THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE CAPITAL EXPENDITURE PROGRAM RIDER OF VECTREN ENERGY DELIVERY OF OHIO, INC. D/B/A CENTERPOINT ENERGY OHIO.	**CASE NO. 22-620-GA-RDR**

FINDING AND ORDER

Entered in the Journal on August 10, 2022

I. SUMMARY

{¶ 1} The Commission approves the application of Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio to adjust its capital expenditure program rider.

II. DISCUSSION

{¶ 2} Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio (CEOH or the Company) is a natural gas company and a public utility as defined in R.C. 4905.03 and R.C. 4905.02, respectively. As such, CEOH is subject to the jurisdiction of the Commission.

{¶ 3} R.C. 4929.111 provides that a natural gas company may file an application to implement a capital expenditure program (CEP) for any infrastructure expansion, improvement, or replacement program; any program to install, upgrade, or replace information technology systems; or any program reasonably necessary to comply with any rules, regulations, or orders of the Commission or other governmental entity having jurisdiction. If the Commission finds that the CEP is consistent with the applicant's statutory obligation to furnish necessary and adequate facilities, which are also found to be just and reasonable, the Commission is tasked with approving the application and authorizing the deferral or recovery of both a regulatory asset for post in-service carrying costs (PISCC) on that portion of assets of the CEP placed in service but not reflected in rates as plant in service and a regulatory asset for the incremental depreciation directly attributable to the CEP and the property tax expense directly attributable to the CEP but not reflected in rates.

{¶ 4} In 2012, after making the necessary statutory findings, the Commission modified and approved CEOH's application to implement a CEP for the period October 1, 2011, through December 21, 2012. Under the approved CEP, the Company was authorized to begin deferring the PISCC, depreciation, and property tax expense associated with its CEP until the accrued deferrals, if included in rates, would cause the rates charged to Residential and General Default Sales Service, Group 1 (Residential Service) customers to increase by more than $1.50 per month. In approving the application, the Commission noted that the prudence and reasonableness of CEOH's CEP-related regulatory assets and associated capital spending would be considered in any future proceeding seeking cost recovery, at which time the Company would be expected to provide detailed information regarding the expenditures for the Commission's review. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 12-530-GA-UNC, et al., Finding and Order (Dec. 12, 2012).

{¶ 5} The next year, the Commission modified and approved the Company's application to continue the CEP, including deferral of PISCC, depreciation expense, and property tax expense, in 2013 and succeeding years. Once again, the Commission noted that a prudence and reasonableness review would occur through a future cost-recovery proceeding. *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1890-GA-UNC, et al., Finding and Order (Dec. 4, 2013).

{¶ 6} In 2018, CEOH filed an application to increase its rates for gas distribution service and for approval of alternative rate plans, one of which sought authority for cost recovery of the deferrals and expenses related to the CEP. *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Rates*, Case No. 18-298-GA-AIR; *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan*, Case No. 18-299-GA-ALT; *In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Alternative Rate Plan*, Case No. 18-49-GA-ALT (combined, *2018 Rate Case*). On August 28, 2019, the Commission approved a stipulation and recommendation that, among other things, authorized CEOH to include the deferred CEP balance as of December 31, 2017, and the assets underlying such balance, in base rates

and establishing a new CEP Rider with initial rates set at zero. *2018 Rate Case*, Opinion and Order (Aug. 28, 2019) at ¶ 53, 65-66, 125. The approved stipulation also set forth the procedures, terms, and conditions that would govern CEOH's future cost-recovery proceedings to update customer charges for the CEP Rider, including a timeframe for the filing and processing of the annual applications and an annual or biennial review of the necessity, prudence, lawfulness, and reasonableness of the Company's CEP investment.

{¶ 7} Since the Opinion and Order issued in the *2018 Rate Case*, the Commission has twice addressed adjustments to CEOH's CEP Rider. Most recently, the Commission issued a Finding and Order approving the Company's application, as modified by Staff's recommendations, on August 25, 2021. *In re Vectren Energy Delivery of Ohio, Inc.'s Capital Expenditure Program Rider*, Case No. 21-620-GA-RDR, Finding and Order (Aug. 25, 2021). Under approved rates effective through August 31, 2022, Residential Service customers are paying a CEP Rider rate of $0.40 per month.

{¶ 8} On January 26, 2022, in this proceeding and in anticipation of CEOH's next annual application to the CEP Rider, the Commission issued an Entry directing Staff to issue a request for proposal (RFP) for audit services to assist in a two-part review of the accounting accuracy, necessity, prudency, lawfulness, and reasonableness of the Company's CEP-related regulatory assets and associated capital spending for calendar year 2021. On February 23, 2022, the Commission selected Larkin & Associates PLLC (Larkin) to conduct the audit.

