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, :
Approval of an Alternative:
Rate Plan for its Gas :
Distribution Service, :
Approval to Change :
Accounting Methods, :
Approval of Tariffs to : Case Nos. 07-829-GA-AIR
Recover Certain Costs : 07-830-GA-ALT
Associated with a Pipeline: 07-831-GA-AAM
Infrastructure Replacement: 08-169-GA-ALT
Program Through an : 06-1453-GA-UNC
Automatic Adjustment :
Clause, and for Certain :
Accounting Treatment, and :
Approval of Tariffs to :
Recover Certain Costs :
Associated with Automated :
Meter Reading Deployment :
Through an Automatic :
Adjustment Clause, and for:
Certain Accounting :
Treatment. :

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VOLUME II - PROCEEDINGS

before Ms. Christine M.T. Pirik and Mr. Scott Farkas, Hearing Examiners, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-C, Columbus, Ohio, called at 8:30 a.m. on Wednesday, August 6, 2008.

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Wednesday Morning Session,

August 6, 2008.

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EXAMINER FARKAS: Let's go on the record. This is a continuation of the hearing in the matter of Dominion East Ohio Gas.

You can call your next witness.

MR. SETTINERI: I apologize, your Honor. For the record, I'd like to make a brief appearance if I may. Howard Petricoff, Michael Settineri of the law firm of Vorys, Sater, Seymour & Pease on behalf of Integrys Energy, Inc., as well as today we'll have no questions for the witnesses.

EXAMINER FARKAS: Thank you.

MR. KUTIK: Your Honor, the company for its next witness calls Daniel M. Ives.

EXAMINER FARKAS: Can you raise your right hand?

(Witness sworn.)

EXAMINER FARKAS: You may be seated.
Proceed.

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DANIEL M. IVES

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Kutik:

Q. Please introduce yourself.

A. My name is Daniel M. Ives, and I'm a rate and regulatory consultant under contract with Dominion East Ohio.

Q. Sir, do you have before you Dominion Exhibit 8.0?

A. Yes, I do.

Q. What is that?

A. It's the direct testimony of Daniel M. Ives.

Q. Do you have any corrections or additions to make to that exhibit today?

A. I do. I have one correction to make. On page 4, line 11, the $49.4 million figure should have parentheses around it so it's a negative 49.4 million.

Additionally, I would like to note that I retired from Black & Veatch Corporation at the end of February of 2008, so I am no longer employed by

Lukens Energy Group or Black & Veatch. My business address is 5319A Feagan Street, F-e-a-g-a-n Street, Houston, Texas 77007.

Additionally, I currently maintain an active status on my Maryland CPA license, and I would further note that I am no longer a member of the American Gas Association Rate and Strategic Issues Committee. Thank you.

Q. Subject to those corrections, if I asked you today the questions that appear in this exhibit, would your answers be as they appear in this exhibit?

A. Yes.

MR. KUTIK: I have no further questions, your Honor.

EXAMINER FARKAS: Thank you.

MR. SERIO: Your Honor, before we do cross, can we go off for a second?

(Discussion off the record.)

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Ives.

A. Good morning, Mr. Serio.

Q. I have a couple questions about the

corrections you just made or the additions to your testimony.

A. Yes.

Q. You indicated that you had resigned from Black & Veatch?

A. I did.

Q. That means now you're operating independently?

A. That's correct.

Q. And how long were you with Black & Veatch?

A. I was with Black & Veatch for just over three years. I was a principal in Lukens Energy Group, it was a subchapter S corporation so I guess I should say I was a shareholder. We sold the firm to Black & Veatch in 2005 and we had a three-year earn-out kind of arrangement, so at the end of that term I decided to go ahead and retire.

Q. Do you know if Black & Veatch was

retained by Dominion to do any other work in conjunction with the current proceeding other than your testimony?

A. No.

Q. And I believe you indicated that you have inactive status as a CPA in Maryland?

A. I have since upgraded it to active status by taking the requisite number of hours of CPE, continuing professional education, courses.

Q. Okay. Now, I believe in your testimony you also indicate that -- you cover topics like the pension expense and others, and you list attached to your testimony in your Appendix A the different cases that you've testified in. Can you identify which specific cases you've actually testified regarding a pension expense issue?

A. Yes. I have submitted filed testimony in the state of West Virginia in a 2001 Dominion Hope case and in a 2005 Dominion Hope case.

Q. And Dominion Hope in West Virginia is actually an affiliate company of Dominion East Ohio; is that correct?

A. It is.

Q. And the two cases that you reference in

West Virginia, those were both settled; were they
not?

