**DEO EXHIBIT 1.2**

FI

# BEFORE
# THE PUBLIC UTILITIES COMMISSION OF OHIO

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| In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service. | Case No. 07-829-GA-AIR |
| In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Rate Plan for its Gas Distribution Service | Case No. 07-830-GA-ALT |
| In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods | Case No. 07-831-GA-AAM |
| In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment | Case No. 08-169-GA-ALT |
| In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading Deployment Through an Automatic Adjustment Clause, and for Certain Accounting Treatment | Case No. 06-1453-GA-UNC |



## SECOND SUPPLEMENTAL DIRECT TESTIMONY OF JEFFREY A. MURPHY ON BEHALF OF DOMINION EAST OHIO

___ Management policies, practice and organization

X Operating income

_X_ Rate base

___ Allocations

___ Rate of return

_X_ Rates and tariffs

_X_ Other (AMR Application)

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## I. INTRODUCTION

**Q1. Please state your name, occupation and business address.**

A1. My name is Jeffrey A. Murphy. I am employed by The East Ohio Gas Company d/b/a Dominion East Ohio ("DEO" or "Company") as its Director, Rates and Gas Supply. My business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

**Q2. Are you the same Jeffrey A. Murphy that previously submitted Direct Testimony and Supplemental Direct Testimony in Case Nos. 07-829-GA-AIR, 07-830-GA-ALT, 08-169-GA-ALT AND 06-1453-GA-UNC?**

A2. Yes.

**Q3. What is the purpose of this supplemental direct testimony?**

A3. This testimony is intended to support the Company's Objection Nos. 1 through 5, 7 through 8, 11 through 13, and 24 through 30.

My testimony also supports the Application filed in Case No. 06-1453-GA-UNC for approval of tariffs to recover through an automatic adjustment mechanism costs associated with the deployment of automated meter reading ("AMR") equipment throughout DEO's system, as well as any accounting authority that is required to defer those costs for future recovery ("AMR Application").

## II. REVENUE REQUIREMENT

**Q4. Regarding DEO Objection No. 1, is Staff's recommended revenue increase adequate to provide the Company an opportunity to earn a reasonable rate of return?**

A4. No. As detailed in this testimony and the supplemental direct testimony filed by Ms. Vicki Friscic and Dr. Michael Vilbert, the Staff Report of Investigation ("Staff Report") understates the Company's revenue requirement due to improper adjustments to test year operating revenues, operating expenses, jurisdictional rate base and recommended rate of return.

## III. RATE BASE

**Q5. Describe DEO's objections relating to rate base.**

A5. DEO has two objections relating to rate base, and both pertain to the amount of working capital calculated by Staff. The first specifically pertains to DEO's purchase of Energy Choice supplier accounts receivables. The second objection highlights the need to recalculate working capital once DEO's objections to incorrectly adjusted revenues and expenses have been accounted for.

### A. Energy Choice Supplier Accounts Receivable Working Capital – DEO Objection No. 2

**Q6. Please explain why the Company included a separate balance for Energy Choice supplier payments in its proposed working capital allowance.**

A6. As explained in the Staff Report, DEO is required to purchase Energy Choice supplier accounts receivable. Because amounts billed on behalf of Energy Choice suppliers are not shown as revenues or expenses, they are not reflected in the traditional lead/lag study. In order to recognize the working capital requirement associated with the receivable purchase, DEO added a separate balance of $46,022,630 for that amount in its calculation of working capital.

**Q7. How was that issue addressed in the Staff Report?**

A7. In the Rates and Tariffs section of the Staff Report, Staff recommended that the Company extend the Energy Choice supplier remittance period from two weeks to thirty days to be consistent with the payment practices of the other three LDCs with choice programs. Staff disallowed the Company's proposed working capital requirement based on that proposed change in the remittance period. In other words, Staff attributed $0 to DEO's working capital requirement for the purchase of Energy Choice supplier receivables.

**Q8. Does DEO object to Staff's recommendation to extend the remittance period?**

A8. No. DEO does not object to extending the remittance period to thirty days in order to be consistent with the other LDCs offering choice programs.

**Q9. Is there still a working capital requirement associated with Energy Choice supplier receivables under a 30-day remittance period?**

A9. Yes, there is still a working capital requirement associated with a 30-day payment lag because the Company's customers do not on average pay DEO within thirty days. Staff accepted the Company's proposed 52.9-day revenue lag, which included a 33.3-day payment lag from customers as shown in Attachment JAM-1.5. There is thus a working capital requirement associated with the 3.3-day average difference between DEO's payment to Energy Choice suppliers and receipt of payment from customers for that amount.

**Q10. How does DEO's working capital requirement related to Energy Choice supplier billings change as a result of the longer payment remittance period?**

A10. The longer remittance period would reduce DEO's working capital allowance to $9,873,250.

**Q11. How did the Company calculate the revised working capital requirement for Energy Choice supplier billings?**

A11. As shown in Attachment JAM-1.6, DEO quantified the impact by first computing the average daily amount paid to Energy Choice suppliers during calendar year 2007, which is consistent with the period used by Staff to compute the 13-month average balances for PIPP and Materials & Supplies. The average daily Energy Choice supplier payment for

2007 equals $2,991,894.

DEO then multiplied the average daily amount paid by the difference between the 33.3-day payment lag embedded in the overall revenue lag and the 30-day payment period recommended by Staff. The resulting working capital requirement is $2,991,894 per day times 3.3 days, or $9,873,250. That equals 21% of the originally proposed amount.

### B. Overall Level of Working Capital – DEO Objection No. 3

**Q12. Does the Company agree with the remaining calculations in Staff's proposed working capital allowance?**

A12. No. As noted elsewhere in the Company's supplemental testimony regarding its objections to the Staff Report, certain of the adjusted test year amounts shown on Schedule B-5 of the Staff Report reflect incorrect values as a result of adjustments that Staff made to amounts proposed by the Company. Once these incorrect adjustments to revenue and expense are corrected (pursuant to DEO's objections), the amount of working capital must be made consistent with the resultant, appropriate amounts. Otherwise, DEO will not receive the full revenue increase to which it is entitled.

