

FILE

1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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3 In the Matter of: :  
 4 : Case No. 07-1080-GA-AIR  
 5 The Application of Vectren:  
 6 Energy Delivery of Ohio, :  
 7 Inc., for Authority to :  
 8 Amend its Filed Tariffs to:  
 9 Increase the Rates and :  
 10 Charges for Gas Services :  
 11 and Related Matters. :

12 In the Matter of: :  
 13 : Case No. 07-1081-GA-ALT  
 14 the Application of Vectren:  
 15 Energy Delivery of Ohio, :  
 16 Inc., for Approval of an :  
 17 Alternative Rate Plan for :  
 18 a Distribution Replacement:  
 19 Rider to Recover the Costs:  
 20 of a Program for the :  
 21 Accelerated Replacement of:  
 22 Cast Iron Mains and Bare :  
 23 Steel Mains and Service :  
 24 Lines, a Sales :  
 Reconciliation Rider to :  
 Collect Difference Between:  
 Actual and Approved :  
 Revenues, and Inclusion in:  
 Operating Expense of the :  
 Costs of Certain :  
 Reliability Programs. :

19

20 TELEPHONE DEPOSITION OF H. EDWIN OVERCAST

21 ARMSTRONG & OKEY, INC.  
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1 taken before me, Rosemary F. Anderson, a Notary  
2 Public in and for the State of Ohio, at the offices  
3 of Ohio Consumers' Counsel, 10 West Broad Street,  
4 Columbus, Ohio, on Tuesday, August 12, 2008 at 1:30  
5 p.m.

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## 1 APPEARANCES:

2 McNeese, Wallace & Nurick  
3 By Ms. Gretchen J. Hummel (via telephone)  
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5 On behalf of the Company.

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9 On behalf of the Residential  
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10 Nancy Rogers, Ohio Attorney General  
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Columbus, Ohio 43215-3793

14 On behalf of the Staff of the Public  
15 Utilities Commission.

## 16 ALSO PRESENT:

17 Vectren:  
Mr. Larry Friedeman (via telephone)  
18 Mr. Jerry Ulrey

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## WITNESS

## PAGE

H. Edwin Overcast

Examination by Ms. Grady

5

- - -

## DEPOSITION EXHIBITS

## IDENTIFIED

1 - Notice to Take Deposition

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- - -

1 MR. HUMMEL: We will have the same  
2 arrangement with this witness we had for the others  
3 for which no notary was available.

4 - - -

5 H. EDWIN OVERCAST

6 deposes and says as follows:

7 EXAMINATION

8 By Ms. Grady:

9 Q. Good afternoon. Mr. Overcast.

10 A. Good afternoon.

11 Q. Let's go to your testimony at page 3,  
12 specifically the -- let me back up a second. It's  
13 been a long day already.

14 MS. GRADY: I would like marked for  
15 deposition purposes the Notice to Take Deposition  
16 Upon Oral Examination of H. Edwin Overcast and  
17 Request for Production of Documents, OCC Deposition  
18 Exhibit No. 1.

19 (EXHIBIT MARKED FOR IDENTIFICATION.)

20 Q. Mr. Overcast, the deposition notice  
21 contains the following language: Deponent is  
22 requested to produce at the time of her deposition --  
23 sorry about that -- all documents relating to her  
24 testimony or the deponent's knowledge and expertise

1 with the subject matter of these proceedings and/or  
2 the deponent's responses to discovery, including but  
3 not limited to, the results of any studies done for  
4 these proceedings and any backup documentation,  
5 including raw data for those studies.

6 In response to that notice of deposition,  
7 Mr. Overcast, what documents have you brought before  
8 you?

9 A. Okay. I have a number of Commission  
10 orders that relate to SFV; for example, I have  
11 excerpts from a Missouri Gas Energy case. I also  
12 have a portion of the order in the Atmos Energy case  
13 before the Missouri Commission. I have some pipe  
14 flow equation models associated with the operation of  
15 gas LDC. Let's see, what else do I have? I have a  
16 number of Vectren documents related to the rate case,  
17 including maintenance service costs and some of their  
18 exhibits from the rate case.

19 Q. It that the extent of the materials you  
20 have before you, Mr. Overcast?

21 A. Yes. That's what I have in front of me  
22 right now. I also have Bonbright's book and a few  
23 other things, as well of the reference material that  
24 you suggested I have as well.

1 Q. Mr. Overcast, could you provide us copies  
2 of the orders that you have before you related to the  
3 SFV following the deposition?

4 MR. HUMMEL: I object. We will provide  
5 you a list, but those are public domain.

6 MS. GRADY: I understand they are in  
7 public domain, but they're covered by the deposition  
8 notice, Gretchen.

9 MR. HUMMEL: We'll talk about how  
10 voluminous they are and we will get back to you.

11 MS. GRADY: I appreciate that.

12 Q. Good afternoon, Mr. Overcast. Let's go  
13 to page 3 of your testimony, lines 8 through 9.  
14 There you indicate that under SFV, and I'm assuming  
15 that's straight fixed variable, "the utility and its  
16 customers are in alignment." Do you see that?

17 A. Okay, you said page 3?

18 Q. Yes.

19 A. Okay.

20 Q. Lines 8 through 9.

21 A. I see that.

22 Q. Would you agree with me, Mr. Overcast,  
23 that under decoupling the utilities and its customers  
24 are in alignment?