{¶ 9} On March 1, 2022, CEOH filed its application for authority to adjust the CEP Rider (Application). The Application seeks approval of proposed rider rates for the 12-month period beginning September 1, 2022, to include the CEP-related deferred balance for calendar year 2021. As with previous CEP Rider adjustments, the proposed CEP revenue requirement does not include the CEP assets underlying the deferred balance; CEOH will seek recovery of the underlying assets through rate base in the Company's next base rate proceeding. CEOH submits the testimony of Chrissy M. Behme (Manager, Regulatory

Reporting) and Katie J. Tieken (Director, Regulatory and Rates), as well as various schedules and exhibits, in support of the Application. As demonstrated by the Application and supporting documents, the total applied-for rider revenue requirement is $3,052,659, resulting in a proposed rate of $0.62 per month for Residential Service customers.

{¶ 10} By Entry dated March 8, 2022, the attorney examiner issued a procedural schedule to govern the process for review of the Application. The schedule set forth deadlines for the filing of the Staff Report, for motions to intervene, for CEOH and intervenors to file comments, and for CEOH to file a statement informing the Commission whether issues rates in comments had been resolved. Furthermore, the Entry stated that, if necessary, an evidentiary hearing would be conducted on August 4, 2022.

{¶ 11} On June 22, 2022, Larkin filed its report on the prudency audit of plant in service and capital spending for the 2021 calendar year (Larkin Report or Audit Report). After noting the audit goals and criteria listed in the RFP, Larkin explains that its objective was to determine whether CEOH has accurately determined and accounted for its plant in-service balances and depreciation reserve balances for the period January 1, 2021, through December 31, 2021. The audit further assesses and opines on the necessity, reasonableness, and prudence of the Company's capital expenditures and associated assets for the 2021 calendar year with an emphasis on CEP expenditures and assets. Larkin states that its investigation included reviewing the Application, issuing discovery, interviews with Company personnel, desktop reviews/virtual tours and analyses, which included variance analysis and detailed transactional testing. Larkin specifies that it did not find that CEOH's CEP investments lacked necessity or were unreasonable or imprudent; therefore, Larkin does not recommend any adjustments to the Company's plant in service balance. The Audit Report does, however, make three non-revenue recommendations.

{¶ 12} First, Larkin notes that on July 6, 2021, the Company switched from Maximo and Oracle legacy systems to SAP and, following that conversion, the Company identified several contract errors that prevented contractors from correctly and timely invoicing

CEOH for services completed. This caused timing variability in invoicing and plant in service. Additional unforeseen business-process-related issues occurred resulting in a backlog of work order documentation from projects. Specific to CEP projects, the various issues ultimately required work orders to remain in an open status to allow for invoicing, which delayed some projects from being put into service in a timely manner following the completion of the work in the field. Larkin further notes that that the Company began the process of correcting the issues in December 2021. However, given the magnitude of the identified issues, Larkin recommends that the Company continue to take appropriate steps to ensure that the SAP system is functioning properly and that costs for completed projects are recorded properly and on a timely basis.

{¶ 13} Second, Larkin states that, in the audit of CEOH's CEP for calendar year 2020, the auditor recommended that the Company address its $125.4 million unitization backlog by making a concerted effort to unitize work orders on a timely basis. Larkin relates that CEOH made progress on this issue during 2021 by unitizing approximately $60.2 million of the backlog. However, as of December 31, 2021, the unitization backlog was $119.4 million (the remaining 2020 backlog of $65.2 million plus non-unitized CEP projects of $54.2 million for calendar year 2021). Accordingly, Larkin recommends that the Company continue its efforts to address the unitization backlog for CEOH to properly record completed projects as plant in service on a timely basis. Larkin submits that the Company should report on the level of its unitization backlog and its efforts to address and reduce that backlog and to timely record completed CEP projects as plant in service in its next CEP review.

{¶ 14} Third, and finally, Larkin observed that many of the Company's records referred to capital spending projects as HB95 projects rather than as projects that were part of the CEP program. The Company explained the reason for the differing terminology and expressed that CEOH has used the terms HB95 and CEP interchangeably. In response to a data request, however, CEOH stated that it would endeavor to replace the HB95 references going forward. Larkin reports that it concurs with this decision and, thus, recommends that the Company update its systems in order to identify specific CEP-qualifying capital

expenditure programs and that the HB95 reference not be used to refer to the CEP or other capital spending programs on a going-forward basis.

