

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc., for Approval)	Case No. 18-0049-GA-ALT
of an Alternative Rate Plan)	
 In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc. for Approval)	Case No. 18-0298-GA-AIR
of an Increase in Gas Rates)	
 In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc., for Approval)	Case No. 18-0299-GA-ALT
of an Alternative Rate Plan)	

**SUPPLEMENTAL DIRECT TESTIMONY OF
K. CHASE KELLEY
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.**

<u> </u>	Management policies, practices, and organization
<u> </u>	Operating income
<u> </u>	Rate base
<u> </u>	Allocations
<u> </u>	Rate of return
<u> </u>	Rates and tariffs
<u> X </u>	Other (Alternative Rate Plan: Multi-Family Housing Pilot Program)

TABLE OF CONTENTS

I.	BACKGROUND AND QUALIFICATIONS	1
II.	STAFF'S RECOMMENDATION.....	1
III.	CONCLUSION	5

**Supplemental Direct Testimony of
K. Chase Kelley**

I. BACKGROUND AND QUALIFICATIONS

Q1. Please state your name and business address.

A. My name is K. Chase Kelley, and my business address is One Vectren Square,
Evansville, Indiana 47708.

Q2. Are you the same Chase Kelley who filed Direct Testimony on behalf of Vectren Energy Delivery of Ohio, Inc. (VEDO) in this proceeding on April 13, 2018?

A. Yes.

Q3. What is the purpose of your supplemental direct testimony?

A. This testimony is intended to support the Company's objections to the recommendations made by the Staff of the Public Utilities Commission of Ohio (Staff) in its Report of Investigation (Staff Report). In particular, I am supporting the Company's objections to Staff Report's recommendation not to approve the Multi-Family Housing Pilot Program (the Pilot or the Pilot Program), proposed as part of VEDO's Alternative Rate Plan.

II. STAFF'S RECOMMENDATION

Q4. Briefly summarize the Pilot Program.

A. VEDO proposed providing financial contributions of up to \$2,000 per individually metered dwelling towards the installation of indoor gas piping and venting. The contributions would be capped and included as rate base in VEDO's next rate case. As explained in my direct testimony, the purpose of the contributions would be to expand the availability of natural gas as an energy source for residents of multi-family dwellings.

1 **Q5. What was Staff's recommendation regarding the Pilot Program?**

2 A. Staff recommended "that the Commission deny VEDO's request for the proposed Multi-
3 Family Pilot Program." (Staff Report at 24.)

4 **Q6. What reasons did Staff give for its recommendation?**

5 A. The Staff Report provides two reasons. First, the Staff Report states that the contributions
6 "are not capital expenditures recoverable through rate base," but "are for piping and
7 venting owned, operated, maintained and inspected by the builder/developer and
8 therefore not within VEDO's ability to direct or dedicate in the service of its customers."
9 (*Id.*)

10 **Q7. What was the other reason?**

11 A. For its other reason, the Report noted that the "contributions are intended to off-set the
12 higher up-front costs of installing natural gas facilities in apartments and condominiums,"
13 which traditionally have been "built to utilize electric only appliances, due to the lower
14 construction costs." (*Id.*) The Report then states: "For this reason, Staff does not want to
15 endorse incentives that promote energy competition between utilities that in the end, are
16 paid for by ratepayers." (*Id.*)

17 **Q8. Do you agree that these reasons justify denying the Pilot Program?**

18 A. No, I do not.

19 **Q9. The Staff Report's first reason suggested that because the contributions are not**
20 **owned by VEDO, they cannot be included in rate base. Do you agree?**

21 A. No. First, I am not an attorney, and I am not offering my opinion as to any conclusions of
22 law. But I have been advised by counsel that Ohio law permits alternative rate plans to
23 establish rates and charges using "a method, alternate to the method of section 4909.15 of

1 the Revised Code.” I have further been advised that the statute limiting rate base to
2 include only property owned by the utility is R.C. 4909.15.

