BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Adjust its Distribution Replacement Rider Charges.	:	Case No. 20-101-GA-RDR

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

Dave Yost
Ohio Attorney General

John Jones
Section Chief

Werner L. Margard III
Jodi J. Bair
Assistant Attorneys General
Public Utilities Section
30 East Broad Street, 16th Floor
Columbus, OH 43215
614.466.4395 (telephone)
614.644.8764 (fax)
werner.margard@ohioattorrneygeneral.gov
jodi.bair@ohioattorneygeneral.gov

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

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INTRODUCTION

On May 1, 2020, Vectren Energy Delivery of Ohio, Inc. (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 2019 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 Staff of the Public Utilities Commission of Ohio (Staff) investigation of VEDO's Application and Staff's findings and recommendations.

BACKGROUND

VEDO is an Ohio corporation engaged in the business of providing natural gas distribution service to approximately 320,000 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 Public Utilities Commission of Ohio (Commission) jurisdiction. The Commission's Opinion and Order in Case No. 07-1080-GA-AIR approved a 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 (*2013 DRR Extension Case Stipulation*) that authorized VEDO to continue the DRR Program for investments beginning in 2013 through 2017 and to expand the Program's scope.

On March 30, 2018, in conjunction with its base rate case filed in Case No. 18-0298-GA-AIR, VEDO filed an alternative regulation case in Case No. 18-0299-GA-ALT (collectively, *2018 Rate Case Proceedings*). On January 4, 2019, VEDO, Staff, and parties to the 2018 Rate Case entered into a Stipulation and Recommendation (*2018 Rate Case Stipulation*), which the Commission approved pursuant to the August 28, 2019 Opinion and Order in Case Nos. 18-0298-GA-AIR, 18-0299-GA-ALT, and 18-0049-GA-ALT (the 2018 Rate Case Order). The 2018 Rate Case Stipulation stated that the DRR

[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. 19-1011-GA-RDR, Application at 1 (May 1, 2019).

balance as of December 31, 2017 is included in stipulated base rates. The 2018 Rate Case Stipulation also extended the DRR program for six years, for investment from January 1, 2018 through December 31, 2023.

The purpose of the DRR is to permit VEDO to seek recovery of the following:

- The return of and return on 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;
- Deferred expenses associated with the Company's riser investigation pursuant to Case No. 05-0463-GA-COI;[2]
- Costs for replacement of prone-to-fail risers;
- Incremental costs related to the Company's assumption of ownership and responsibility for repairing customer service lines; and
- 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* and *2013 DRR Extension Case Stipulation* provided a process for establishing the annual DRR rate, which the *2018 Rate Case Proceedings* continued. 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

[2] 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.

and a summary of its construction plans for the upcoming 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 the Commission will set unresolved issues for hearing. Parties will use their best efforts to achieve implementation of new DRR charges to take effect on a service rendered basis on September 1 of each year.

Pursuant to the Stipulation in the *2018 Rate Case Proceedings*, the DRR is capped annually for the Residential and Group 1 General Service customers, as follows:[3]

DRR Investment Year	**Recovery Period**	**Applicable Cap**
2018	9/1/19 – 8/31/20	$2.50
2019	9/1/20 – 8/31/21	$5.00
2020	9/1/21 – 8/31/22	$7.50
2021	9/1/22 – 8/31/23	$10.00
2022	9/1/23 – 8/31/24	$12.00
2023	9/1/24 – 8/31/25	$13.75

On January 29, 2020, the Commission issued a request for proposal (RFP) seeking proposals to conduct a two-part audit of VEDO's plant in service with a focus on capital expenditure program (CEP) and DRR assets. The purpose of the audit, as it relates to the DRR, was to review and attest to the accounting accuracy and used and useful nature of VEDO's capital expenditures and corresponding depreciation reserve since the date certain of its most recent base rate case (December 31, 2017 as set in the *2018 Rate Case*

3 *2018 DRR Extension Case*, Stipulation and Recommendation at 7 (Jan. 4, 2019).

Proceedings) through December 31, 2019. On February 26, 2020, Blue Ridge Consulting Services, Inc. (Blue Ridge) was selected by the Commission to perform the review.

VEDO'S APPLICATION

VEDO filed its Application on May 1, 2020. The Application is supported by the testimony and exhibits of Steven A. Hoover, Regional Director of Gas Engineering, and J. Cas Swiz, Director of Regulatory and Rates. Mr. Hoover's testimony and exhibits present: the progress made in 2019 on the Bare Steel/Cast Iron (BS/CI) Replacement Program; the Company's 2020 BS/CI replacement plans; maintenance costs associated with the 2019 BS/CI Replacement Program; the 2019 incremental costs for maintenance and repair of service lines previously owned by customers; 2019 capital costs for replacement of previously customer-owned service lines; and the operation and maintenance cost savings realized in 2019.