{¶ 15} On June 29, 2022, Staff filed its review and recommendation regarding the Application (Staff Report). After supplying background information on the CEP Rider, Staff provides details regarding the Company's proposed revenue requirement. Staff explains that the relevant CEP investments include plant additions of $65,528,383 and retirements of $2,689,403 for total plant in service of $62,383,980 and total deferred expenses and total deferred taxes on expenses of $40,592,259. Continuing, Staff provides an outline of its investigation, including Larkin's role in conducting the audit.

{¶ 16} Ultimately, Staff fully adopts the Audit Report and confirms that the new rate is $0.62 for Residential Customers. In this, Staff finds that the Company has supported its filing with adequate data and information to ensure that the CEP Rider's revenue requirement and resulting rider rates are just and reasonable. Therefore, Staff recommends that the Commission approve the Company's Application "as modified by these comments."

{¶ 17} On July 15, 2022, CEOH filed comments to the Staff Report (Comments). First, CEOH notes that the Staff Report fully adopts the Audit Report, which did not contain recommendations that would modify the Company's applied-for CEP Rider rate of $0.62 per month for Residential Customers. Thus, CEOH contends that the Staff Report inadvertently included the phrase "as modified by these comments" and understands the auditor to have approved the Company's proposed rates as filed.

{¶ 18} The Company next addresses the Larkin Report's non-revenue recommendations. As to Larkin's first recommendation regarding the functionality of the SAP system and ensuring that costs for completed projects are timely and properly reported, CEOH commits to continuing to resolve the identified issues and to work to reduce abnormal delays in project costs and work order closing. Second, CEOH acknowledges the unitization backlogs. The Company states that it will make a continued, concerted effort to

unitize CEP projects within a reasonable time and in compliance with its policies and standard practices. The Company will also provide an update on this issue in its next annual application to adjust the CEP Rider rate. Finally, CEOH confirms that it will move to replace all HB95 references as new work orders start in 2023.

{¶ 19} On July 22, 2022, CEOH filed its statement regarding the resolution of issues (Statement). The Company begins by reiterating that the Audit Report contained no recommendations that would modify CEOH's applied-for CEP Rider rate. The Company then expresses its understanding that, based on the Staff Report's adoption of the Audit Report in full, Staff accepts the revenue requirement of $3,055,066 for the purposes of setting rates in this proceeding. The Company further represents that it considers the Larkin Report's non-revenue recommendations to be resolved based on the explanations and approaches set forth in its Comments. Accordingly, CEOH submits that there are no issues left for decision through hearing and requests the Commission to approve the customer charges set forth in the Application as follows:

Rate Schedule	**$ Per Month**	**$ Per Billing Ccf**
310, 311, and 315 (Residential Service)	$0.62	
320, 321, and 325 (Group 1 – Small General Service)	$0.81	
320, 321, and 325 (Group 2 and 3 – Large General Service)		$0.00372
345 (Large General Transportation)		$0.00151
360 (Large Volume Transportation)		$0.00093

{¶ 20} The Commission has reviewed the Application, the Larkin Report, the Staff Report, CEOH's Comments, and the Company's Statement. Initially, the Commission notes that there is no modification to the applied-for revenue requirement or rider rate within either the Larkin Report or the Staff Report. The Commission thus concludes, as did the Company, that the Staff Report's language indicating that the Application should be approved "as modified by these comments" was included in error. The Commission further finds that the Company has proposed a revenue requirement based on necessary and

prudent CEP investments that will result in rider rates that are just and reasonable. Accordingly, the Commission concludes that the Company's Application to adjust the CEP Rider should be approved.

III. ORDER

{¶ 21} It is, therefore,

{¶ 22} ORDERED, That CEOH's Application be approved. It is, further,

{¶ 23} ORDERED, That CEOH be authorized to file tariffs, in final form, consistent with this Finding and Order. The Company shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 24} ORDERED, That the effective date of the new tariff shall be a date not earlier than the date upon which the final tariff page is filed with the Commission. It is, further,

{¶ 25} ORDERED, That the Company shall notify its customers of the changes to the tariff via bill message or bill insert within 30 days of the effective date of the revised tariff. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

{¶ 26} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 27} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:
Approving:
Jenifer French, Chair
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

PAS/hac

Summary: Finding & Order approving the application of Vectren Energy Delivery of Ohio, Inc. d/b/a CenterPoint Energy Ohio to adjust its capital expenditure program rider electronically filed by Heather A. Chilcote on behalf of Public Utilities Commission of Ohio