## IV. OPERATING INCOME

**Q13. Please summarize DEO's objections to the Staff Report relating to Operating Income.**

A13. Regarding operating income, DEO objects to Staff's improper treatment of a number of revenue and expense categories: pilot storage service revenue, pension expense, forfeited discount revenue, storage migration loss expense, and Challenge earnings. DEO's objections also highlight the need to recalculate gross receipts tax expense and federal income tax expense to remove the effect of Staff's improper adjustments. I would also note that there are additional objections relating to Staff's treatment of operating income that are supported by the testimony of Vicki Friscic (DEO Exhibit 2.1).

**A. Pilot Storage Service Revenue – DEO Objection No. 4**

**Q14. Please explain the basis for the Company's proposed test year adjustment related to a pilot storage service that ended early in the test year.**

A14. In normalizing test year revenue, DEO excluded $930,825 of transportation service revenue and $2,789,175 of storage service revenue associated with a pilot storage service provided on a one-time basis under an agreement that expired in March 2007 and was not renewed. As the Staff Report correctly noted, future provision of the service may require capital investments that are not included in date certain rate base.

**Q15. Did Staff accept DEO's proposed adjustment to test year revenues?**

A15. Yes.

**Q16. What other recommendation did Staff make with regard to those revenues?**

A16. Staff recommended that the revenues realized from the pilot storage service be credited to amounts that would otherwise be recovered through Transportation Migration Rider – Part B.

**Q17. Did Staff provide a reason to credit those revenues that have already been earned and reported in income?**

A17. No. Staff did not provide any explanation to support its recommendation.

**Q18. Is the crediting of these revenues appropriate?**

A18. No. The proposed crediting of the pilot program revenues does not affect adjusted test year operating income and, as a result, is not required for ratemaking purposes. Furthermore, the pilot program occurred during a period when the Company's return on average equity was very low (6.09% in 2006 and 5.80% in 2007), indicating that the retention of those revenues did not result in any over-earnings by the Company.

**B. Pension Expense – DEO Objection No. 5**

**Q19. Please explain DEO's test year pension expense adjustment.**

A19. This adjustment involves a credit to test year unadjusted operating expense that is attributable to DEO's over-funded pension trust. As explained in the direct testimony of Mr. Ives (DEO Exhibit 8.0), that credit does not result in a corresponding cash flow to the Company because, under the Employee Retirement Income Security Act ("ERISA"), the assets of a retirement plan are held for the exclusive purpose of providing benefits to plan participants and are not available for use by the employer. In its Application, DEO proposed to remove the pension credit from test year expenses and exclude the pension asset on the Company's books, net of the associated accumulated deferred income taxes, from date certain rate base.

**Q20. What recommendation did Staff make with regard to test year pension expense?**

A20. Staff recommended that test year operating income and rate base reflect accrual accounting for the pension expense and asset pursuant to FAS 87 and FAS 158. Although DEO acknowledges that such treatment provides symmetry from an accounting point of view, it does not properly address the working capital impact of Staff's proposed accrual accounting treatment.

**Q21. What is the most appropriate way to address DEO's over-funded pension trust?**

A21. Eliminating the pension-related expense and asset from ratemaking considerations reflects a cash basis approach that is consistent with the ERISA provisions related to the use of plan assets. Alternatively, the Commission could include a working capital adjustment to recognize the cash flow impact of including the credit in test year expenses. While Staff's inclusion of the pension asset provides a partial recognition of that impact, it is not sufficient to offset the entire cash impact of flowing the accrual-based pension expense credit through to customers.

**C. Forfeited Discount Revenue – DEO Objection No. 7**

**Q22. Please explain the source of DEO's forfeited discount revenue.**

A22. A forfeited discount is essentially a form of a late payment charge. DEO currently has a forfeited discount provision in the rate schedules for its West Ohio division, but not for its larger East Ohio division.

**Q23. Has DEO proposed any changes to its forfeited discount or late payment charges?**

A23. Yes, DEO has proposed a late payment charge of 1.5% on unpaid balances for both its West Ohio and East Ohio division customers. To avoid issues surrounding the unknown revenue impact of the expanded late payment fee, the Company proposed to credit all late payment charge revenue to amounts that would otherwise be collected by the bad debt rider. As a result, DEO removed the West Ohio forfeited discount revenue of $104,158 from test year revenue.

**Q24. How did Staff address the proposed adjustment?**

A24. Staff recommended that forfeited discount revenue remain in base rates and eliminated the proposed adjustment. In another section of the Staff Report, however, Staff agreed with the Company's proposal to implement a uniform late payment charge.

**Q25. Do you agree with Staff's recommendation regarding the inclusion of forfeited discount revenue in base rates?**

A25. No. DEO disagrees with the Staff Report conclusion even though the Company would receive a substantial benefit if it were adopted. That benefit would come in the form of revenues from the expanded late payment charge that would greatly exceed the $104,158 reflected in Staff's proposed test year revenue. Notwithstanding that potential benefit, DEO continues to believe that a more appropriate approach to late payment charges is to credit all of the associated revenue to the bad debt rider because questions surrounding the prospective level of revenues are eliminated and those paying the bad debt rider will benefit from lower rates courtesy of those who do not pay their bill on time. Because customers who do not pay their bills on time are the most likely to be disconnected for non-payment, the proposed crediting mechanism affords an opportunity to partially compensate those customers that pay the bad debt rider. Reinstating the $104,158 adjustment would be consistent with that crediting approach.

**D. Storage Migration Loss Expense – DEO Objection No. 8**

**Q26. Why did DEO make a test year operating expense adjustment for storage migration losses?**

A26. A portion of DEO's storage service rate reflects the cost of gas migrating from storage over the course of the injection and withdrawal season. Such migration is typical of the type of depleted reservoir storage system that DEO operates. DEO does not retain that part of storage revenues. Instead, the Company credits that portion of the rate – $437,045 in the test year – to amounts that would otherwise be recovered in Transportation Migration Rider – Part B. That crediting mechanism compensates sales and Energy Choice customers who would otherwise pay more for costs that they do not cause the

Company to incur. DEO recognized that crediting by increasing other operating and maintenance expense by $437,045. The Company could have achieved a similar result by reducing test year revenues by $437,045 to reflect the fact that it does not retain the amount to be credited.

**Q27. Did Staff agree with the Company's adjustment?**

A27. No. Staff concluded that synchronizing Transportation Migration Rider revenues and expenses sufficiently addressed the issue. As a result, Staff recommended no adjustment for storage migration losses.

