Released From Confidential Status

Case Number: 07-478-GA-UNC

Date: 11/16/2007

1 here may stay.

ATTORNEY EXAMINER KINGERY: At this point we will seal the record and subject to determination, generally whether there has been waived.

MR. SERIO: Your Honor, it's not my fight because I am aware some of information, I feel obligated to say it, Mr. Campbell is not one of the parties, and I only know this because I asked him after the break, but he's an attorney with Jones Day, and I think he's here representing East Ohio, who isn't a party. Whether that's a problem or not I don't know.

MR. PETRICOFF: That would be a problem.

ATTORNEY EXAMINER KINGERY: I have to ask you to leave. If you would like to wait outside, we can call you when we are through this portion.

(CONFIDENTIAL PORTION.)

ATTORNEY EXAMINER KINGERY: You may

MR. CREEKMUR: Thank you, your Honor.

Q. (By Mr. Creekmur) Mr. Riley, point of clarification, any time that I spoke in terms of insurance, that was synonymous in my meaning with warranties in your business, and I assume that would

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proceed

a of Ohio

1 not change any of your answers?

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- A. It would not, no.
- Q. Mr. Riley, I'll repeat my question and start back at the beginning of this. On page 12, Interrogatory No. 13, is it true you have stated there are 103,092 active contracts for gas line warranties in Ohio or approximately that many?
- A. At the end of September of this year, that's correct.
- Q. Thank you. And on page 14 of your interrogatory, Columbia Exhibit No. 4, Interrogatory No. 16, is it true that you state the average monthly fee for gas line warranty provided by USP in Ohio is \$3.46 as of August 31, 2007?
 - A. Yes, it is.

MR. PETRICOFF: Your Honor, I want to note for the record I havé a continuing objection for the whole line of questioning.

ATTORNEY EXAMINER KINGERY: Yes, I recognize that.

Q. Mr. Riley, I'm going to ask you to assume mathematical computations. If you are more comfortable, I'll be happy to provide you with calculator so you can make those, or your counsel

- with a calculator can verify my numbers, if would like.
 - A. Counsel can provide me with a pen, I'll do back of the envelope.
 - Q. Mr. Riley, they're large numbers, so you are aware. Anytime you would like to verify with a calculator, certainly let me know.

MR. PETRICOFF: If you have one, I have one to give my client, but it's fairly small. If you have one with bigger numbers.

- Q. Mr. Riley, is it true on page 13 of your interrogatories Columbia Exhibit No. 4, Interrogatory No. 14, the very end of your response you have stated that for the calendar year 2007 there have been 1,116 riser repairs amounting to \$1,015,051.26 up to August 31, 2007, for that calendar year?
 - A. I apologize. What page are you on?
 - Q. Page 13.

- A. The interrogatories?
- Q. The interrogatories, yes, sir. It is No. 14, page 13, though.
 - A. Okay. So would you mind repeating the question?
- Q. Absolutely. Your response to

Interrogatory No. 14 at the very bottom, is it true you state for the calendar year 2007 up to August 31, 2007, there have been 1,116 risers -- excuse me -- customer service lines repaired totaling a figure of \$1,015,551.26.

A. Yes.

Q. Now, Mr. Riley, this is where the calculator might come in handy. If you divide -- if you take that annual cost, the \$1 million figure, and divide it by the number of riser repairs, you will come out to approximately \$910 per repair, and, again, approximately?

A. That's correct.

ATTORNEY EXAMINER KINGERY: Excuse me.

You said "riser repairs." Did you mean service line
repairs?

MR. CREEKMUR: Thank you, your Honor, I did mean customer service line repairs for the record.

MR. PETRICOFF: Your Honor, I want to object. It says gas service line repairs in Ohio, and we're not clear at this point whether that's just the customer service line or the house line or claims on the houses themselves, nor the nature of the

1 | policy.

ATTORNEY EXAMINER KINGERY: Thank you.

MR. PETRICOFF: I will include that once again in my objection that you simply cannot take these numbers and make comparisons to the IRP and that's where we're going.