A. Yes, they were.

Q. And the pension issue that you testified
in those two cases, was that similar to the pension

issue in the current proceeding?

A. It was similar in that they had a pension credit in both years.

Q. And to the extent that both of those cases were settled, there are no cases that you're aware of where you've testified on pension expense and a public utility commission has issued an order that adopted a position that you recommended in your testimony; is that correct?

A. I have testified in no other cases on pension expense, so there are no other orders that would affirm or deny my testimony.

Q. Okay. Now, on page 3 of your testimony you have kind of a synopsis of what your testimony involves. At the bottom of the page you indicate that you will explain how the pension asset is a result of superior performance of the pension plan and labor management efforts of the company and not from ratepayer contributions. Can you tell me if the pension asset is a result of shareholder funding?

A. The pension asset is a result of -- reflects the growth -- the asset reflects the favorable funding of the plan. The company originally funded the plan and through the performance of the plan and management of the plan the company has exercised, the good management of the plan, the pension asset has grown from about $24 million in 1994 to the present level of over $600 million.

Q. Okay. Your testimony says, though, it's not from ratepayer contributions. My question to you is: Can you point to anything that shows it's from shareholder contributions?

MR. KUTIK: Objection; asked and answered.

EXAMINER FARKAS: Sustained.

Q. Can you point to anything in the company's application that demonstrates that the funding of the pension asset came from shareholders?

A. I don't believe there's anything else in the application that would point to that.

Q. Is there anything else in the record of this proceeding other than your testimony that you

can point to that would demonstrate that the funding
of the pension asset came from shareholders?

A. I'm not aware of any.

Q. On page 4 of your testimony you indicate
that there's a long history of pension expense

credits for DEO. Do you see that?

A. Yes, there is.

Q. And how long do you mean when you say "a long history"? How far back?

A. At least since 1994 which is the year of the company's last rate proceeding, there were pension credits of about $6.2 million in the cost of service, in the settled cost of service, from that case.

Q. And regarding that 1994 proceeding would you accept, subject to check, that that is the 93-2006-GA-AIR proceeding?

A. I'll accept that subject to check.

Q. And do you know when that case -- when the Commission issued an order regarding that case?

A. I don't know the date of the order.

Q. Would you accept, subject to check, that it's November 3rd, 1994?

A. I'll accept that subject to check.

Q. So you know at least that far back, but
you don't know if previous to that 1993 rate case if
there was a pension expense credit prior to that; is
that correct?

A. I don't know that. We tried to ascertain that and could not find various records.

Q. And to the extent that you're aware of the history back to '93, how did you learn that information?

A. Principally from discussions with the company.

Q. Did you review the 1993 application at all?

A. No.

Q. Did you review the 1993 -- any of the prefiled testimony or testimony filed by any of the witnesses?

A. I don't recall that I did.

Q. Did you review the staff report that was issued in the 1993 rate case?

A. I did not, but Mr. Murphy explained to me the basics of the staff report.

Q. Did you review the stipulation or the opinion and order from the 1993 case?

A. I did not.

Q. So all of your understanding of the 1993 case came from discussions with Mr. Murphy.

A. Mr. Murphy and perhaps other company personnel.

Q. Okay. Now, on page 4 of your testimony I think beginning on line 10 and in that table you indicate that the DEO pension asset as of November 31, 2006 [sic] was 615 million. Do you know what FERC account on the company's books that pension asset is contained in?

A. I think the company was recording that in account 186 for debits.

Q. Now, you indicated that you had tried to find out information going back prior to the last case but weren't able to get the information; I believe that's what you indicated.

A. Yes.

Q. Can you explain to me what efforts you went through to try to get that information?

A. I met several times with Dominion East Ohio personnel and other personnel from the Dominion organization and there were extensive searches of records trying to find the kind of information that we would like to have.

Q. But you were unable to get any information going back prior to the '93 case that would provide any additional insight into the history of the pension asset; is that correct?

A. We did come across the 1992 contribution that I mention in my testimony, and prior to that I'm not aware of any other materials.

Q. Do you know what the date certain is in this proceeding?

A. March 31st, 2007, I believe.

Q. And do you know what the date certain balance of account 283, the accumulated deferred income taxes related to pensions, was as it was presented in the application in this case?

A. It was around 215- or 220 million dollars.

Q. On page 4 of your testimony I think you identified that it was 215 million. Do you know what date you're referring to when you identify the 215 million?

A. I think the 215 million was at the end of December '06.

Q. And you mentioned a $220 million figure.

What date does the $220 million figure relate to then?