**Q28. Does the synchronization of the Transportation Migration Rider revenues properly reflect the impact of DEO's crediting mechanism?**

A28. No, it does not. Staff's revenue and expense synchronization would properly address the issue only if other operation and maintenance expenses were adjusted as proposed by the Company or if the storage service revenues did not also include an amount for the storage migration credit. Because Staff's storage service revenues include that amount without recognizing the offsetting credit as expense, the revenues are effectively double counted – once in the Transportation Migration Rider revenues and again in the storage service revenue. Stated another way, Staff treated the migration loss portion of storage service revenues as base rate revenues even though the Company does not retain them. In order to account for the credited revenues one time only, operating expense should be increased by $437,045 or storage service revenues should be reduced by the same amount.

**Q29. Is this issue important for other reasons as well?**

A29. Yes. This issue is also important because DEO proposes to increase the portion of storage service rates associated with gas migration due to higher natural gas prices and migration volumes. Because a larger amount will be returned to sales and Energy Choice customers through Transportation Migration Rider – Part B, the related revenue increase has an offsetting "expense" (i.e., the credit to Transportation Migration Rider – Part B) and should not be treated as part of the base rate revenue increase. Failure to address the issue properly in current rates will lead to a similar failure in designing prospective rates.

**E. Challenge Earnings – DEO Objection No. 11**

**Q30. Please describe the adjustment made by Staff to reflect an operating expense budget adjustment.**

A30. Staff reduced the nine-month operating expense by an adjustment for "Challenge" earnings.

**Q31. Do you agree with that adjustment?**

A31. No. Although Challenge earnings are included in the budget as a credit to operating expenses, they can be achieved by means that that do not affect jurisdictional test year operating income. As a result, such earnings do not reflect the level of operating expenses anticipated by management either for the test year or the period in which rates will be in effect. As a result, no adjustment of jurisdictional test year expense is warranted.

**Q32. Please describe the financial planning process that lead to the development of Challenge earnings.**

A32. As part of the annual financial planning process, each operating company within the business segments of Dominion Resources develops a preliminary financial plan that reflects projected revenues and operating expenses for the upcoming year. Senior management's financial goals for the Dominion organization as a whole are then compared to the preliminary operating company financial plans after they have been consolidated at the business segment level (i.e., Energy, Delivery, Generation and Service Company) to determine whether they are consistent with corporate earnings objectives.

In some cases, business segments and the operating companies within those segments are assigned so-called stretch or Challenge earnings goals to support overall corporate earnings objectives. In order to develop a consolidated financial plan that is consistent with the overall Dominion Resources plan, the stretch goal must be reflected in the individual operating company budgets in some fashion. The credit to operating and maintenance ("O&M") expense shown in DEO's 2007 SAP budget was used as the placeholder for the Company's Challenge earnings goal.

**Q33. Does the inclusion of the Challenge earnings goal amount as a credit to expense reflect management's expectation as to how those earnings will be generated?**

A33. No. Although the Challenge earnings goal allocated to DEO was reflected as a reduction to O&M, its inclusion there does not reflect management's expectation for how the stretch earnings goal will be achieved. In fact, the goal might be achieved by factors that would have no impact on an individual operating company's O&M expense. For example, a business segment could achieve its stretch goal if one operating company within the segment substantially exceeded its operating earnings target, while other operating companies within the same segment did not. The stretch goal within an operating company can also be achieved by earnings contributions from below-plan interest expense or colder-than-normal weather, neither of which affects O&M expense. Because the stretch goal can be met by other operating companies or by other factors that would not affect test year operating income, DEO did not reflect the goal in test year operating expenses.

**Q34. Should the O&M credit used to reflect Challenge earnings be considered for ratemaking purposes?**

A34. No. Inclusion of the stretch income goal in O&M is not a reflection of what expenses actually might be during the test year or the period during which the rates are intended to be in effect. DEO's 2007 SAP budget includes a credit to O&M expense that represents the Company's allocation of a "stretch goal" for operating earnings from Dominion Resources rather than an expectation that O&M expense will be reduced by a certain amount. As a result, that budget adjustment should not be considered as a reduction to test year operating expense.

### F. Gross Receipts Tax Expense – DEO Objection No. 12

**Q35. Does DEO agree with Staff's estimate of Gross Receipts Tax ("GRT") expense?**

A35. No. Although actual GRT expense is determined by taxable receipts, estimated GRT expense is determined by applying a percentage tax rate to adjusted test year revenues. As indicated in this testimony, Staff has incorrectly stated adjusted test year revenues and, as a result, has misstated GRT expense.

### G. Federal Income Tax Expense – DEO Objection No. 13

**Q36. Does DEO agree with Staff's estimate of Federal Income Tax ("FIT") expense?**

A36. No. Staff's estimate of FIT expense differs from the Company's filed amount due to differences in test year adjusted operating income and interest on rate base, which is treated as a reconciling item in the calculation of FIT. As indicated in this testimony and that of Ms. Vicki Friscic, Staff has incorrectly stated adjusted test year operating income and rate base and, as a result, has also misstated FIT expense.

## V. RATES AND TARIFFS

### A. GSS/ECTS Reconnection Fee – Objection No. 24

**Q37. What did Staff propose with regard to the reconnection fee for General Sales Service and Energy Choice Transportation Service customers?**

A37. Staff proposed a $33.00 reconnection fee based on an adjusted hourly pay rate that reflects 2,080 total pay hours per year.

**Q38. Is Staff's use of total pay hours appropriate?**

A38. No. Productive hours are the appropriate denominator in calculating activity charges. Employees are paid a certain amount on a yearly basis in order to provide a certain amount of productive time to perform their tasks. In pricing out the effective hourly rate for a given task, the total pay should be divided by the hours spent performing that task. That is precisely what DEO reflected in computing its proposed $40.00 reconnection charge. The use of anything other than productive hours results in a misstatement of the effective cost of reconnecting a customer's service.

### B. Proposed Investigation Fee – Objection No. 25

**Q39. DEO proposed a new Investigation Fee in the amount of $117.00. Did Staff make any recommendation regarding the amount of the proposed fee?**

A39. No. The Staff Report indicated that Staff required "additional information from the Company supporting the investigation cost per field visit." The Report also stated that "Staff's recommended rate will be contingent upon information provided by the Applicant in the pending data request response."