3 VEDO proposed the Pilot Program as part of an alternative rate plan. It did not
4 propose recovering the value of the incentives under traditional ratemaking or R.C.
5 4909.15. For these reasons, then, the Company does not believe that the lack of
6 ownership of the piping and venting precludes approval of the Program.

7 **Q10. The Staff Report also states that the piping and venting would not be within**
8 **“VEDO’s ability to direct or dedicate in the service of its customers.” Do you agree?**

9 A. No. The piping and venting would only be used in the provision of natural gas service,
10 and as a condition of receiving any contribution, the developer would be required to
11 receive service from VEDO. So VEDO would have the ability to ensure that the piping
12 and venting were dedicated to the service of its customers.

13 In short, although VEDO would not *own* the piping and venting, I do not believe
14 that this is a requirement for approval as part of an alternative rate plan, and VEDO
15 would have the ability to ensure such piping and venting were dedicated in the service of
16 its customers. For these reasons, VEDO does not believe that the Commission can
17 reasonably rely on the first rationale provided by Staff.

18 **Q11. How do you respond to the Staff Report’s second reason?**

19 A. I am not certain that I understand the rationale. The Report first recognizes that
20 apartments and condominiums have traditionally been “built to utilize electric only
21 appliances, due to the lower construction costs.” (*Id.*) This is true, and this is one of the
22 reasons that many residents of apartments and condominiums are not able to take
23 advantage of natural gas as an energy source.

1 The next sentence of the Report, however, states that “[f]or this reason, Staff does
2 not want to endorse incentives that promote energy competition between utilities that in
3 the end, are paid for by ratepayers.” (*Id.*) It is not clear to me how the second sentence
4 follows from the first. Lower, up-front construction costs have created a *disincentive* to
5 the use of natural gas, to the detriment of multi-family residents, who must typically must
6 use less efficient appliances and thus pay more for home energy use. It is not clear why
7 this economic disconnect between the interests of developers and consumers would cause
8 Staff “not [to] want to endorse incentives” that would help reverse those disincentives.

9 **Q12. Do you believe that the Pilot Program would detrimentally affect electric utilities?**

10 A. No, I do not. Apartments and condominiums will continue to connect to the electric
11 distribution network; without electricity, most natural gas appliances would not function.
12 No electric utility in VEDO’s service area would lose a single customer as a result of the
13 Program. To the extent such a utility recovered fixed costs through a fixed charge (such
14 as through SFV rate design), that utility would not suffer any loss in fixed cost recovery
15 either.

16 Moreover, given the proposed caps on the Pilot Program, any impact on the
17 electric side would be immaterial, and that impact would predominantly affect energy
18 usage. The impact on the distribution function would be virtually non-existent. Notably,
19 no electric utility intervened in this case or raised any concerns regarding the Pilot
20 Program. Although the Program would substantially benefit affected customers, it is not
21 plausible to believe that the Program, given the relatively short duration and modest
22 dollars involved, could detrimentally affect any other utility.

1 **Q13. What do you recommend that the Commission do in response to Staff's**
2 **recommendation?**

3 A. VEDO proposed the Pilot Program as just that, a pilot. VEDO recognizes that new
4 concepts are involved, which is why it has proposed measured and temporary steps. If the
5 Commission believes that Staff has raised valid concerns, it need not deny the Program
6 but could impose conditions to address those concerns. For example, in response to
7 Staff's first reason, the Commission could require VEDO to ensure that only builders
8 who install natural gas appliances and connect with VEDO receive contributions.
9 Regarding the second concern, the Commission could require VEDO to consider and
10 report on whether the Program impacts electric utilities.

11 VEDO appreciates Staff's review, and is willing to address the concerns
12 expressed. But it does not agree that these concerns require denial of the proposal.

13 **III. CONCLUSION**

14 **Q14. Does this conclude your supplemental direct testimony?**

15 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served by electronic mail to the following persons on this 7th day of November, 2018:

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Summary: Exhibit 8.1 - Supplemental Direct Testimony of K. Chase Kelley electronically filed by Ms. Rebekah J. Glover on behalf of Vectren Energy Delivery of Ohio, Inc.