MR. CREEKMUR: Your Honor, I stipulated we're not doing that multiple times.

ATTORNEY EXAMINER KINGERY: Can you clarify the question to make sure that we understand exactly what those repairs were for?

MR. CREEKMUR: Certainly.

- Q. Mr. Riley, you have them defined as gas service lines in your answer. If you divide the dollar amount by the number of repairs for the calendar year 2007, you will come out to approximately \$910 per repair; is that correct?
 - A. That's correct.
- Q. On page 20, I believe of your interrogatories, which is a response to Interrogatory No. 30, your last sentence of your response is it true you state approximately 1,500 gas service lines under USP warranty in Ohio will need to be replaced annually?

- Α. Yes, that's correct.
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- And can we assume that number is also Ο. valid for the calendar year 2007, approximately?
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Α. I'm sorry, can you repeat that question.

I'll rephrase that. Your response there

Mr. Riley, if you could either agree with

And, Mr. Riley, is it fair to assume, and

- 5
- are 1,500 gas service lines under USP warranty in
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- 7 Ohio that need to be replaced annually, is it also a
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correct statement for the calendar year 2007,

approximately?

Q.

Q.

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Yes, approximately, that's correct.

my assumption or verify on the calculation that 1,500

service line repairs, multiplied by the \$910 figure

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- Α. Yes, that's correct.

\$1,365,000 approximately?

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per repair that we already determined equals

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- can you verify this on your calculator, if you wish, that if you multiply the number of contracts that we've established, the 103,092 contracts, multiplied by your average monthly customer charge of \$3.46, multiplied by 12 months would give USP a total revenue under these gas service line warranties of approximately 4.2 or 4.3 million dollars? Would you

1 | like me to repeat that question?

- A. No. I understand the question. The problem with the math is that our prices vary depending upon the time in which we sold the product, so the average price that was quoted as \$3.46 was an average price at a snapshot in time made up of a certain group of customers. And those group of customers may not have been the same group previously at a different price point, so it's not a fair comparison to say the 3.46 was the same price in effect the entire year or there were 103,000 products sold the entire year.
- Q. You stated there were 103,092 active contracts in Ohio.
 - A. As of a specific date.
- Q. Correct. Mr. Riley, would that average monthly fee, as you've stated to be \$3.46, would that swing wildly one way up or down through the calendar year 2007?
 - A. It would not change wildly, no.
- Q. Can you further define that? Would that be a quarter, 10 cents?
- A. It's probably in the range of 10 to 15 cents.

- Q. Thank you. Mr. Riley, that would be 10 or 15 cents of an increase or decrease?
 - A. It would likely be a decrease.
 - Q. Why is that, Mr. Riley?

- A. Because the 103,000 products sold reflect the latest campaign that we did, and we had a price increase in our last campaign. So the prices in our last campaign reflected the highest prices we offered.
- Q. Mr. Riley, if you don't agree with my \$4.2 million total revenue income for USP on these gas service line warranties, could you provide me with a more accurate figure, although I will assume it's still an approximation?
- A. Subject to check, it is an approximation, I'd say it's closer to 3.9 million.
- Q. Mr. Riley, for the sake of argument what is your \$3.9 million -- we'll use the \$3.9 million number, if you're comfortable with that.
 - A. Sure.
- Q. Isn't it true, Mr. Riley, that once USP subtracts the cost of annual repairs approximated at \$365,000 from the total amount it collects annually from its customers for the associated warranties in

- the range of \$3.9 million, USP would then retain
 approximately \$2.5 million, actually slightly more?
 - A. That would be the gross margin on the product sold, yes, that's correct.
 - Q. Thank you. Mr. Riley, USP is in the gas line warranty business to make a profit, is it not?
 - A. It is.
 - Q. Would USP stay in the gas line warranty business long term if the business wasn't profitable?
 - A. Probably not.
 - MR. CREEKMUR: Thank you, Mr. Riley, for your time.

That's all the questions, your Honor.

ATTORNEY EXAMINER KINGERY: Thank you.

We will go back into the public record at this time.