1           A.    Not completely.

2           Q.    Can you explain why?

3           A.    Sure.  Certain customers that have  
4 already made investments in conservation would end up  
5 paying more, and also customers who are like  
6 low-income customers who can't afford to invest in  
7 conservation or higher efficiency appliances end up  
8 paying more than they would otherwise.  So there is  
9 not the complete alignment there as there is under  
10 SFV.

11           Q.    When you referred to alignment there, you  
12 are referring to in your response -- are you  
13 referring to whether customers will pay more under  
14 SFV versus another rate design?

15           A.    I'm referring to there the interest of  
16 the two parties.

17           Q.    I guess you confused me when in your  
18 response you referred to the fact that the reason why  
19 you believe that decoupling, that the customers are  
20 not necessarily in alignment is that low-income  
21 customers may have -- excuse me, customers may have  
22 already made investments in DSM, and because they had  
23 done so, they would have incurred more costs under  
24 decoupling.  Is that a fair characterization of what



1     you said?

2             A.     Their costs would go up, as well as for  
3     low-income customers who can't afford to make those  
4     investments.

5             Q.     I guess I'm misunderstanding the  
6     connection there between the alignment that you talk  
7     about in promoting gas consumption that you refer to  
8     on lines through 9 through 11 and the alignment  
9     you're referencing by costs going up with customers.  
10    I don't understand how the two are the same type of  
11    alignment.

12            A.     Well, in the sense that the customers'  
13    interest is not the same under decoupling as it would  
14    be under SFV, and the reason it's not exactly the  
15    same are the two reasons I gave. The people who  
16    already invested in conservation have their benefits  
17    reduced because of decoupling, and people who can't  
18    afford to invest in conservation, pick up a portion  
19    of the costs associated with customers who do  
20    conserve during the decoupling period.

21            Q.     You're assuming that when you said the  
22    customers who already made investments in energy  
23    efficiency, are you assuming that they have made all  
24    the investments they can possibly make and therefore

1 will engage in no further conservation efforts?

2 A. That assumption is not necessary to reach  
3 that conclusion. They can still have other things  
4 they could do.

5 Q. So they would benefit by the decoupling  
6 if decoupling is associated with greater investment  
7 in energy efficiency.

8 A. But not to the same extent as somebody  
9 who made no investment.

10 Q. I understand. Now, would you agree with  
11 me that -- do you understand, Mr. Overcast, that when  
12 I use the term "decoupling," that there may be  
13 different approaches to decoupling, such as a partial  
14 decoupling as opposed to a full decoupling?

15 A. Yes. I've discussed that in my testimony  
16 as well.

17 Q. If I ask you that statement, under  
18 decoupling are the utility and the customers in  
19 alignment, are you assuming I'm referring to a full  
20 decoupling or a partial decoupling?

21 A. I'm assuming that you are referring to a  
22 full decoupling, other than straight fixed variable  
23 rate design.

24 Q. You used the term "homogenous" on

1 line 22 of your testimony as page 3. Do you see that  
2 reference?

3 A. Yes.

4 Q. Can you define "homogenous" there for me?

5 A. Homogenous refers, to me, to the cost  
6 characteristics that underlie service to a class of  
7 customers.

8 Q. Does it also refer to usage  
9 characteristics?

10 A. Not necessarily usage. It depends on the  
11 context, but here it's not referring necessarily to  
12 usage.

13 Q. When you say that the larger general  
14 services class are less homogenous, you're saying, as  
15 you use it there with respect to Vectren, are you  
16 testifying on Vectren, or are you testifying as to a  
17 more general classification of customers?

18 A. It's based on my experience, but I  
19 believe it also applies to Vectren as well.

20 Q. And there you're using -- do I say  
21 "homogenous" or "homogenous," which is the correct  
22 pronunciation?

23 A. I think they're both okay. I use  
24 "homogenous" but "homogenous" works, too.

1 Q. I was thinking of the milk, homogenous  
2 milk.

3 MR. HUMMEL: Could I make a suggestion?  
4 You made a couple of references to "Vectren," and  
5 maybe for the sake of consistency, we might want to  
6 keep the references in the case the same.

7 MS. GRADY: Yes, I'm sorry.

8 Q. Mr. Overcast, when I refer to Vectren, I  
9 guess there is a distinction. When I use the term  
10 "Vectren," what do you understand that to be?

11 A. Well, I understood you to mean VEDO,  
12 because that's the context that we're dealing with  
13 Vectren.

14 Q. Yes, understand. If I use the term  
15 "Vectren," I'll try be a little more precise here,  
16 but if I use the term "Vectren," I would be referring  
17 to Vectren Corporation, which would include more than  
18 VEDO. Would that be your understanding?

19 A. Yes, Vectren Corporation would be more  
20 than VEDO, that's correct.

21 Q. Okay. Now, when you use -- going back to  
22 lines 21 through 24, when you say, as you explain in  
23 your testimony, "the larger general service classes  
24 are less homogenous than the residential and small

1 general service classes," you are talking about cost  
2 characteristics and not usage characteristics,  
3 correct?

4 A. That's correct.

5 Q. Now, further on down in your testimony on  
6 that page, and we're at page 3, specifically line 29,  
7 you indicate that: The proposed transition by VEDO  
8 to SFV represents both gradualism and the ability to  
9 minimize adverse customer reaction. Do you see that?

10 A. Yes.

11 Q. Can you tell me how you define  
12 "gradualism" there?

13 A. Well, the gradualism is the movement  
14 partway in several different steps to the final  
15 result.

16 Q. So it's the passage of time before SFV  
17 becomes in full effect?

18 A. That's what their proposal does, yes.

19 Q. Is it important to take into account  
20 gradualism when designing rates?

21 A. Sometimes it is, yes. It's one of the  
22 principles that you give consideration to, but you  
23 have to understand other aspects that may make it  
24 less appropriate.

