovery of: (1) the return of and return on² plant investment, including post-in-service carrying costs (PISCC), and certain incremental expenses incurred in implementation of its accelerated bare steel and cast iron mains and service lines replacement program; (2) deferred expenses associated with the Company's riser

¹ *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges*, Case No. 15-0865-GA-RDR (Application at 1) (May 1, 2015).

² The pre-tax rate of return is 11.67% as established in the *2007 Rate Case*.

investigation pursuant to Case No. 05-463-GA-COI;³ (3) costs for replacement of prone-to-fail risers; (4) incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and (5) actual annual Operations and Maintenance (O&M) expense savings as an offset to costs otherwise eligible for recovery under the DRR.

The *2007 Rate Case Stipulation* provided a process for establishing the annual DRR rate and the Case No. 13-1571-GA-ALT Stipulation continued that process. By May 1 of each year, the Company must file an application detailing the investments and costs that were incurred during the previous calendar year and a summary of its construction plans for the next year. VEDO bears the burden of proof regarding the justness and reasonableness of the DRR rates proposed each year. Further, Staff will perform an investigation of the annual applications and make recommendations on the justness and reasonableness of the applications. Other parties may file comments on the applications and unresolved issues will be set for hearing by the Commission. Parties will use their best efforts to permit new DRR charges to take effect on a service rendered basis on September 1 of each year. Pursuant to the approved Case No. 13-1571-GA-ALT Stipulation, the DRR is capped annually for the Residential and Group 1 General Service customers, as follows:⁴

³ The initial DRR rate for recovery of VEDO's actual deferred costs of its riser investigation as of July 2008 was in effect from March 1, 2009 through February 28, 2010. The DRR was reset to zero effective March 1, 2010.

⁴ *2013 DRR Extension Case* (Stipulation and Recommendation at 4-5) (Jan. 17, 2014).

<u>DRR Investment Year</u>	<u>Recovery Period</u>	<u>Applicable Cap</u>
2013	9/1/14 – 8/31/15	\$4.05
2014	9/1/15 – 8/31/16	\$5.45
2015	9/1/16 – 8/31/17	\$6.70
2016	9/1/17 – 8/31/18	\$8.00
2017	9/1/18 – 8/31/19	\$9.25

VEDO’S APPLICATION

VEDO filed its Application on May 1, 2015. The Application is supported by the testimony and exhibits of James M. Francis, Director of Engineering and Asset Management, J. Cas Swiz, Director of Regulatory Implementation and Analysis and , Scott E. Albertson, Vice President, Regulatory Affairs and Gas Supply. Mr. Francis’ testimony and exhibits present the progress made in 2014 on the Bare Steel/Cast Iron (BS/CI) Replacement Program, the Company’s 2015 BS/CI replacement plans, maintenance costs associated with the 2014 BS/CI Replacement Program, the 2014 incremental costs for maintenance and repair of service lines previously owned by customers, 2014 capital costs for replacement of previously customer-owned service lines, and the operation and maintenance cost savings realized in 2014.

Mr. Swiz’s testimony and exhibits provide explanations of the various components of the Company’s proposed revenue requirements; schedules supporting the proposed revenue requirement calculations for the 2014 Mains and Service Line and Riser Replacement Programs; explanations and schedules showing the derivation of the annualized property tax expenses and deferred taxes on liberalized depreciation associated with

the Mains and Service Line and Riser Replacement Programs; a discussion of the Company's rationale and policies for recording retirements, PISCC,⁵ and AFUDC; and a schedule showing the true-up for and the over- or under-recovery of the revenue requirement adopted in last year's DRR application, Case No. 14-0813-GA-RDR .

Mr. Albertson's testimony principally provides the derivation of rates resulting from the Company's proposed total DRR revenue requirement, allocation of rates by rate class, a proposed tariff sheet, and the annual residential customer bill impact.

In its Application, VEDO indicates that in 2014 it replaced 42.1 miles of bare steel and 2.7 miles of cast iron mains, replaced 5,052 BS/CI service lines (with an additional 230 service lines retired), and moved 3,637 inside meters outside as part of its Replacement Program. The Company proposes a Mains Replacement Program revenue requirement of \$6,405,589 and \$14,824,631 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of \$21,230,220. The Company proposes that the DRR revenue requirement of \$21,230,220 be allocated to customers as follows:

⁵ The PISCC rate of 7.02% represents the Company's long-term cost of debt as established in the *2007 Rate Case*.

<u>Rate Schedule</u>	<u>Proposed \$ Per Month</u>	<u>\$ Per Ccf</u>	<u>Increase Over Current Rate</u>
310, 311, and 315	\$4.79		\$1.19
320, 321, and 325 (Group 1)	\$4.79		\$1.19
320, 321, and 325 (Group 2 and 3)		\$0.03578	\$0.00698
341	\$26.09		\$6.52
345		\$0.00889	\$0.00163
360		\$0.00679	\$0.00192

STAFF'S INVESTIGATION SUMMARY AND COMMENTS

The Staff reviewed the Company's Application and testimony, issued several information requests seeking additional supporting data, interviewed Company personnel, reviewed the Company's competitive bidding process, and traced representative sample expenses back to their source data. The Staff's investigation was designed to ensure that the Company's policies and practices comport with sound ratemaking principles and Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the rider increases sought in the Application are just and reasonable.

A. VEDO's Competitive Bidding Process

VEDO employs a competitive bidding process for the majority of the capital work associated with DRR projects. The Company issues for bid individual bid packages (which are multiple projects grouped together) to contractors that VEDO has determined are qualified and capable of performing the scope of work detailed in the bid packages. The contractors, in turn, submit unitized bid prices based on the expected number of units

(*e.g.*, feet of pipe replaced, number of service lines replaced, etc.) per project as well as identifying any capacity limitations and preferred bid packages. Staff believes that this process has served to effectively control DRR project labor costs. However, the Staff is becoming increasingly concerned over the drop in the number of eligible contractors submitting bids on available packages. Early in VEDO's DRR Program, six to seven contractors would routinely submit bids on various bid packages. For work performed in 2014, however, there were only four eligible contractors and only three of those submitted bids. The concern over the dwindling number of contractors submitting bids is compounded by the fact that Miller Pipeline, a subsidiary of the Vectren Corporation, is annually one of the bidding contractors. Miller has been awarded more than 50 percent of the total project dollars available in each of the last four years. Despite Miller's success, Staff found no evidence that VEDO offered any preferential treatment to Miller, established unreasonable qualification standards, or established any other unreasonable barriers that would prevent contractors from participating in the DRR bidding process. Nevertheless, Staff recommends that VEDO should redouble its efforts towards soliciting and aiding potential contractors to become qualified and ultimately submit bids on DRR projects.

STAFF'S CONCLUSIONS AND RECOMMENDATIONS

Based on its investigation, Staff concludes that the Company's Application complies with the Commission's Opinions and Orders in Case Nos. 07-1080-GA-AIR and

13-1571-GA-ALT and will result in just and reasonable DRR rates. Therefore, Staff recommends that the Application be approved by the Commission.

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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations**, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following parties of record, this 24th day of July, 2015.

/s/ Steven L. Beeler

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Summary: Comments and Recommendations submitted by Assistant Attorney General Steven Beeler 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