MR. PETRICOFF: Before we go back, maybe we should complete any other questions that would be under seal because I'd have redirect on the part that's under seal. It may make more sense to manage it that way to go off and go on.

ATTORNEY EXAMINER KINGERY: I'd have to send our visitor back so we will go back on at this, point but it was a good idea, though.

MR. PETRICOFF: Didn't come timely

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164 1 enough, though. 2 ATTORNEY EXAMINER KINGERY: Right. 3 (PUBLIC RECORD.) 4 ATTORNEY EXAMINER KINGERY: 5 Ms. Hammerstein, you are next. MS. HAMMERSTEIN: Can we take a 6 7 five-minute break, your Honor? 8 ATTORNEY EXAMINER KINGERY: Yes, we can, come back at five after. 9 1.0 (Recess taken.) 11 ATTORNEY EXAMINER KINGERY: Are we ready 12 to proceed? 13 MS. HAMMERSTEIN: Yes, Your Honor. Mr. Reilly will proceed. 14 15 16 CROSS-EXAMINATION 17 By Mr. Reilly: Mr. Riley, my name is Steve Reilly. 18 19 an assistant attorney general on behalf of the staff 20 of the Public Utilities Commission, co-counsel to 21 Ms. Hammerstein. I have just a couple of questions 22 for you. I'd like to talk to you a little bit about 23 warranty programs. I don't think this is

confidential, just generally.

A. There's a number of different ways we do it. In the Ohio market --

- Q. Excuse me. Before you get into that for your own protection, are you about to talk about anything everyone else isn't doing?
- A. Probably so. Well, we are probably going to talk about things that others don't do.

MR. REILLY: Do you want to go to confidential?

MR. PETRICOFF: I guess we have to, yes,
11 your Honor.

(CONFIDENTIAL PORTION.)

- Q. (By Mr. Reilly) All I'm trying to get out is how potential customers find out about your product, that's all I'm trying to get to. If you can describe that for us.
- A. Sure. We will acquire a customer list in a number of different ways, including the existing customer list that we have. We will at times purchase customer lists from different companies that are out there that will provide those lists. We use those lists to mail direct solicitations to our customers.
 - Q. When you talk about the companies out

there that provide those lists, you are talking about companies in the business of providing customer lists?

A. Yes.

- Q. Are you talking about any others?
- A. We acquired a customer list when we bought the business.
 - Q. And you bought the business from?
 - A. Columbia Energy Companies.
- Q. So am I correct that if somebody didn't receive one of your solicitations, there would be no way for an individual to learn about your products from your company?
- A. Not necessarily. I mean, we have websites up they could find out about it. Could Google us, a lot of people learn about it from their neighbors. We have folks that learn about it from contractors we use in our network when they see other folks getting the repair work done. There's a number of different ways consumers find out about us.
- Q. The contractors you use in your network, I'd like to talk about them for just a second.

ATTORNEY EXAMINER KINGERY: Excuse me.

Are we back to nonproprietary?

170 1 MR. REILLY: We are almost out. 2 Do you have exclusive contracts with the Q. 3 contractors you deal with in your network? 4 Α. We do not. 5 ATTORNEY EXAMINER KINGERY: Are we out 6 now? 7 MR. REILLY: We don't need to be under I think Howard or I will recognize when we're 8 seal. about to do something. 9 10 ATTORNEY EXAMINER KINGERY: Okay. We may 11 all suffocate. 12 MR. REILLY: The survivors go home early. 13 Let's stay under seal here. 14 ATTORNEY EXAMINER KINGERY: Okay.

Q. You mentioned several methods by which potential customers would find out about your services. Do you -- does your company keep any kind of records, tabulations, or calculations on the percentage of potential customers that are identified through any one of those means?

- A. You mean --
- Q. Let me ask a different way.
- 23 A. Okay.

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Q. Does your company keep any kind -- does

your company make a determination what percentage of customers come to it by word of mouth?