1           Q.    Have you reviewed the opinion and orders  
2 of the Public Utilities Commission of Ohio,  
3 specifically with respect to rate design and what  
4 principles of design are espoused or embraced by our  
5 Commission?

6           A.    That question is way too broad to answer.  
7 There must be thousands of such orders, and I haven't  
8 reviewed all of them, no.

9           Q.    Have you reviewed any orders of the  
10 Public Utilities Commission of Ohio related to  
11 principles of rate design?

12          A.    Yes. I believe I reviewed the Duke  
13 order.

14          Q.    The recent Duke order?

15          A.    Yes.

16          Q.    Which adopted straight fixed variable.

17          A.    Yes.

18          Q.    Are there any other orders that you've  
19 looked at which would pertain to rate design  
20 principles from Ohio?

21          A.    No.

22          Q.    So do you know if gradualism is a  
23 principle of rate design in Ohio?

24          A.    Not specifically, no.

1           Q.    Now, you indicate that the transition  
2 proposed by the company will have the ability to  
3 minimize adverse customer reaction by allowing time  
4 to educate customers regarding the change. Can you  
5 tell me -- can you explain that a little further, how  
6 adverse customer reaction to SFV will be minimized  
7 under the company's approach?

8           A.    Well, I think what it does, it gives the  
9 company time to explain the end result and sort of  
10 educate the public about the changes that are taking  
11 place in rate design and the reasons for it.

12           Q.    Would you expect that customers would  
13 have an adverse reaction to the transition to SFV?

14           MR. HUMMEL: Objection, speculative.

15           Q.    You can answer, Mr. Overcast.

16           A.    Well, it's my recollection that anytime  
17 you change rates significantly one way or the other  
18 there's going to be customer response.

19           Q.    Yes.

20           A.    Some of those customers may react  
21 negatively and some may not, depending on how they're  
22 impacted. And so my whole point there is that this  
23 process of moving over several steps instead of going  
24 immediately to a huge change would allow time to

1 educate customers and to move there in a more  
2 measured manner.

3 Q. Mr. Overcast, we discussed some  
4 principles of rate design and we talked about  
5 gradualism. Would you agree with me that customer  
6 understandability and customer acceptance of rate  
7 design would be principles of rate design?

8 A. Typically you want your rates to be  
9 understandable, and, of course, SFV is the easiest  
10 one of all to understand. From a customer  
11 perspective, it's the easiest one to understand.  
12 But, yes, I think you want your customers to  
13 understand your rates.

14 Q. What about customer acceptance of a  
15 particular rate design, is that a rate design  
16 principle as well?

17 A. You know, you would like it to be  
18 acceptable to customers but you have to recognize  
19 that there are other issues that are probably more  
20 significant than whether the customers accept it or  
21 not. I mean the ideal rate for most customers is to  
22 get it for free, and so -- or at something greatly  
23 reduced over what they're actually paying, so, you  
24 know, in that sense you've got to educate the



1 customers about the cost of providing them service  
2 and hopefully you get them to the point where they  
3 understand and accept rates.

4 And this rate, SFV, is really the easiest  
5 to explain. It's something they're used to because  
6 they pay an SFV rate for cable television, for  
7 telephones, so in that sense it's an easier rate  
8 design to explain than a blocked rate.

9 Q. Do you know if in Ohio if customers  
10 pay -- if there are straight fixed variable rates for  
11 electricity?

12 A. I believe not.

13 Q. Now, do you know, Mr. Overcast, whether  
14 customer understandability and customer acceptance  
15 are rate design principles that are considered by the  
16 Ohio Public Utilities Commission in the design of  
17 rates?

18 A. I'm not familiar with all the decisions  
19 that the Ohio Commission has rendered, so in that  
20 sense I can't say yes or no.

21 Q. All right. Do you know, have you seen  
22 any data or analysis that has indicated that  
23 customers find straight fixed variable the easiest  
24 rate design to understand, or what is the basis of

1 your conclusion?

2 A. Well, the basis of my conclusion is that  
3 it is the rate design used by a number of products  
4 that customers buy, and it's easier to explain to  
5 them then a blocked rate.

6 Q. Have you seen any information, have you  
7 seen any study or analysis conducted by Vectren as to  
8 whether its customers would be likely to understand  
9 the straight fixed vertebral proposal that it has in  
10 this case?

11 A. I'm not aware of any.

12 Q. Have you seen any studies or analysis to  
13 show if customers are educated about straight fixed  
14 variable, they will not have an adverse reaction to  
15 that particular rate design?

16 A. Well, I think if the customers understand  
17 the rate design, by definition that would reduce the  
18 adverse reaction because it is a cost-based rate  
19 design.

20 Q. But have you seen any information or data  
21 that is specific to VEDO that would bear out that  
22 conclusion?

23 A. Not that I'm aware of.

24 Q. Do you know if VEDO has done any customer

1 surveys to test the acceptance SFV with its  
2 customers?

3 A. Not that I'm aware of.

4 Q. Let's go to page 6 of your testimony,  
5 Mr. Overcast. At the very beginning of that page,  
6 lines 1 through 5, you indicate that: "Volumetric  
7 rate design will almost certainly produce too much or  
8 too little revenue to match the fixed costs." Do you  
9 see that reference?

10 A. Yes.

11 Q. And then you go down below, and the  
12 paragraph below that from lines 11 to 19 and say: If  
13 you provide a rate design by which the opportunity  
14 for cost recovery is not realized, this leads to  
15 inefficiencies. Do you see that?