**Q40. Is DEO aware of any unanswered or pending data requests pertaining to the Investigation Fee?**

A40. No. The last data request that DEO is aware of relating to the Investigation Fee is Staff data request 8.3. DEO submitted its response to that request on April 15, 2008. A copy of this response is attached to my testimony as Attachment JAM-1.7. The response included spreadsheets detailing the calculation of hourly investigation rates and the cost per visit.

**Q41. Does the information submitted by DEO provide enough information to approve the proposed Investigation Fee?**

A41. Yes.

## VI. RATE DESIGN AND REVENUE ANALYSIS

**Q42. What rates of return has the Staff proposed for the customer classes served by the Company?**

A42. Below is Staff's summary of recommended class rates of return from page 29 of the Staff Report.

| | | | | Applicant | | Staff | |
|---|---|---|---|---|---|---|---|
| | | Current | | Proposed | | Proposed | |
| | | ROR | Index | ROR | Index | ROR | Index |
| GSS/ECTS | | 2.44% | .57 | 8.28% | .97 | 7.76% | .91 |
| LVGSS/LVECTS | | 5.67 | 1.31 | 8.25 | .97 | 9.50 | 1.12 |
| GTS/TSS | | 14.35 | 3.33 | 12.50 | 1.47 | 15.47 | 1.82 |
| DTS/OFF SYSTEM | | 4.43 | 1.03 | 3.76 | .44 | 3.76 | .44 |
| STORAGE | | 14.65 | 3.40 | 8.53 | 1.00 | 8.72 | 1.03 |
| Total | | 4.31% | | 8.50% | | 8.50% | |

**A. GTS/TSS Rate of Return – Objection No. 26**

**Q43. Is Staff's recommended rate of return for the combined General Transportation Service and Transportation Service ("GTS/TSS") class appropriate?**

A43. No. One of the issues that the Company sought to address in its proposed rates was the high rate of return generated by the GTS/TSS class under current rates. Although DEO did not propose levelized rates of return across all classes, it nonetheless made adjustments to bring the GTS/TSS rate of return into closer alignment with the returns of other classes. Staff's proposed rates of return do not meaningfully address that issue. Although the ratio of the GTS/TSS class's return to the system total return declines under the Staff proposal, it nonetheless results in greater cross-subsidization from the traditional transportation classes to the smaller customer General Sales Service and Energy Choice Transportation Service ("GSS/ECTS") class. Staff's recommended rates and revenue allocations suffer from the same deficiency to the extent that those allocations reflect those rates of return.

**B. Rate Design Implementation – Objection No. 27**

**Q44. Does the Company generally agree with Staff's recommendation to adopt a primarily fixed charge rate for general sales service customers?**

A44. Yes.

**Q45. Is the Company making any objections to the proposed rate design?**

A45. Yes. DEO objects to Staff's proposed rate design only to the extent that its implementation would not satisfy the following issues:

First, rates should be designed and communicated in a way that affected customers can readily understand, because problems can arise if customers are not properly informed about issues related to rate design.

Additionally, although DEO does not anticipate any problems in modifying its billing systems to accommodate Staff's proposed rate design, such changes sometimes are more difficult to implement than initially expected. As a result, programming issues should be considered alongside other issues as rates are being designed.

The most significant issue, however, concerns the design of the rates and the eligibility of customers to receive service under rate schedules with primarily fixed-charge rates. If the applicability section of the tariff does not properly limit the eligibility of customers to receive service, there could be large-scale migration from higher cost rate schedules that are intended to serve other customer classes. Even matters involving single-premise versus master-metered, multiple-occupant premises become significant when designing such rates. Similar care must be taken in modifying other rate schedules to avoid changing the relative economics and causing unintended migration that adversely impacts the Company's ability to earn its authorized base rate revenue requirement.

**C. Failure to Increase Storage Service Rates – Objection No. 28**

**Q46. Did the Staff address the Company's proposal to increase the storage service rates to reflect an updated estimate of the costs associated with gas migration from storage?**

A46. No. As stated earlier in my testimony, DEO is proposing to increase the portion of storage service rates associated with gas migration due to higher natural gas prices and migration volumes. Because a correspondingly larger amount will be returned to sales and Energy Choice customers through Transportation Migration Rider – Part B, the related revenue increase should not be treated as part of the base rate revenue increase.

### D. Modification of GRT Rider – Objection No. 29

**Q47. Did the Staff address DEO's proposed tariff change to recover the Company's entire GRT expense through a modified rider?**

A47. Yes, but only indirectly in its discussion of Taxes Other Than Income Taxes within the Operating Income section. A more specific review is needed to establish the appropriate rate. Although it would seem appropriate to simply apply the 4.75% GRT rate to billings, two factors make that approach problematic. The first factor involves the so-called "tax on tax" effect in which receipts to cover GRT expense are themselves subject to GRT. A simple gross-up formula of (1/(1-0.0475)-1) yields an adjusted rider rate of 4.9869%. Applying even a grossed-up rate to bills may nevertheless be problematic due to a second factor—the fact that not all amounts billed result in taxable receipts. In setting the GRT rate, DEO merely wants to ensure that it does not over- or under-recover the amounts needed to satisfy its GRT obligation to the State of Ohio. Guidance from Staff would help make sure that the proper rate is applied to the appropriate billed amounts.

## VII. GAS PIPELINE AND SAFETY REVIEW

**Q48. What did the Staff conclude with regard to the incremental costs associated with DEO's compliance with Commission directives arising from its riser investigation in Case No. 05-463-A-COI?**

A48. Staff excluded $383,494.38 of straight-time labor costs that were identified by the Company as incremental costs incurred in complying with directives set forth in the Commission's investigation of natural gas service risers in Case No. 05-463-GA-COI. Staff also recommended recovery of deferred costs through Transportation Migration Rider – Part B.