- A. No, we do not.
- Q. Does your company keep any calculations or records of what percentage of potential customers come to it because they first learned about it on its website?
 - A. No, we don't.
- Q. Does your company keep any calculations or potential records as to -- does your company keep any calculations or records as to the percentage of potential customers that come to it by reason of a direct mailing?
- A. We know how many customers respond to our direct mailings, solicitation.
- Q. Okay. Do you make a determination of what percentage that is of your total potential customers?
 - A. No. We've never done that calculation.
- Q. Tell me this, we are still under seal here, just in general, does your company spend more money on direct mailing or on your notice in your website regarding your services?
 - A. Direct mail.

1 Q. Many times more annually?

- A. It's significantly more, yes.
 - Q. Would I be safe to say that most of your direct customers come to the company through the direct mail route?
 - A. That's fair, yes.
 - Q. Would it be safe to say the significant majority of the customers come to the company through the direct mail route?
 - A. Yes, that's fair.
 - Q. Is it safe to say, in fact, if a potential customer doesn't learn about your potential products in the direct mail route, they were not going to find out about it probably?
 - A. There's a great percentage that learn through it, a far greater percentage that learn through direct mail, but that does not preclude other customers who are signing up for the service.
 - MR. REILLY: May I have a moment, your Honor?
- 21 ATTORNEY EXAMINER KINGERY: Yes.
- MR. REILLY: We don't have to be on the confidential record any longer.
- 24 (public record)

- 1 Tell me, sir, are customer service 0. 2 representatives under a drug and alcohol program that 3 meet the requirements of 49CFR199? 4 Α. They are not. 5 Let me ask you one last thing. I think б you testified when a customer calls and they're 7 worried about a possible gas leak, that the customer 8 service representatives tell the customers to leave 9 their home along with telling them to call Columbia; 10 is that correct? 11 If they smell a gas leak in their home, 12 we inform them to leave the home and call Columbia 13 Gas. 14 Are your customer service representatives 15 informed that they should also tell Columbia Gas if 16 they left their home? 17 Α. No. 18 MR. REILLY: We should probably go back 19 on the confidential record. 20 ATTORNEY EXAMINER KINGERY: The record 21 will be sealed at this point. 22 (CONFIDENTIAL PORTION.)

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Q.

coverage.

A question about your warranty and

If there is a break in the gas line of a

pinhole leak, whatever is causing the escape of gas,
and that's caused by a third party, not caused by the
homeowner and not caused by corrosion, somebody
digging, does your warranty cover that?

A. It does not.

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- Q. Would that be true if the customer caused it, a customer digging?
 - A. Same situation.
- Q. If there's a general way to do it, what is the coverage of your warranty?
- A. It's for normal wear and tear of the service line.
- Q. How would you make that determination before you go out there?
- A. Before we go out to check on the condition of the line?
- Q. You go out and check on the condition of the line, and you find it is not a covered item.

 What happens?
- A. We'll inform the customer that we can't cover their claim because of whatever condition that's not consistent with our warranty, and then -- it's a situation we don't like so typically our manager of the contractor network will work with

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whatever the contractor is on site to get the job done for the consumer at a discounted price.

- Q. You would inform the customer of that information before you did the work.
 - A. To the extent that that's possible, yes.
- Q. Would you do the work -- I'm talking about the situation that is not covered by your warranty. A contractor goes out and makes that determination. The customer is not home. What does the contractor then do?
- A. Notify us for us to get in touch with the customer at the first opportunity we can.
- Q. And that would occur -- you're getting in touch with the customer would occur before any work done on the gas line?
- A. I don't know because I don't know the circumstance. These gas lines are buried, so if it was damaged by a third party, you will probably know that when you walk on the property because there's a hole in the ground that shouldn't have been there. In order to answer your question specifically I would have to have a specific example.
- Q. What I am trying to get to here, is there any situation in which your contractor would fix a

gas leak that was not covered by your warranty
without talking to the customer first?

