

Vectren Energy Delivery of Ohio's Distribution Rate

In January 2009, the Public Utilities Commission of Ohio (PUCO) adopted an agreement, arrived at between the parties in the case, which allows Vectren Energy Delivery of Ohio to increase the rates it charges for natural gas distribution service. The PUCO also ordered the company to implement a new "levelized" residential distribution rate structure that better reflects the fixed cost nature of delivering natural gas. Below are answers to frequently asked questions about Vectren's distribution rate.

What are distribution rates?

Natural gas bills are comprised of two main parts – the cost of the gas and the cost of delivering the gas to homes. The cost of natural gas, which makes up 75 to 80 percent of customer bills, is not a part of this rate case. This cost is passed through to customers on a dollar-for-dollar basis with no mark-up or profit going to the utility company. The PUCO monitors and audits this price to ensure that the utility is not making a profit on the cost of natural gas. The distribution rate pays for all the things that Vectren must do to deliver gas to its customers, including the cost of installing and maintaining gas pipelines, reading gas meters, processing bills, and taking customer service calls.

What is the PUCO's role in setting distribution rates?

According to Ohio law, a public utility is allowed to recover from customers its operating expenses, plus a reasonable return on its infrastructure investments. When a utility requests a rate increase from the PUCO, several steps are taken to review the company's financial condition and ensure that the company is fulfilling its obligations to customers.

When evaluating proposed rates, the PUCO's staff looks at whether the proposed rates will provide the company with adequate operating revenue according to Ohio law. In general, the cost of providing service to customers, maintenance of infrastructure and equipment expenses, depreciation expense, taxes and a return on the company's infrastructure investment are used to calculate the company's revenue requirement. The revenue requirement is the amount of money a company is allowed to collect from its customers during a given year.

The PUCO staff prepares a report advising the Commission of its recommendations regarding the rate case. The Commission is not bound by these staff recommendations and may implement some of the staff's suggestions and reject others.

How did Vectren bill customers for the distribution rate in the past?

Previously, a fixed monthly customer charge paid for a portion of the gas delivery costs. This fee only covered things like meter reading, billing and customer service. The rest of the cost of delivering natural gas, including the cost of installing, maintaining, and repairing Vectren's pipeline system, were billed to Vectren customers based upon the amount of gas they used each month. This often resulted in customers paying for more of the costs of delivery during the winter, when bills are at their highest.

How does the new “levelized” distribution rate work?

Customers will pay a flat monthly charge to cover their share of the fixed distribution costs that do not change with natural gas usage. The flat monthly charge will help balance out, or “levelize,” between the summer and winter, allowing customers to better predict and budget for bills from month-to-month.

What did Vectren request in its application?

Vectren proposed rates that would generate \$27.3 million of additional revenue for the company, an increase of 7.3 percent over current revenues. In its application, Vectren proposed to introduce an accelerated distribution system replacement program to improve its aging pipelines and to expand its customer conservation program.

What agreement did Vectren, PUCO staff, and the Ohio Consumers’ Counsel reach?

Vectren, PUCO staff, the Ohio Consumers’ Counsel and other parties reached an agreement in the case that would allow the company to increase rates for natural gas distribution service. The agreement allows Vectren to increase its annual revenues by \$14.8 million.

How will this affect the average customer’s bill?

The rate new rate structure will be phased in over two years with the usage-based charged being eliminated in year two. An average residential customer using eight hundred cubic feet (ccf) of natural gas each year will see their monthly bill increase by \$4.16 in year one and an additional \$2.07 in year two.

How does the agreement protect customers?

Customers at or below 175 percent of the federal poverty guidelines who are not enrolled in the Percentage of Income Payment Plan (PIPP) will be eligible for a 1 year pilot program to reduce their flat monthly charge by \$4. This pilot program will be available to the first 5,000 customers who enroll. Customers who choose to remain enrolled in PIPP will continue to pay a percentage of their gross monthly household income on each monthly bill.

Vectren will provide \$4 million in funding for energy efficiency programs, including \$1.1 million for low-income customer weatherization programs, and will continue to fund its existing low-income conservation program.

The agreement also permits Vectren to establish a distribution system replacement program rider that will allow the company to recover costs for the replacement of aging distribution pipelines. Vectren will establish a program to address the safety concerns of prone-to-fail risers and assume ownership and repair responsibility for customer service lines.

Will any of this affect the cost of natural gas itself?

No, the cost of natural gas, which annually makes up 75 to 80 percent of bills, will continue to be passed on to customers through Vectren’s gas cost recovery rate or a gas marketer’s rate. Either way, Vectren makes no profit on this part of the bill.

Will the new rate structure impact customers' energy conservation efforts?

The cost of natural gas remains the biggest part of a customer bills. Customers who make conservation efforts and energy efficiency investments will continue to see cost savings on this part of their bill. Under the agreement Vectren will also establish four new programs to promote conservation and energy efficiency

Did the PUCO consider public opinion in making its decision?

Yes, the PUCO held local public hearings in Dayton, Sydney and Washington C.H. A total of 18 witnesses provided testimony. The Commission took this testimony into consideration when reviewing the rate case.

If you would like to know more about the PUCO or have utility-related questions or concerns, contact the PUCO at:

(800) 686-PUCO (7826)

(800) 686-1570 (TDD/TTY)

In Columbus only:

(614) 466-3292

(614) 466-8180 (TDD/TTY)

www.PUCO.ohio.gov