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 2019 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, 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. 19-1011-GA-RDR. In addition, Mr. Swiz's testimony also 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 2019 it replaced 47.22 miles of bare steel and 2.34 miles of cast iron mains, replaced 5,376 BS/CI service lines (with an additional 300 service lines retired), and moved 3,472 inside meters outside as part of its Replacement Program. VEDO proposed a Mains Replacement Program revenue requirement of $8,516,888 and $11,179,017 for the Service Line and Riser Replacement Program for a total DRR revenue requirement of $19,695,905.

On June 30, 2020, VEDO filed a Supplemental Application to correct the property tax rate in the calculation of the proposed adjustments to the DRR rates and charges. The amounts originally noted as allowed Revenue Requirement recoveries on Exhibit No. JCS-1 supported by the Exhibit Nos JCS-2 and JCS-3, incorrectly reflected the use of a forecasted property tax rate. VEDO avers that since inception in 2009, the DRR approach has been to use the latest known average personal property tax rate. In this case VEDO asserts the rate should reflect the 2020 property tax bills, which are based upon the 2019 assessment year (2019 pay in 2020). The personal property tax rate being proposed by VEDO is 9.800%.

The Supplemental Application affects the total revenue requirement. VEDO's new proposed DRR revenue requirement $19,716,404 consists of a Mains Replacement Program revenue requirement of $8,526,250 and a Service Line and Riser Replacement Program revenue requirement of $11,190,155. The property tax rate revision also results in revisions to testimony and exhibits filed with VEDO’s original Application. VEDO’s original Application proposed the following DRR rates and charges:

Rate Schedule	$ Per Month	$ Per Billing Ccf
310. 311, and 315	$4.37	
320, 321, and 325 (Group 1)	$5.49	
320, 321, and 325 (Group 2)		$0.01634
345		$0.00697
360		$0.00309

With the foregoing revisions, VEDO’s Application, Supplemental Application, and supporting testimony and schedules support the following revised DRR rate and charges:

Rate Schedule	$ Per Month	$ Per Billing Ccf
310. 311, and 315	$4.37	
320, 321, and 325 (Group 1)	$5.49	
320, 321, and 325 (Group 2)		$0.01636
345		$0.00698
360		$0.00309

BLUE RIDGE’S ADJUSTMENTS AND RECOMMENDATIONS

Blue Ridge filed its audit report on June 17, 2020 and below are the DRR adjustments and recommendations.

DRR Adjustment #1: The Company continued to use the most recently approved long-term debt rate of 7.02 percent until September 1, 2019, the effective date of base rates in the 2018 Rate Case Order. Blue Ridge recommends applying a long-term debt rate of 5.07 percent as prescribed in the Stipulation and Order with respect to the period under audit.

DRR Adjustment #2: The Company applied an estimated property tax rate based on a five-year trend analysis, as opposed to the "the latest known average personal property tax rate" described in its testimony. Blue Ridge recommends reflecting the 2019 property tax rate as prescribed. The rate differential reduces total annualized property tax expense and revenue requirement by $21,801, which is composed of $9,956 related to mains and $11,845 related to service lines.

Recommendation #1: Blue Ridge recommends that the Company reclass retirements whenever additions are allocated between the CEP and DRR mechanisms.

Subsequent to the issuance of the Audit Report, Blue Ridge has indicated that this issue has been adequately addressed and therefore is no longer an issue.[4]

Recommendation #2: Blue Ridge found that the new policy as a result of the Centerpoint merger allows projects to be placed in-service prior to the approval for the additional costs incurred over the estimate. Projects should not be placed in-service without the proper cost approvals. Blue Ridge recommends that the Company review the current policy to ensure that a project placed in service has the proper approval for the costs incurred.

Recommendation #3: The Company had work orders whose actual costs were more than 10% greater than budget, but the overage was not approved. Blue Ridge recommends that the Company either modify its procedures or provide a more stringent review to ensure that any project closed to plant has the proper approvals.

[4] Email from Donna Mullinax to Jonathan Borer, Re: Quick Question on VEDO DRR Audit (July 10, 2020), Attachment 1.