16 A. Yes.

17 Q. And so part of your point is that if the  
18 volumetric rate design is producing too little  
19 revenue, that the company will not have a reasonable  
20 opportunity to recover its authorized costs; is that  
21 correct?

22 A. That's correct.

23 Q. Now, what happens if the volumetric rate  
24 design produces too much revenue to match the fixed

1 cost?

2 MR. HUMMEL: I think I just heard a beep.

3 MR. ULREY: Jerry Ulrey.

4 MR. HUMMEL: Thank you.

5 Would you like the question reread,  
6 Mr. Overcast.

7 THE WITNESS: No, I think I heard it. I  
8 was just waiting on people.

9 A. If the rate produced too much revenue, we  
10 assume that that means it's colder than normal, but  
11 it's not colder than normal to overcome the effects  
12 of the conservation that occurs naturally when  
13 furnaces and water heaters and that sort of thing are  
14 replaced. And then the question becomes whether or  
15 not -- I mean, that doesn't do anything about the  
16 disincentives for conservation, and it may not do  
17 anything about efficient access to capital markets  
18 because it may not be that even if the revenues are  
19 higher, that they actually have an opportunity to  
20 earn their allowed return because there may be higher  
21 expenses associated with colder than normal weather  
22 that they have to deal with.

23 And in general gas companies don't change  
24 their capital investment program based on the level

1 of revenues that are occurring, you know, in the  
2 short-term period, wouldn't change their long-term  
3 capital investment.

4 So I think the general conclusion that  
5 you would reach is that it has -- that when weather  
6 is colder than normal and they recover more revenue,  
7 it doesn't do anything about disincentives for  
8 conservation or efficient access to capital markets  
9 necessarily, and doesn't really change the long-term  
10 capital investment plan.

11 Q. I understand. Now, if under an SFV  
12 approach, if too much revenue is produced, what is  
13 the fix?

14 A. Under SFV?

15 Q. Yes.

16 A. You have too much revenue?

17 Q. Yes.

18 A. How did you get too much revenue?

19 Q. Well, didn't you say assuming colder than  
20 normal weather?

21 A. Under SFV weather doesn't affect the  
22 delivery component.

23 Q. Well --

24 A. It only affects the cost of gas.

1           Q.    So are you saying with SFV that the rate  
2 design there's no way it will produce too much  
3 revenue to match the fixed costs? Is that what you  
4 are saying?

5           A.    Under SFV the rate design is a function  
6 of the number of customers.

7           Q.    Yes.

8           A.    So unless you have a substantial customer  
9 growth to create new revenues, you wouldn't have too  
10 much or too little revenue except for changes in  
11 customers, and when you have customer growth, you  
12 have costs to go with that. Because you're adding  
13 new customers to the system, you have new capital  
14 costs to go with it, so it results in a better  
15 matching of cost and revenues under SFV as compared  
16 to volumetric rates under all circumstances.

17          Q.    Let's take the instance of substantial  
18 customer growth. You have substantial customer  
19 growth, and under the SFV rate design, you produce  
20 too much revenue to match the fixed costs. What's  
21 the fix to that, Mr. Overcast?

22          A.    Well, I don't agree with your assumptions  
23 because I don't necessarily agree that if you add new  
24 customers, there isn't costs that go with that, and,

1 hence, you aren't over-earning. But ultimately, I  
2 guess, if you were over-earning, there's always the  
3 right for the Commission to institute a rate case on  
4 their own motion as opposed to the company's.

5 Q. Now, under the decoupling approach,  
6 Mr. Overcast, if you produce too much revenue to  
7 match the fixed costs, what's the fix?

8 A. Well, because you're, in essence,  
9 normalizing for weather and for conservation, those  
10 dollars flow back to customers.

11 Q. So the SFV is asymmetrical and the  
12 decoupling is symmetrical; is that correct?

13 A. No.

14 Q. Please explain to me why that is not  
15 correct.

16 A. Because SFV matches costs and revenues  
17 much more efficiently than decoupling. So, for  
18 example, if you add new customers, it's true you are  
19 adding revenue, but to add a new customer you also  
20 have to make new capital investment, so you have an  
21 opportunity to earn on that.

22 If you're using decoupling and you add  
23 new customers, you're going back to the test year  
24 level of cost, and so those the new customers would

1 be paying you volumetric revenues that you would be  
2 refunding, and, hence, you would be reducing the  
3 ability to earn your allowed return so that is  
4 asymmetric where SFV is not.

5 Q. If, in fact, the decoupling proposal  
6 presented by Vectren takes into account the  
7 additional new customers -- let me strike that.

8 Have you looked at the decoupling  
9 proposal specifically and how the decoupling approach  
10 by Vectren, let's talk about first SRR-A, have you  
11 looked how it deals with the addition of new  
12 customers?

13 A. SRR-A, I looked at that, but I don't have  
14 it in front of me, and I'm not familiar enough with  
15 the way it works. I think that question is better  
16 directed to Mr. Ulrey instead of me.

17 Q. With respect to SRR-B, would you give me  
18 the same answer, that the details would have to be  
19 coming from Mr. Ulrey?

20 A. Yes.

21 Q. So if, in fact, the decoupling proposal  
22 approach advocated by Vectren accounts for the  
23 addition of new customers, then it would be a  
24 symmetrical approach, correct?



1           A.    I think it only works on the revenue side  
2 of the equation. I don't know how it would work on  
3 the cost side. So even if it was symmetrical with  
4 respect to revenue, it is not symmetrical with  
5 respect to cost.