**Q49. Is Staff's conclusion regarding straight-time labor expense appropriate?**

A49. No. Although DEO understands Staff's inclination to not approve recovery of straight-time wages, recovery of such costs in this instance is warranted. The Company included straight-time labor expense in its request to defer costs related to the riser investigation because that work required DEO to incur incremental overtime elsewhere in its Field Services organization. When Field Service personnel performed riser investigation work, they were unavailable for other duties such as credit reconnections, scheduled customer appointments and other tasks that consequently had to be performed by others. Had the riser-related work not been required, DEO would have been able to reduce the amount of overtime paid in the Field Services area. The fact that DEO elected to devote straight time hours to riser related work provides a ratepayer benefit because it reduces the ratepayer cost of complying with the Commission's directives. As a result, full recovery of those costs is warranted.

## VIII. THE AMR APPLICATION

**Q50. Please summarize your testimony concerning the AMR Application.**

A50. In my testimony, I will summarize and describe the AMR Application. Then I will explain the various benefits to DEO and its customers that the AMR deployment will provide. I will conclude by explaining the proposed operation of the AMR Cost Recovery Charge.

### A. Summary and Description of the AMR Application

**Q51. Please summarize DEO's AMR Application.**

A51. DEO is proposing to install AMR equipment on all of its meters over a five-year period, including the replacement of all existing remote meter index devices on its system. DEO now estimates the cost of system-wide AMR deployment to be approximately $126.3 million. The Application will provide for timely recovery of the associated depreciation, property taxes and return on rate base investment. Absent this recovery, DEO would fund the program through its normal capital budgeting process, which would accommodate a fifteen- to twenty-year system-wide deployment. The Application, on the other hand, would enable DEO to increase its capital spending to accommodate a five-year deployment schedule.

**Q52. How is DEO proposing to deploy AMR devices across its system?**

A52. DEO is planning a two-pronged deployment strategy. Teams of Field Metering Services employees will focus on a "shop-by-shop" deployment of AMR devices (that is, a series of conversions moving from one service area to the next as service areas are converted). In addition, individual employees will deploy AMR devices coincident with day-to-day customer work, such as inspecting or servicing meters.

**Q53. Does the AMR Application propose replacing any existing remote index equipment on its system with AMR devices?**

A53. Yes. As discussed below, reads taken using remote index equipment do not count as actual reads under the Commission's Minimum Gas Service Standards ("MGSS").[1] DEO's existing remote index equipment consists of three types of device: Hexagram, Badger and American. DEO is planning on replacing all three types with AMR devices.

[1] The Commission's May 24, 2007 Entry in Case No. 06-1452-GA-WVR granted DEO a temporary waiver of paragraph (G)(1) of Rule 4901:1-13-04, Ohio Administrative Code, allowing the Company to treat remote index device readings as actual readings for a period of five years. In considering the Company's request for the waiver, the Commission expressed support for DEO's proposal to replace its remote index devices with AMR devices. (*See* May 24, 2007 Entry in Case No. 06-1452-GA-WVR at page 4.)

**Q54. Will the AMR Cost Recovery Charge recover all costs associated with the replacement of DEO's existing remote index equipment?**

A54. No. DEO performed a statistical evaluation of its existing remote meter index equipment and found that they exhibit varying levels of performance. The Hexagram remote devices installed on nearly 319,000 of its meters perform very well, with a defect rate of only 1.8%. The American and Badger devices (installed on approximately 54,000 meters from 1977 to 1984) have higher defect rates of 9.5% and 21.4%, respectively. As a result, DEO is in the process of replacing American and Badger units through its normal capital budgeting process; recovery of these costs will be sought in base rate cases rather than through the proposed AMR Cost Recovery Charge. DEO commenced replacement of the American and Badger devices in the first quarter of 2007 and expects to substantially complete those replacements by December 31, 2008.

### B. Benefits of the AMR Program

**Q55. Why is it important to deploy AMR devices across DEO's system?**

A55. Full AMR deployment will provide a number of benefits and address a number of issues. It will allow DEO to comply more cost-effectively with the Commission's MGSS. Full deployment will also allow DEO to provide virtually all of DEO's customers with actual meter reads every month. It will also provide more accurate meter reading. Estimated meter reads, and consecutive-estimated bills, will be drastically reduced. Implementation of the AMR program will also eliminate many of the inconveniences for customers associated with "manual" meter reading, such as service transfers and the need to schedule and be present for actual reads. And over the long run, the AMR program provides a more cost-effective way for DEO to read its meters.

**Q56. How will the AMR program aid DEO in complying with certain provisions of the MGSS?**

A56. The MGSS count AMR reads as actual reads. Thus, the AMR program will allow DEO to fully comply with the portions of the MGSS requiring annual actual reads. In Case No. 05-602-GA-ORD, the Commission enacted the MGSS, which took effect January 1, 2007. One of those rules, Rule 4901:1-13-04(G)(1), Ohio Administrative Code, requires natural gas companies to obtain an actual reading of each customer's meter at least once every twelve months, and also to make reasonable attempts to obtain actual meter readings every other month. Under the Commission's rule, a meter reading obtained through remote index equipment does not qualify as an "actual" meter read.

At the time the AMR Application was filed, approximately 556,000 meters (or 43% of the nearly 1.3 million meters in DEO's system) were located inside customers' premises. About 373,000 of them were equipped with remote meter index equipment. Meter readings obtained through remote index equipment do not qualify as actual meter reads under the rules, however, presenting DEO with unique challenges in complying with Rule 4901:1-13-04(G)(1).

Unlike remote meter index reads, readings obtained through electronic means, such as automated meter reading equipment, are "considered actual readings" under the MGSS. To comply with the rule, DEO proposes to replace all of its remote meter index devices with automated meter reading ("AMR") devices and to install AMR equipment on all of its other meters over a five-year period.

**Q57. How does monthly meter reading benefit DEO and its customers?**

A57. Monthly reads benefit customers in a number of ways. A large proportion of DEO's customers pay monthly variable commodity rates that can change substantially from one month to the next. The MGSS only require companies to attempt to obtain actual meter readings every *other* month. Thus, the rules contemplate at least six estimated bills per year per customer. The monthly meter reading made possible by AMR would enable DEO to apply each month's commodity rate to actual consumption for that month, resulting in a better match between billing and consumption.

Monthly reads will also eliminate the problem of multiple consecutive estimates. Multiple consecutive estimates must be used when repeated efforts to obtain actual meter reads fail. One actual read in twelve months does not give DEO the data points needed to develop an accurate estimate for the other eleven months. Thus, the actual usage for those months may occur in a much different pattern than reflected on the bills. Given the large number of inside meters on DEO's system and related access issues, consecutive estimates pose a considerable problem for both DEO and its customers.