Recommendation #4: Blue Ridge discovered that if the in-service dates of a work order are delayed, the retirement of the assets is also delayed. That delay allows the replaced assets to continue to accrue depreciation (albeit insignificant). Blue Ridge recommends the Company make a more concerted effort to ensure the system has the proper in-service dates.

Recommendation #5: Blue Ridge recommends that the Company make a more concerted effort to unitize work orders on a timely basis.

Recommendation #6: Several DRR work orders included replacing smaller pipe with larger pipe, or replacement of more pipe than was retired. In order to address concerns that the DRR program is generating incremental revenue, Blue Ridge recommends that the Company provide an explanation on why increased size or additional length of pipe is necessary as part of the specific work orders. In its response, VEDO explained that in some instances, additional footage of pipe might be added because the new main might have required an alternative route. Additionally, VEDO explained that there also might be instances where the main is being installed in a different location, which requires additional footage of services to be added. Regarding the replacement of smaller pipe with larger pipe, VEDO explained that there might be historical, systematic constraints in place that require the need to use larger diameter pipe than what was previously in place. In its response, VEDO confirmed that it was not experiencing additional revenue for a DRR-specific project.

STAFF RECOMMENDATIONS

Staff has completed its investigation of Vectren's proposed DRR application. Regarding Blue Ridge Recommendation #1 pertaining to the reclassification of retirements, Blue Ridge has indicated that this issue was adequately addressed after the auditor filed the report and therefore is no longer an issue. In all other aspects, Staff fully adopts the Blue Ridge Report.

Respectfully submitted,

Dave Yost
Ohio Attorney General

John Jones
Section Chief

/s/Werner L. Margard III
Werner L. Margard III
Jodi J. Bair
Assistant Attorneys General
Public Utilities Section
30 East Broad Street, 16th Floor
Columbus, OH 43215
614.466.4395 (telephone)
614.644.8764 (fax)
werner.margard@ohioattorneygeneral.gov
jodi.bair@ohioattorneygeneral.gov

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 13th day of July, 2020.

/s/ Werner L. Margard III
Werner L. Margard III
Assistant Attorney General

Parties of Record:

Mark A. Whitt
Rebekah J. Glover
Whitt Sturtevant, LLP
The KeyBank Building, Suite 1590
88 East Broad Street
Columbus, Ohio 43215
whitt@whitt-sturtevant.com
glover@whitt-sturtevant.com

Angela O'Brien
Bryce McKenney
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215-4213
angela.obrien@occ.ohio.gov
bryce.mckenney@occ.ohio.gov

From: Donna Mullinax
Sent: Friday, July 10, 2020 12:47 PM
To: Borer, Jonathan Cc: Lipthratt, David ; Tracy Klaes
Subject: Re: Quick Question on VEDO DRR Audit

Hi Jonathan,
Recommendation #1: "Blue Ridge recommends that the Company reclass retirements whenever additions are allocated between the CEP and DRR mechanisms: should have been deleted.
During the near final fact check review with the Company, the Company explained: Service replacements transferred from the CEP and included in the DRR represent incremental investments made to replace pipe that was previously owned by the Customer – as such, no retirements exist on DRR-recovered service replacements.

I reviewed the re-classes between CEP and DRR and they are all related to service replacements.

We deleted the following section in our draft.

Blue Ridge found the Company's explanation on the transferring of balances between the CEP and DRR not unreasonable. However, Blue Ridge found that the Company does not appear to be transferring the associated retirements for the transferred additions from the CEP to the DRR. The DRR and CEP revenue requirements use different calculations, which could result in an increase in net revenues. Blue Ridge recommends that the Company reclass retirements whenever additions are allocated between the CEP and DRR mechanisms.
With this deletion, Recommendation #1 should also have been removed.
Donna

On Jul 10, 2020, at 12:10 PM, Jonathan.Borer@puco.ohio.gov wrote:

Hi Donna,

We are putting together Staff Comments for the VEDO DRR case (20-101-GA-RDR), and we have come to realize we need a "formal" communication to use as a citation in the text. The citation is needed in reference to Recommendation #1. We are including a sentence to say, "subsequently to the issuance of the Audit Report, Blue Ridge has indicated that this issue has been adequately addressed and therefore is no longer an issue." Our legal folks are recommending that we get confirmation of this in an email (or a phone call), but I think an email would be easiest.

With all that background out of the way, are you able to confirm that Recommendation #1 has been adequately addressed?

Thanks!

Jonathan Borer
Public Utilities Commission of Ohio
Rates & Analysis Department
Utility Specialist
(614) 466-6399
PUCO.ohio.gov