6           Q.    When you say it was not symmetrical with  
7 respect to cost, what are you basing that assumption  
8 on?

9           A.    I'm basing it on the assumption if you  
10 have a lot of new customers, they're going to have  
11 costs associated with new service lines and new main  
12 and meters and that sort of thing so there's new  
13 capital invested to serve those customers.

14           MR. HUMMEL: Did someone just join the  
15 call?

16           (No response.)

17           MS. GRADY: Maybe left the call.

18           Q.    Now, going on to page 10 of your  
19 testimony, Mr. Overcast, you list a number of rate  
20 design principles. Can you tell me of those rate  
21 design principles that you list, there's seven items,  
22 whether these are rate design principles that the  
23 Commission has accepted in the design of rates, the  
24 Ohio Commission?

1           A.    No.  I can't tell you specifically for  
2   the Ohio Commission.  These are broadly accepted by  
3   commissions as rate design principles and discussed  
4   in great detail in principles of public utility rates  
5   bond rates, and most commissions, if they don't use  
6   these exact same words, they have some of these  
7   considerations included in their -- relative to rate  
8   design in their proceedings.

9           Q.    Let's turn to page 17 of your testimony,  
10  and specifically lines 28 through 29.  You say:  "SFV  
11  represents a more direct and customer friendly  
12  option."  Can you explain to me how the SFV is a  
13  customer friendly option?

14          A.    Would you give me those lines again  
15  please?

16          Q.    Would be lines 28 and 29 on page 17.

17          A.    Okay.  This is discussing one of the  
18  advantages relative to dealing with customers, and  
19  unlike other rate designs, this one doesn't require  
20  complex riders that adjust for weather and for other  
21  factors, such as declining use per customer, in order  
22  to have a reasonable opportunity to recover the  
23  revenues that the Commission found to be just and  
24  reasonable.

1           In addition, it provides no disincentives  
2 for promoting efficiency from the company  
3 perspective, and also it allows the customer who is  
4 making these investments to determine their benefits  
5 directly in terms of how it will impact their bill  
6 and reduce their gas costs.

7           It's very hard to explain to customers  
8 when they've made investments in conservation and  
9 they don't achieve the savings they expected because  
10 you're adding something back to their bill because  
11 they conserve, that's a very hard to thing to explain  
12 to customers.

13           Q.   You indicate that -- this is further down  
14 in that response -- that: "VEDO benefits from the  
15 movement to full SFV because it permits customers to  
16 better appreciate the relationship between base rate  
17 bills and annual consumption, and this should, over  
18 time, reduce the potential customer confusion  
19 relative though their bills." Do you see that  
20 reference?

21           A.   Yes.

22           Q.   What time period are you specifying there  
23 that it would take for potential customer confusion  
24 to be reduced associated with SFV?

1           A.    Well, I think it takes a few billing  
2   cycles to understand how bills are going to change  
3   going forward, and, you know, if you implement SFV,  
4   there may be a period of time over which, let's say,  
5   the first year where customers took on all the way  
6   through the cycle and see that, you know, they may  
7   have a little higher bill in the summer but a good  
8   bit lower bill in the winter, and those things even  
9   out so that on an annual basis the base piece of the  
10  rate is recovering the costs associated with their  
11  service and the volumetric piece is recovering this  
12  the gas costs.

13           MS. GRADY:  Can I have that reread,  
14  please.

15           (Record read.)

16           Q.    Now, on page 18, line, 29 you speak of an  
17  "intrinsic vacancy rate."  Do you see that reference?

18           A.    Yes.

19           Q.    Can you tell me what you mean there?

20           A.    Okay.  If you sort of look at the  
21  customer count for the year and multiply that by 12,  
22  you don't get that many bills, and the reason you  
23  don't get that many bills is you have deposit center  
24  making it for some period, or you have somebody who's

1 sold their house and moved and it takes several  
2 months before -- well, not sold their house. They  
3 moved, and they're selling their house, and it's  
4 vacant for several months or something like that, and  
5 that's what I'm referring to as the intrinsic vacancy  
6 rate.

7 Q. You indicate there that: "Increasing the  
8 customer charge will alter behavior of owners of  
9 vacant dwellings." Is that correct?

10 A. Yes.

11 Q. Will increasing the customer charge alter  
12 behaviors of other customers besides what you  
13 classify, like low-income customers?

14 A. There may be low-use customers who aren't  
15 really customers at all, and you might see them drop  
16 off, particularly if they really are low real use.  
17 But typically when you see real low use bills, those  
18 are for the customers. Those are things like  
19 apartments where the landlord keeps the gas on and  
20 has it turned down to as low as it will go just to  
21 keep the pipes from freezing or something like that.  
22 And those people may find it advantageous if they  
23 find the apartment is going to be vacant for a longer  
24 period to turn service off and back on, and those are

1 really the kinds of things I'm referring to here.

2 Q. Should we be concerned from a rate design  
3 perspective with the fact that customers may drop off  
4 because of the rate design proposal?

5 A. Well, they would only drop off if they  
6 have available a lower-cost alternative.

7 Q. And so in the design of rates in your  
8 opinion that's not an issue because it forces them to  
9 a more efficient pricing?

10 A. I can't think of customers who would drop  
11 right off the top of my head unless they didn't use  
12 gas for -- I mean, I could imagine a customer with a  
13 gas grill, if that's the only appliance they had,  
14 they might not find it makes economic sense to pay  
15 for the fixed costs of getting their gas grill --  
16 getting gas to their grill when you can go out and  
17 buy a tank of propane, hook it up. All that it  
18 requires is to change out the burner in the grill.  
19 But, you know, somebody who gas logs just for  
20 decoration might be somebody else who might not find  
21 it economic to continue to pay this charge.