**Q58. When does DEO expect to begin monthly meter reading?**

A58. The Company plans to move to monthly meter reading system-wide as soon as enough meters are AMR-equipped to make this possible. Once a critical mass of meters is so equipped, DEO will manually read the remaining meters until all of its meters are equipped with AMR. If necessary, DEO could also transition to monthly meter reading on a shop-by-shop basis as service areas are converted.

**Q59. How will the AMR program lead to more accurate meter reading?**

A59. Manual meter-reading is subject to a number of potential errors, whether it is a misread of the meter or a failure to accurately enter data. AMR will largely eliminate these potential errors and thus should assure more accurate meter reading.

**Q60. How will the AMR program reduce customer inconvenience?**

A60. There are a number of ways. By allowing monthly reads, the AMR program would provide more accurate information for use in transferring service from one customer to another at the same premise. The program would also eliminate call volumes associated with estimated meter reads and improve call center average speed of answering customer calls. It would also avoid the need for large numbers of customers to schedule appointments to have a meter reader obtain the annual read required under the MGSS. And because AMR reads are obtained by employees who drive along a route recording reads through mobile data collectors installed in their vehicles, customers would no longer have to cope with unwanted or inconvenient intrusions onto their property or into their home or business.

**Q61. How will the AMR program result in more cost-effective meter reading?**

A61. Because the Company's cost of reading meters is ultimately recovered in base rates, a more cost-effective meter reading solution will result in lower rates over time. Currently, meter readers set out by foot across DEO's system who, in their attempts to gain access to meters inside and out, must contend with any number of challenges—locked doors, high fences, obstructions blocking access to the meter, hostile dogs, or a combination of these things. These obstacles add time, labor, and other costs to the process that will be avoided under the AMR program. Once deployed, meter reading will be accomplished by vehicles specially equipped to read meters from the street, and the reader will never be required to set foot outside his or her vehicle. As meter reading costs are recovered through base rates, these cost savings are expected eventually to result in correspondingly lower rates.

### C. Cost Recovery and Proposed Procedures of the AMR Program

**Q62. How is DEO proposing to recover the costs associated with the program?**

A62. DEO will initially record as a regulatory asset the depreciation, incremental property taxes, and post in-service carrying charges associated with Commission-approved AMR program costs. DEO will then compare its annual meter reading operating and maintenance ("O&M") expense to a base year, which Staff has recommended to be 2007. Any savings relative to that base year will be used to reduce the year-end regulatory asset in order to provide customers the benefit of any meter-reading cost reductions achieved as a result of the AMR deployment.

The regulatory asset amount (net of any meter-reading O&M savings discussed above) will be recoverable by means of an AMR Cost Recovery Charge applicable to all customer class rate schedules on which AMR is installed. (DEO's largest transportation accounts already have AMR installed at the customers' expense.) Because the cost of an AMR device installed on a meter is the same regardless of usage, the AMR Cost Recovery Charge is applied as a fixed charge per month, not as a volumetric charge. Nor will this charge vary across customer classes because the cost of the unit is identical for over 99% of the units to be installed.

**Q63. Will the AMR program be subject to additional Commission review beyond consideration of the pending AMR Application?**

A63. Yes. Each February, DEO is proposing to file an application in this docket with schedules supporting the proposed AMR Cost Recovery Charge for that year based on the costs accumulated through December of the prior year, as adjusted for the associated excise tax obligation, and bills rendered over the prior year. The proposed schedules will include the original costs, accumulated reserve for depreciation and deferred taxes associated with the plant additions, the corresponding annual depreciation and incremental property tax expenses, as well as the meter reading O&M savings and any contributions in aid of construction used to reduce the amount to be recovered by the AMR Cost Recovery Charge. Until such time as the Commission approves new rates in Case No. 07-829-GA-AIR, DEO is also proposing to accrue the post-in-service carrying charges at the embedded cost of long-term debt held by DEO's parent company Dominion Resources, Inc.

In these applications, DEO will provide Commission Staff with sufficient accounting and billing record details to enable it to analyze and audit the schedules. To facilitate a timely review of the application, the Company will file a pre-filing notice containing estimated schedules ninety days prior to the application. The estimated schedules will contain a combination of actual and projected data for the calendar year to be reflected in the February application.

**Q64. How will the AMR Cost Recovery Charge be affected by future rate cases?**

A64. DEO will coordinate the AMR Cost Recovery Charge with any future rate cases as follows: When DEO files its next base rate case, the revenue requirement will reflect updated test year operating expenses and date certain net plant. Once rates approved in the case go into effect, AMR-related capital investments made prior to date certain will be reflected in base rates along with updated test year expenses for meter reading O&M and property taxes. After any subsequent rate case, the AMR Cost Recovery Charge will use the test year O&M and date certain gross plant established in that case as the basis upon which to calculate future AMR Cost Recovery Charges. In its next rate case, DEO may seek approval of an AMR Cost Recovery Charge that will provide more timely recovery of the depreciation, incremental property taxes and associated rate of return of subsequent program expenses along with any amounts unrecovered at the point an updated AMR Cost Recovery Charge goes into effect. The rate of return assigned to the recovery of subsequent net capital expenditures will be set at the rate of return authorized in this and subsequent base rate proceedings by the Commission.

**Q65. Has DEO developed an estimate of the amount of the AMR Cost Recovery Charge, per month per customer?**

A65. While the initial AMR Cost Recovery Charge can only be determined after actual costs and billing determinants are known, DEO believes it is reasonable to expect that the initial charge will amount to less than $0.25 per month per customer based on the planned first-year investment. DEO does not expect that future increases to that rate will be linear, that is, that the rate will increase another $0.25 each year until the maximum level is reached in year 5. This is because a number of factors affecting the level of the charge—the number of units installed, the amount of meter reading O&M costs savings, any contributions in aid of construction—will fluctuate during the five-year deployment.

## IX. CONCLUSION

**Q66. Does this conclude your testimony?**

A66. Yes.