A. I'm not exactly sure if that was March or December.

Q. Now, to the extent that the accumulated

deferred income taxes have grown from 215 million to 220 million, what would that be attributed to?
A. That would be attributable to the continued growth of the deferred tax balance, the continued growth in the pension asset.
Q. So as the pension asset grows, the accumulated deferred income tax is growing also.
A. Yes.
Q. Now, on page 20 of your testimony on line 6 you describe Dominion's proposed adjustments to set its rate-making pension expense credit to zero and to remove the associated accumulated deferred income taxes from rate base. Would you explain to me how the accumulated deferred income taxes are associated with the pension expense credit?
A. Yes. The pension expense credit gives rise to the deferred income taxes in the company's income statement and the cumulative balance of those deferred taxes become the accumulated -- or, reside

in the accumulated deferred income tax account in the company's books.

The accumulated deferred income taxes are calculated at the statutory tax rate of 35 percent, and you'll note that the balance of the accumulated deferred income taxes at 215 million is directly related to the magnitude of the pension asset, the 615 million, it's 35 percent of that balance.

Q. So the pension credit itself is directly tied to the pension asset, correct?

A. That's correct.

Q. And the pension asset is directly connected to the deferred -- accumulated deferred income taxes, correct?

A. The accumulated deferred income taxes are directly related to the pension asset and the pension expense.

Q. So is the pension asset, then, also directly related to the deferred taxes?

A. I think I just said the deferred taxes are directly related to the pension asset. They're calculated, effectively, off of that.

Q. Now, can you explain to me the difference between Dominion's book accounting treatment for the pension and Dominion's tax treatment for the pension that resulted in the pension related accumulated deferred income taxes?

A. The company for book purposes represented -- for book purposes they calculated pension income because of the growth in the plans and the favorable performance of the plans, as I also had testified, the rightsizing efforts of the company to contain their labor costs, and so those factors help give rise to the increase in the pension asset or the negative expense, if you will, for the plan.

So the negative expense generates deferred taxes that at some point in time may turn around, so accumulated deferred income taxes are provided on the negative pension expense. And that's consistent with FAS 87.

Q. Now, you just indicated it may turn around in time. Do you mean at some point in the future the pension expense can go from being overfunded to underfunded?

A. Conceivable.

Q. And has the company done a projection as to when they anticipate that such a turnaround might occur?

A. I'm not aware that they have, but I do cite in my testimony that I believe that the most recent five-year forecast at the time that this testimony was prepared did not indicate a need for any cash contributions to the plan.

Q. What kind of forecast are you talking about when you reference that five-year forecast?

A. I just understand that the company forecasts its cash requirements and that no cash requirements were thought to be necessary for the pension fund based on the information at that time.

Q. So there's not a specific type of forecast that you're aware of?

A. Well, I don't know the name of the report or forecast, but I was --

Q. You know --

A. Excuse me.

Q. I'm sorry.

A. I'm sorry. I don't know the name of the forecast, but I was told that by company personnel and I believe -- I have no reason to doubt that.

Q. Who told you that information?

A. Mr. Murphy.

Q. And do you know what five-year period that forecast covered?

A. I don't know exactly, but it would have been five years from 2006, I think out through 2011.

Q. And again, that information would have come from Mr. Murphy, the period that it's actually

covering?
A. Yes.
Q. Is Dominion allowed to use its FAS 87 pension expense for tax purposes?
A. Excuse me. Can you repeat the question?
Q. Sure. To your knowledge, is Dominion permitted to use its FAS 87 pension expense for tax purposes?
A. No.
Q. And do you know what the allowable tax expense is for pension?
A. Yes. The allowable tax expense for tax purposes is the amount of the cash contribution.
Q. So to the extent that Dominion has not made a cash contribution since at least 1993 there has been no related allowable tax expense for the pension, correct?
A. That's my understanding.
Q. And that understanding would come from

Mr. Murphy, again?

A. Mr. Murphy; I think Mr. Taylor testified
to that on August 1st.

Q. Okay. Now, you've referenced in your
testimony this morning and in your prefiled testimony

that the growth in the pension fund was due to favorable performance of the pension plan's investments coupled with ongoing labor management efforts. I'd like to look at those one at a time.