22 Q. Do you know if Vectren has identified  
23 customers or any number of customers that they  
24 believe will drop off?

1           A.    I believe that we discussed this, and  
2           they may have made an adjustment to the number of  
3           bills they would have under this to reflect people  
4           whose use is so low they might not remain a customer.

5           Q.    Would you imagine if customers are going  
6           to drop off based upon the SFV rate design they would  
7           drop off after a couple months from the SFV being  
8           imposed?

9           A.    I don't know the answer to that.  It  
10          would depend on a lot of factors.  I mean, it may be  
11          a year later before they drop off.  I don't know.  It  
12          depends on the timing of when the rates get  
13          implemented and that sort of thing.

14          Q.    Now --

15          A.    There will be some adjustment because  
16          landlords, things like that, will weigh the cost and  
17          benefits of leaving gas on in a vacant apartment unit  
18          as opposed to turning it off and then turning it back  
19          on when they finally rent the unit at some subsequent  
20          period.

21          Q.    Now, at page 19 of your testimony you  
22          have a number of points as to why you believe the SFV  
23          approach is the preferred method, and I want to focus  
24          on No. 6 where you say:  "SFV protects customers

1 least able to pay from higher winter bills." Do you  
2 see that?

3 A. Yes.

4 Q. Now, when you refer to the customers that  
5 are least able to pay, are you equating customers  
6 least able to pay with PIPP customers in Ohio?

7 A. It would be that group plus some others,  
8 yes.

9 Q. And who else would be in that group, if  
10 you know?

11 A. Oh, there may be low-income elderly  
12 customers who are not PIPP customers who may benefit  
13 from that. It's basically customers who for one  
14 reason or another do not have efficient appliances or  
15 thermal envelopes, things like that, and their use  
16 per degree day is higher than the system average  
17 because they don't have an efficient capital stock  
18 through which to use their gas, and as weather gets  
19 colder, they pay higher and higher volumetric charges  
20 associated with volumetric rate as opposed to paying  
21 the fixed costs, and that's what I'm referring to  
22 there.

23 Q. So you're saying there that when you move  
24 to SFV because the volumetric rate comes down, high



1 usage customers should benefit or see a benefit to  
2 their bill.

3 A. Yes. Customers that use more than the  
4 average will see their total bill decline as a result  
5 of SFV, but then, again, that's the right price  
6 signal because there is the marginal cost of  
7 distribution associated with those extra therms  
8 passing through the meter.

9 Q. And, Mr. Overcast, do you believe the  
10 PIPP customers and low-income customers that you are  
11 referencing in your point No. 6 are high-usage  
12 customers, is that correct, in the VEDO territory?

13 A. Well, in the VEDO system the data shows  
14 those customers on average have a higher average use  
15 than the regular customers.

16 Q. And are you talking about the VEDO PIPP  
17 customers; or are you talking about a different group  
18 of customers?

19 A. I specifically said the VEDO PIPP  
20 customers there, but they have a higher average use  
21 than the average for the system. They have  
22 proportionately more customers -- there's a schedule  
23 in my testimony that shows this relationship. They  
24 have a disproportionate number of large-use customers

1 relative to the population as a whole.

2 Q. Would you agree with me that the PIPP  
3 customers in your opinion are a surrogate for other  
4 low-income customers?

5 A. PIPP customers are the customers who  
6 identified themselves as low-income customers and  
7 have qualified for that rate schedule. That's all it  
8 stands for.

9 Q. Would you believe that the PIPP customers  
10 are an anomaly for -- let me strike that. Are you  
11 familiar with the PIPP rules and how PIPP functions  
12 in Ohio?

13 A. Generally, yes.

14 Q. Would you agree that it's more likely  
15 than not that PIPP customers are going to be high  
16 usage customers if they're taking advantage of the  
17 PIPP program?

18 MR. HUMMEL: Objection.

19 A. I'm not sure that I can agree with that  
20 statement. I think you have to -- you may have put  
21 the cart before the horse there.

22 Q. And how so?

23 A. It may be that they're higher users  
24 because they make lower payments for the product.

1           Q.    You would agree, though, that there are  
2 more low-income customers than those who have applied  
3 for and are receiving PIPP, wouldn't you?

4           A.    I would assume there are, yes.

5           Q.    Do you know for VEDO how many customers  
6 would be considered low income that are not on PIPP?

7           A.    No, I don't.

8           Q.    Are you aware, Mr. Overcast, that one of  
9 the reasons this company is requesting SFV is to  
10 counter the decline in average usage by the company's  
11 customers?

12          A.    That's part of the rationale, yes.

13          Q.    I'm going to go to your summary on  
14 page 25 of your testimony and have you take a look at  
15 that. Do you have that?

16          A.    Yes.

17          Q.    And you say toward lines 26 or 29 that  
18 you recommend the Commission adopt the SFV rate  
19 design proposal of VEDO for purposes of providing  
20 VEDO with a fair opportunity to collect the base rate  
21 revenues. Do you see that?

22          A.    Yes.

23          Q.    Mr. Overcast is there only one single  
24 correct reasonable way to design rates in order to

1 allow VEDO the opportunity to collect base rate  
2 revenues?