- A. No. Under our procedures if there is any question about whether a service line is eligible for warranty repair, the contractor is to immediately call our manager of contractors, who then gets in touch with the customer.
- Q. All right. I apologize if my voice is up. I'm trying to be heard.
 - A. That's fine.
- Q. Okay. So it's safe to say that the entire repair process is then delayed until your company is able to contact the customer and get the customer's approval or in some cases I suppose disapproval on further repair?
- A. Yes. It's a very rare occurrence, but, yes.
- Q. I understand that. One more situation. There isn't a leak. You go out -- it isn't a leak. I suppose you would get a call. There isn't a leak but there is a situation that the company deems hazardous, such as corrosion on a bare steel pipe. Would the warranty cover that situation?

MR. AVENI: Objection, your Honor,

177 there's no testimony that corrosion on a line that 1 2 doesn't lead to a leak is hazardous. 3 ATTORNEY EXAMINER KINGERY: Can you lay some foundation for this? 5 Let me change the question. Is there any Ο. 6 situation in which the warranty your company offers 7 would cover a replacement where there was not a leak? 8 A. No. 9 MR. REILLY: Now, your Honor. 10 Thank you, Mr. Riley, I appreciate it 11 ATTORNEY EXAMINER KINGERY: Thank you. 12 We will go back to the public record at this point. 13 (PUBLIC RECORD.) 14 ATTORNEY EXAMINER KINGERY: Mr. Serio. 15 16 CROSS-EXAMINATION 17 By Mr. Serio: 18 I have two questions. Good afternoon, 19 Mr. Riley. Good afternoon. 20 Α. 21 On page 2 of your testimony you indicate 22 you have over 100,000 external gas warranties in 23 place. I assume they cover the risers also.

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They do.

1 MR. PETRICOFF: Yes, your Honor, and 2 probably we would go under seal for this.

(CONFIDENTIAL PORTION.)

MR. PETRICOFF: Your Honor, may I have a minute or two before we go into redirect?

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REDIRECT EXAMINATION

By Mr. Petricoff:

- Q. Mr. Riley, Mr. Reilly asked you a question concerning claims that might be presented to repair a service line, customer service line, because of a warranty claim that would be denied for a number of reasons. Roughly speaking, how many claims get denied that are made by policyholders or those who sign up with USP?
- A. On average we have less than 2 percent claim denial rate on gas lines in Ohio. A number of those are because customers signed up for the product but actually never made payment for the warranty. On a rare occasion we run into a situation where there was a preexisting condition, but it is very rare.
- Q. Roughly between 98 to 99 percent of all claims that are filed with USP the repair is done.
 - A. That's correct.

- Q. Okay. There were a number of questions
 concerning your deposition -- I'm sorry, the
 discovery responses, not the deposition, discovery
 response on page 13, and I think this is an
 interrogatory No. 14. Do you have that in front of
 you now?
 - A. I do.

- Q. Okay. The figure at the bottom for 2007, which was a figure used in the cross-examination of \$1,105,551.26 in expenses, does that represent all of your expenses in repairing and replacing lines?
- A. No. Those are the direct costs associated with the repair on site. It doesn't cover any of our administrative or back office calls such as call center, claim service manager, IT systems, claim systems, things like that.
- Q. And the \$910 for just the actual repair per line that was calculated as part of the cross-examination, do you know how that compares with Columbia's estimates?
- A. My understanding Columbia is estimating \$1,000 per repair.
 - Q. So roughly the same?
- A. A little less.

182 1 MR. PETRICOFF: Your Honor, I think 2 that's all. 3 ATTORNEY EXAMINER KINGERY: Thank you. 4 Mr. Creekmur, and please let me know if 5 you are done with the closed record. MR. CREEKMUR: I believe we should still 6 be sealed at this moment. 7 ATTORNEY EXAMINER KINGERY: That's fine. 8 9 10 RECROSS-EXAMINATION 11 By Mr. Creekmur: Mr. Riley, are you familiar with the 12 Q. 13 testimony presented in this proceeding of Larry Martin? 14 15 I don't believe I am, no. 16 MR. CREEKMUR: May I approach the 17 witness, your Honor? 18 ATTORNEY EXAMINER KINGERY: Yes. Mr. Riley, is this the direct testimony 19 Q. 20 of Larry W. Martin of Columbia Gas of Ohio? 21 Α. It is. 22 Q. If I may, please, thank you. 23 Α. Okay. 24 I direct your attention to attachment Q.