WPB-5.1a
9-Jul-07

# Dominion East Ohio
## Calculation Of Revenue Lag
## For The Twelve Months Ended December 31, 2006

| Description | Revenue Amount | Service Period Lag | Billing Lag | Payment Lag | Individual Revenue Lag | Composite Revenues |
|---|---|---|---|---|---|---|
| Tarriff Revenues - CCS System | 874,312,642 | 15.2 | 0.9 | 33.3 | 49.4 | 43,218,050,373 |
| Tarriff Revenues - SBS System | | | | | | |
| Broker | 52,925,424 | 15.2 | 20.4 | 33.3 | 68.9 | 3,647,923,232 |
| End Use | 145,544,438 | 15.2 | 20.4 | 33.3 | 68.9 | 10,031,755,889 |
| InterCompany Revenues | 6,312,531 | 15.2 | - | 25.0 | 40.2 | 253,763,746 |
| Miscellaneous Revenues | | | | | | |
| Sales of Product Extr Misc | 151,595 | - | - | 10.0 | 10.0 | 1,515,950 |
| Oils Sales | 621,528 | - | - | 15.0 | 15.0 | 9,322,920 |
| Rental Property | 49,219 | 15.2 | | (10.0) | 5.2 | 255,939 |
| **Calculated Revenue Lag** | **1,079,917,378** | | | | **52.9** | **57,162,588,048** |
| PIPP Revenues | 123,735,290 | | | | | |
| SSO Storage | 105,680,077 | | | | | |
| Subtotal Revenues | 1,309,332,745 | | | | | |
| Revenues Per FERC Form 2 | 1,257,042,745 | | | | | |
| Unbilled Revenues | 52,290,000 | | | | | |

**ATTACHMENT JAM-1.6**

**Dominion East Ohio**
**2007 Payments to Energy Choice Suppliers**

| Billing System | Payment Request Date | Amount |
|---|---|---|
| CCS | 01/04/2007 | $34,675,171.71 |
| SBS | 01/05/2007 | $2,728,490.02 |
| CCS | 01/11/2007 | $21,296,908.86 |
| CCS | 01/18/2007 | $28,587,688.25 |
| CCS | 01/25/2007 | $32,210,458.35 |
| CCS | 02/01/2007 | $27,434,371.32 |
| SBS | 02/06/2007 | $3,809,020.41 |
| CCS | 02/08/2007 | $44,405,194.29 |
| CCS | 02/15/2007 | $46,346,671.18 |
| CCS | 02/22/2007 | $50,558,731.38 |
| CCS | 03/01/2007 | $50,804,451.15 |
| SBS | 03/07/2007 | $4,560,918.17 |
| CCS | 03/08/2007 | $65,931,508.23 |
| CCS | 03/15/2007 | $55,763,430.72 |
| CCS | 03/22/2007 | $51,892,504.55 |
| CCS | 03/29/2007 | $43,074,853.40 |
| CCS | 04/05/2007 | $46,364,501.69 |
| SBS | 04/09/2007 | $6,504,548.82 |
| CCS | 04/12/2007 | $37,935,571.87 |
| CCS | 04/19/2007 | $25,966,842.95 |
| CCS | 04/26/2007 | $25,788,371.54 |
| CCS | 05/03/2007 | $26,529,348.34 |
| SBS | 05/07/2007 | $5,000,466.27 |
| CCS | 05/10/2007 | $27,680,830.29 |
| CCS | 05/17/2007 | $23,117,638.81 |
| CCS | 05/24/2007 | $18,847,238.85 |
| CCS | 05/31/2007 | $11,280,672.33 |
| SBS | 06/04/2007 | $3,247,325.65 |
| CCS | 06/07/2007 | $11,032,209.27 |
| CCS | 06/14/2007 | $7,537,521.52 |
| CCS | 06/21/2007 | $7,272,521.26 |
| CCS | 06/28/2007 | $7,488,369.44 |
| CCS | 07/05/2007 | $6,274,980.17 |
| SBS | 07/06/2007 | $1,699,096.28 |
| CCS | 07/12/2007 | $5,986,831.33 |
| CCS | 07/19/2007 | $4,633,499.10 |
| CCS | 07/26/2007 | $4,293,615.28 |
| CCS | 08/02/2007 | $5,757,581.27 |
| SBS | 08/06/2007 | $899,745.36 |
| CCS | 08/09/2007 | $4,986,012.77 |
| CCS | 08/16/2007 | $5,833,831.36 |
| CCS | 08/23/2007 | $4,061,393.77 |
| CCS | 08/30/2007 | $4,830,057.60 |
| CCS | 09/06/2007 | $4,914,826.56 |
| SBS | 09/07/2007 | $726,541.04 |
| CCS | 09/13/2007 | $4,897,339.72 |
| CCS | 09/20/2007 | $3,534,593.89 |
| CCS | 09/27/2007 | $4,770,172.61 |
| CCS | 10/04/2007 | $5,849,333.68 |
| SBS | 10/05/2007 | $690,360.79 |
| CCS | 10/11/2007 | $4,952,656.64 |
| CCS | 10/18/2007 | $5,463,414.75 |
| CCS | 10/25/2007 | $4,486,344.80 |
| CCS | 11/01/2007 | $6,256,579.16 |
| SBS | 11/06/2007 | $668,221.41 |
| CCS | 11/08/2007 | $6,500,562.35 |
| CCS | 11/15/2007 | $8,542,038.54 |
| CCS | 11/21/2007 | $9,319,572.19 |
| CCS | 11/29/2007 | $16,040,702.25 |
| CCS | 12/06/2007 | $11,861,582.97 |
| SBS | 12/07/2007 | $897,397.59 |
| CCS | 12/13/2007 | $26,151,368.35 |
| CCS | 12/20/2007 | $26,852,914.72 |
| CCS | 12/27/2007 | $33,733,770.76 |
| | Total 2007 | $1,092,041,289.95 |
| | **Average Daily** | **$2,991,893.95** |

| | |
|---|---|
| Payment Lag per WPB-5.1a | 33.3 |
| Payment Lag per Staff Recommendation | 30.0 |
| Difference | 3.3 |
| **Net Working Capital Requirement** | **$9,873,250.03** |

Dominion

**The East Ohio Gas Company d/b/a Dominion East Ohio**
**Case No. 07-0829-GA-AIR**

**Response to Data Requests**

**Requesting Party:**
PUCO

**Data Request Set:**
Marchia Rutherford

| **Question Number:** | **Subpart:** |
|---|---|
| 8 | 5 |

| **Request Date:** | **Due Date:** |
|---|---|
| 12/13/2007 | 12/20/2007 |

**Topic:**
Miscellaneous Charges

**Question:**
Provide a detailed worksheet showing calculations supporting the proposed Investigation Fee, listing the costs associated with each iteration of the process. Show all vehicle costs, administrative costs and any other costs taken into consideration in the company's calculation. Please provide separate calculations for each proposed tap charge.