3 A. There may be multiple ways to design  
4 rates to give them a reasonable opportunity to  
5 recover their revenue. But there are other  
6 rationales that support SFV, as I've discussed  
7 throughout my testimony. For example, you could take  
8 the approach of saying: Well, we're going to charge  
9 all the costs just to large customers. That wouldn't  
10 be a cost-based rate, but it still might give them a  
11 reasonable opportunity to recover their revenues.

12 So you've got to look at other things,  
13 and one of the advantages of SFV is you get much  
14 better price signals, and I covered that in my  
15 testimony, so not only does it give you an  
16 opportunity to collect base rate revenue, it also  
17 results in a more efficient, economically efficient,  
18 rate design because the marginal costs of an  
19 additional therm of gas delivered to an additional  
20 customer, the delivery portion is zero. The only  
21 cost is what the gas itself cost, and so you're  
22 getting better price signals.

23 It's also true that you get a much more  
24 cost-based rate. Currently within the residential

1 class where you have these volumetric rates, you have  
2 the situation that the largest customers on the  
3 system subsidize the smallest customers. It  
4 literally cost the same to serve large and small  
5 customers. In fact, that's one of the things in the  
6 Missouri Commission order that I cited in my  
7 testimony. That's one of the conclusions they came  
8 to based on reviewing SFV, is that the costs are the  
9 same, and I've also demonstrated why that's true in  
10 my testimony here.

11 So it turns out that SFV does provide  
12 them with a reasonable opportunity to recover the  
13 revenues authorized by the Commission but it does  
14 much more than that, as I've discussed elsewhere in  
15 the testimony.

16 Q. Mr. Overcast, how many commissions do you  
17 know offhand have adopted a full straight fixed  
18 variable?

19 A. Let's see, the Georgia Commission has  
20 adopted it. The Missouri Commission has adopted it  
21 in two recent cases. Let's see, and the North Dakota  
22 Commission has adopted it.

23 Q. So that's three commissions out of how  
24 many commissions in the United States?

1           A.    Let's see, I believe there are about 50  
2 commissions. I don't think Nebraska has any, but  
3 Washington, D.C. has one, but don't hold me to that  
4 number.

5           Q.    Okay.

6           A.    There's quite a few commissions, but the  
7 whole point is a number of other commissions have  
8 adopted other measures, and I provided you a list of  
9 those as well. I believe that's in Schedule 1 of my  
10 testimony, and it shows there a substantial number of  
11 commissions that have adopted various kinds of  
12 mechanisms assigned to address the same issue of  
13 recovery of fixed costs.

14          Q.    But you're not recommending any other  
15 measure besides SFV here, are you?

16          A.    Well, based on my analysis of these other  
17 methods, I think that SFV is superior to these other  
18 methods and the -- I mean, there's no reason to adopt  
19 a second-best methodology when the best methodology  
20 is available.

21          Q.    But your opinion would probably be a  
22 minority opinion if you considered the various  
23 commissions throughout the United States who have  
24 adopted SFV, correct?

1           A.    Well, I don't know how many of them have  
2    had the opportunity. I mean, you know, you can't  
3    adopt something that hasn't been proposed to you. So  
4    I don't know that every one of them has had a chance  
5    to review SFV so I don't really know the answer to  
6    that question.

7           Q.    If it's the best method technology, in  
8    your opinion why aren't more utilities out there  
9    proposing it be adopted in front of these  
10   commissions?

11           MR. HUMMEL: Objection. Now, how would  
12   he know that? Excuse me, speculative.

13           Q.    You can answer, Mr. Overcast.

14           A.    How would I know? I haven't appeared in  
15   front of every commission. I haven't even talked to  
16   people from every commission. I mean, it's a  
17   question that's beyond my ability to know.

18           Q.    Have you done work for other utilities,  
19   Mr. Overcast?

20           A.    I have.

21           Q.    Have you done rate design work?

22           A.    Yes.

23           Q.    How many utilities have you worked for?

24           A.    Oh, that's a good question. Let's see.

1 Oh, probably -- I'd have to go look. Probably 15 or  
2 so, something like that.

3 Q. And of the 15 utilities you've worked  
4 for, how many of them have proposed going to a full  
5 SFV before a regulatory commission, if you know?

6 A. Well, you didn't ask me what I did for  
7 these. I've testified on a lot of different things.  
8 A lot of those utilities are electric.

9 Q. Let's narrow it down to rate design.  
10 When you did rate design work for these utilities,  
11 and let's narrow it down further to gas, how many of  
12 those gas utilities where you were doing rate design  
13 work for them put forth a full SFV proposal before a  
14 regulatory body?

15 A. Let's see, I was in charge of rates at  
16 AGL and implemented the first straight fixed rate  
17 variable design there. Vectren is two, and on gas  
18 rate design, I think I've only testified for one  
19 other company in a couple of jurisdictions, and they  
20 elected not to pursue SFV at the time that they were  
21 putting together their cases.

22 Q. Did you recommend to them --

23 A. I would say two out of three.

24 Q. I'm sorry, I didn't mean to interrupt



1 you. Did you recommend to that third company they  
2 pursue a full SFV approach?

3 MR. HUMMEL: Object on the grounds that  
4 may be confidential information. He may not be able  
5 to answer that question.

6 You can answer that, if you are able to,  
7 Mr. Overcast.

8 A. Yes, I can't really answer that because  
9 that would be inconsistent with my agreements about  
10 those kinds of discussions with other companies. It  
11 would be too easy to identify who that other company  
12 is the since it's two out of three.