LWM-3 and the first page that follows that attachment, which is titled in the right-hand corner as Schedule 1. Is that the page you are looking at currently?

A. It is.

- Q. And, Mr. Riley, do you understand the title of this page to be the Columbia Gas of Ohio Infrastructure Tracking Mechanism Estimated Rate Impact of Proposed Riser Program Rate Effective After May 2008?
 - A. Yes.
- Q. And is it correct that at line 32 at the very bottom of this page, the annual cost per customer, annual being 12 months, is listed at \$5.39?
 - A. Yes.

MR. SERIO: Objection, your Honor, I believe Mr. Martin indicated that the 45 cents is based on the stipulation and under his testimony it's 36 cents. The annual number would be 36 cents times 12 rather than 45 cents.

MR. PETRICOFF: I'm going to join in the objection but on a different ground. The witness indicated he is not familiar with this document.

Therefore, to put an accounting sheet in front of him

and to ask him questions when it has nothing to do
with his testimony and more importantly nothing to do
with the redirect, I think is probably outside the
scope.

need to see you tie this up. I agree with Mr. Serio.
We have a problem exactly what the numbers are and it
does need to relate to something asked on redirect.

MR. CREEKMUR: Yes, your Honor.

ATTORNEY EXAMINER KINGERY: Something he is familiar with as well.

MR. CREEKMUR: Your Honor, I am simply asking the witness to read a portion of Mr. Martin's direct testimony, which is Columbia Exhibit No. 2. I am not asking for his familiarity or understanding of those numbers. And, further, your Honor, down for Mr. Riley his last question compared the IRP costs as proposed by Columbia to those costs identified by USP. Therefore, my proposal to inquire into the cost of the IRP under Columbia is certainly relevant to that testimony as extracted by Mr. Petricoff a few minutes ago.

MR. PETRICOFF: I think that is a mischaracterization of the testimony. The question

was what is the out-of-pocket repair expense, not the cost of the policy.

MR. CREEKMUR: Your Honor, I would ask the question be read back. It was followed up with comparison the IRP cost as aligned with Columbia Gas of Ohio.

ATTORNEY EXAMINER KINGERY: Can I get the question -- the last question by Mr. Petricoff.

(Ouestions and answers read.)

MR. PETRICOFF: We have apples and oranges, your Honor. We are outside the scope.

MR. CREEKMUR: Your Honor, that was not the way I understood the question.

ATTORNEY EXAMINER KINGERY: What was the way you understood the question?

MR. CREEKMUR: That it related to the Columbia's IRP plan and cost under --

ATTORNEY EXAMINER KINGERY: He was specifically talking about the cost of repairs.

MR. CREEKMUR: Under Columbia's IRP plan.

ATTORNEY EXAMINER KINGERY: It was the cost of repairs as opposed to the cost of the plan, so I will sustain the objection.

MR. CREEKMUR: I withdraw the question,

- your Honor, 1 2 (By Mr. Creekmur) Mr. Riley, can you tell me how much money USP spends in administrative 3 and overhead expenses for those gas service line 4 5 warranties? 6 Α. I don't have that information with me. 7 No, I can't. 8 Q. Can you estimate? In total or in Ohio? 9 Α. 10 Q. In Ohio. 11 Α.
 - No, there's no way for me to estimate that.
- 13 MR. CREEKMUR: No further questions, your 14 Honor, thank you.

15 ATTORNEY EXAMINER KINGERY: Thank you.

16 Mr. Reilly.

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17 MR. REILLY: No further questions.

ATTORNEY EXAMINER KINGERY: Mr. Serio.

MR. SERIO: Nothing, your Honor.

ATTORNEY EXAMINER KINGERY: Mr. Aveni.

MR. AVENI: Nothing, your Honor.

22 ATTORNEY EXAMINER KINGERY: You may step

23 down, and we will go back to the public record.

24 (Witness excused.)