**Answer:**
Please see the attached document. The company has not requested approval of a proposed tap charge.

| **Preparer of Response:** | **Date Prepared:** |
|---|---|
| Jeff Murphy | 12/27/2007 |

**Attachments:**
● Yes ○ No

**Attach here-->** Investigation Fee.doc

**Dominion East Ohio**
***Investigation Fee Calculation***

| | | Hourly Rate |
|---|---|---|
| a) Investigator Field Visit – | Customer Service Man A | $ 51.54 |
| | Customer Service Vehicle Cost | $ 9.34 |
| | Revenue Protection Investigator | $ 35.29 |
| | Investigator Vehicle | $ 9.34 |
| | Total Hourly field Rate | $105.51 |
| Field Visits per Hour | | 2 |
| **Investigator Cost per Field Visit** | | **$52.75** |

b) Support Staff Cost - Billing, Investigation, Field Support
(One full hour required for each field investigation)

| | | |
|---|---|---|
| | **Total Hourly Office Rate** | **$ 27.80** |
| c) Supervision Cost- (41%) | Revenue Protection Lead | $ 12.86 |
| | Supervisor | $ 18.57 |
| | Total Hourly Supervision Cost | $ 31.43 |
| | Field Visits per Hour | 2 |
| **Supervision Cost per Field Visit** | | **$ 15.71** |

d) Additional Expenses – Per Account Average

| | | |
|---|---|---|
| | Skip Trace Tools | $ 5.90 |
| | Locking Devices | $15.00 |
| **Total Additional Expenses** | | **$ 20.90** |
| **Per Investigation Expense** | | **$ 117.17** |

Dominion

**The East Ohio Gas Company d/b/a Dominion East Ohio**
**Case No. 07-0829-GA-AIR**

**Response to Data Requests**

**Requesting Party:**
PUCO

**Data Request Set:**
Marchia Rutherford

| **Question Number:** | **Subpart:** |
|---|---|
| 8.3 | |

| **Request Date:** | **Due Date:** |
|---|---|
| 04/11/2008 | 04/14/2008 |

**Topic:**
Miscellaneous Charges

**Question:**
Follow-up questions to data response 8, subpart 5

1. Please explain why there are two separate vehicle charges.
2. Please provide work papers supporting how the hourly rates were derived.
3. Please explain response 5 a) process in detail.

**Answer:**

1. There are two vehicle charges because a Customer Service Representative meets the Investigator at the customer's premise to assist in the assessment of the situation and to disconnect the gas service if necessary. Please see the process described for subpart 3.
2. Please see the attached file "PUCO DR #8.3 Investigation Rates.xls."
3. Please see the attached file "PUCO DR #8.3 Investigation Visit Details.doc."

| **Preparer of Response:** | **Date Prepared:** |
|---|---|
| David Holt | 04/14/2008 |

**Attachments:**
● Yes ○ No

Attach here--> PUCO DR #8.3 Investigation Rates.xls PUCO DR #8.3 Investigation Visit Detail.doc

**DOMINION EAST OHIO**
**Investigation Fee Calculation**

**Fully-Loaded Activity Rate for Customer Service Rep A**

| | | 2006 | Increase Effective 6/15/2007 | | 2007 | | |
|---|---|---|---|---|---|---|---|
| Wage rate per Union contract effective June 15th | $ | 26.92 | 3.25% | $ | 27.79 | | |
| Total Pay Hours per Year | | 2,080 | | | | | |
| Annual Wages | $ | 55,994 | | | | | |
| Monthly Wages | $ | 4,666 | 3.25% | $ | 4,818 | | |
| Months at Contract Rate | | 5.5 | | | 6.5 | | |
| Total Wages | $ | 25,664 | | $ | 31,316 | $ | 56,980 |
| Productive Hours | | | | | | | 1,638 |
| Straight-time Labor | | | | | | $ | 34.78 |
| Annual Incentive Plan | | | | | 3.00% | | 1.04 |
| Benefits | | | | | 37.07% * | | 12.89 |
| Payroll Tax (on Labor and AIP) | | | | | 7.89% | | 2.83 |
| Total Activity Rate Used to Charge Projects | | | | | | $ | 51.54 |

* - This calculation assumes a different benefits percentage than the calculation provided in response to Staff DR #8.2, but otherwise utilizes the standard activity rate methodolgy. DEO's activity rates are calculated at the start of each year using planned information and are subsequently updated periodically to reflect actual percentages for the components. Different calculations were used by different persons providing different supporting documentation.

| | | | |
|---|---|---|---|
| **Revenue Protection Investigator** | $ | 35.29 | Midrange salary for position ($50,624) * 1.45 (loading for benefits), divided by 52 weeks, divided by 40 hours/week |
| **Standard Vehicle Cost** | $ | 9.34 | Value provided by Dominion Fleet Management = 2007 planned vehicle expense for pickups divided by prior year actual productive hours for pickups: $ 8,145,097 / 872,063 = $9.34 |

DOMINION EAST OHIO
Investigation Visit Process Detail

- The Customer Service Rep A and Revenue Protection Investigator both arrive at the consumer's premise. Separate vehicles are used based on work start and stop locations and because the Customer Service Rep will have equipment that may be required to perform technical inspection of the meter and curb box or to disconnect service.

- The state of the meter is determined.

- The state of the curb box is determined.

- Usage for the unauthorized period is determined, if possible, via an actual read of the meter or through a remote read device if available.

- Contact is attempted with the consumer. If contact is made, the consumer is given the opportunity to pay the unauthorized use charges to keep service on.

- If the consumer is not accessible or is unable to pay the charges, service is disconnected.

- If service is disconnected, a tag is given to the consumer or left in a visible location for the consumer informing the consumer that service was shut off and providing further instructions.