13 Q. Can you tell me why SFV isn't a rate  
14 design approach that electric utilities are  
15 embracing?

16 A. Well, there's a number of reasons, but we  
17 can start with the most obvious one. Their sales are  
18 growing, not declining, for the most part. Secondly,  
19 because most electric companies are fully bundled,  
20 they're recovering in their rates the cost of  
21 generation and distribution. And it's only the  
22 distribution component here that we're focused on in  
23 the VEDO case. And electric distribution costs are  
24 typically somewhat less than they are for a gas LDC.

1 If you take into account metering service for an  
2 electric company, that's going to be less than the  
3 metering service cost for a gas distribution company.

4 So they're in a different factual  
5 circumstance, and that doesn't mean that they don't  
6 need some form of SFV, and, in fact, commissions are  
7 considering things like 100 percent ratchet in demand  
8 charges for the distribution component of costs for  
9 commercial and industrial customers, which would be  
10 in some context an SFV form for electric.

11 So you would have to look at all the  
12 individual pieces of the electric system and their  
13 considerations to know whether or not it makes sense  
14 to go to SFV. They may have to give up something  
15 they don't want to give up to go there.

16 Q. Mr. Overcast, if the company had a choice  
17 between going to a full SFV, like a flash cut, versus  
18 using a transition mechanism prior to getting to SFV,  
19 what would you recommend the company do?

20 MR. HUMMEL: Can you reread the question,  
21 please.

22 (Record read.)

23 A. Well, I said on page 2 on my testimony it  
24 would be reasonable to go from current rates to full

1 SFV immediately so it's reasonable, and the value of  
2 the decoupling is as a transition mechanism, so I  
3 think the proposal they have before the Commission  
4 now to go their gradually with decoupling in the  
5 interim is reasonable as well, so you're faced with  
6 choosing between two reasonable alternatives, and at  
7 that point, I would defer to the company's judgment  
8 related to which one they can deal with the easiest.

9 Q. Would a move to full straight fixed  
10 variable immediately be problematic from a gradualism  
11 principle perspective?

12 A. I think there's too much made out of it  
13 for that kind of thing. I mean, what you're doing  
14 here is when you look at the monthly bills customers  
15 are used to, lower monthly bills in the summer and  
16 higher monthly bills in the winter, and I'm just  
17 referring to the base rate component at the moment.

18 Q. Yes.

19 A. You know, all of the sudden you're not  
20 going to flat year round charge, it looks like a  
21 pretty big increase in the summertime over what the  
22 current rates are, but it would look like a much  
23 lower base rate bill in the wintertime so, you know,  
24 timing is everything. I would expect if you

1 implement it in the winter and winter bills went  
2 down, it might be completely doable.

3 Q. You mean in terms of customer --

4 A. Without real problems.

5 Q. You mean in terms of minimizing customer  
6 adverse reaction.

7 A. Yeah. I mean, if it was implemented for  
8 the winter season, and all of the sudden their winter  
9 bills are a good bit lower because they're paying the  
10 SFV rate, then your bills go up a little bit in the  
11 summer, that might ameliorate the whole need for  
12 gradualism.

13 Q. Do you know how much the customer charge  
14 would have to increase for Vectren in order to get to  
15 a full SFV?

16 A. I believe that number is in my testimony,  
17 and I'm terrible on remembering numbers exactly, but  
18 I think it's \$22 or something like that.

19 Q. That's your understanding of the customer  
20 charge that would have to be implemented in order to  
21 get to a full SFV?

22 A. I believe that's correct. I may be  
23 wrong. I'm just looking for it right now as we're  
24 talking.

1 Q. Under the company's proposal do you know  
2 when it intends to get to a full SFV?

3 A. Yes. I believe that would be in four  
4 steps. The first two would occur this year, and I  
5 believe in 2010 and at their next subsequent rate  
6 case there would be two more steps, so it would  
7 probably be four or five years before it all got  
8 implemented.

9 Q. And do you know the current customer  
10 charge under company's rates in this case for  
11 residentials, let's say?

12 A. I think -- I remember that number, but  
13 I'm just going to confirm that I do. I believe their  
14 current customer charge is \$7.

15 MS. GRADY: Thank you, Mr. Overcast.  
16 That's all the questions I have for you today. I  
17 appreciate your time.

18 At this point I would like to open up the  
19 record for cross-examination by other counsel to this  
20 proceeding.

21 (No response.)

22 MS. GRADY: Hearing no response, we can  
23 go off the record.

24 (The deposition concluded at 2:41 p.m.)

1 State of Ohio :  
2 County of \_\_\_\_\_ : SS:

3 I, H. Edwin Overcast, do hereby certify that I  
4 have read the foregoing transcript of my deposition  
5 given on Tuesday, August 12, 2008; that together with  
6 the correction page attached hereto noting changes in  
7 form or substance, if any, it is true and correct.

8 \_\_\_\_\_  
H. Edwin Overcast

9 I do hereby certify that the foregoing  
10 transcript of the deposition of H. Edwin Overcast was  
11 submitted to the witness for reading and signing;  
12 that after he had stated to the undersigned Notary  
13 Public that he had read and examined his deposition,  
14 he signed the same in my presence on the \_\_\_\_\_ day  
15 of \_\_\_\_\_, 2008.

16 \_\_\_\_\_  
Notary Public

17 My commission expires \_\_\_\_\_, \_\_\_\_\_.  
18 - - -  
19  
20  
21  
22  
23  
24

## CERTIFICATE

State of Ohio :  
County of Franklin : SS:

I, Rosemary F. Anderson, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named H. Edwin Overcast was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 15th day of August, 2008.



Rosemary F. Anderson,  
Professional Reporter, and  
Notary Public in and for the  
State of Ohio.

My commission expires April 5, 2009.

(RFA-8185)

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