A. Okay.

Q. When you say "favorable performance of the pension plan's investments," what specifically are you referring to?

A. I think if you turn to Exhibit DMI 8.3 which is attached to my testimony.

Q. I'm sorry, could you identify that again?

A. Exhibit 8.3 which is attached --

Q. Okay.

A. -- to my testimony.

Q. And that's the one that's titled Dominion Resources Pension Fund Investment Performance as of December 31, 2006?

A. That's correct.

Q. Okay.

A. Exhibit 8.3 indicates that this is a Dominion Resources consolidated pension fund consolidating all of the Dominion plans including Dominion East Ohio and the East Ohio, West Ohio, River gas plants, all of those would be rolled up into the $5 billion total fund. This indicates that the annualized rate of return over a time horizon of one year, three years, five years, and ten years are 14.1 percent, 12.6 percent, 9.9 percent, and 10.3 percent.

Q. Okay. Just so I get the dates straight, the one-year, the 14.1 percent, would reflect what period?

A. The annualized return for that one year for the 12 months ended December 2006.

Q. And the three-year would be December 31st, 2003?

A. Yes. But that's an annual rate of return over that period.

Q. It's averaged over the three years?

A. Yes.

Q. Just a regular total the three and divide by three average?

A. I'm not sure if it's a weighted average or a simple average. I would assume it would be a weighted average.

Q. And then the same with the five- and the ten-year?

A. Yes.

Q. And do you know if those returns are consistent with results from the stock market as a whole?

A. The stock market as a whole, I didn't research the specific years, but generally the stock market as a whole has been running around 8 percent. I also think that, just another fact is the growth in the pension asset itself over the time period would indicate favorable performance of the plans.

Q. What do you mean by the growth of the plan itself?

A. Well, the growth of the pension asset over the time horizon would also be an indicator of the favorable performance of the plan.

Q. Can you explain to me how one would be connected to the other?

A. Well, the pension asset itself is a function of the performance of the plan, so as the pension asset has grown over the time horizon from

1994 through 2006, it would indicate that there was favorable performance in the plan.

Q. You mean like a compounding effect?

A. It does, it does compound.

Q. Okay. Sort of like getting interest on interest over time.

A. Well, I think there's growth in the fair market value of the assets.

Q. Now, the other factor that you identified was the company ongoing labor cost management efforts, and can you explain to me what you mean by the ongoing labor cost management efforts?

A. Yes. Mr. Murphy informed me that the company had an ongoing rightsizing program over these years to determine the correct level of employees, may be a reduction in employees, it may be an increase in employees, but they went through a systematic process, a continuing process, since 1994 to manage the labor costs and to arrive at that level of labor that would best suit the needs of the company.

I had seen some numbers somewhere, you know, I don't have, but the total employees of the companies decreased from over 2,000 to just over

1,000 over that time period.

Q. And you indicated that it's your understanding that those efforts began in '94. Now, is that after the last rate case expense, I'm sorry, the last rate case?

A. I don't know the precise begin date and end date. In fact, I believe there's no end date to the process.

Q. So your reference to going from approximately 2,000 to 1,000 employees, you don't have a start date of when that -- what reflects the 2,000 employees?

A. I think it started back in the early-'90s, but I don't know the exact date.

Q. Now, to the extent that in the last rate case the company employee levels were significantly higher than they are today, would that contribute in part to the growth of the pension asset?

A. That could contribute to the growth in the pension asset, yes.

Q. And the reason it could do that is because fewer employees would mean that there would be fewer employees ultimately drawing from the pension expense, correct? The pension asset.

A. The projected benefit obligation of the plan would be less.

Q. And you don't know, then, if the level of employees in the last rate case was higher than the level of employees that the company's actually experienced in each ensuing year since that rate case.

A. Yeah, I don't know what the level of employees was.

Q. But to the extent that you're aware that the number's decreased, it would be your general belief that the number of employees in each year since the last rate case has been less than the number of employees that there were in the 1993 rate case.

A. I just don't know that as a fact. I mean, I just don't know the head counts at each particular date.

Q. If that wasn't true, then wouldn't you have expected the pension asset to have decreased instead of increasing?

A. Well, the pension asset, I mean the pension asset has increased primarily because of the favorable performance of the plan over the years.

Q. So if I look at those two efforts, the favorable performance of the plan and the ongoing labor cost management efforts, the majority of the growth, in your opinion, is a result of the investment itself and not because of the labor management efforts?

A. I would think so. I mean, I didn't do a precise study of it, but if you look at Exhibit 8.1, this is a -- Exhibit 8.1 is a reflection of the company's FAS 87 pension expense for 2006. The net periodic pension costs reflected in that exhibit is a negative $31.2 million. The principal component that generates that pension credit is the expected return on the plan assets which is a negative $53.3 million. In other words, it's a growth in the plan assets.

Q. I understand you haven't done a precise study, but if you had to give me a percentage of the plan investment versus the ongoing management labor efforts, is the plan investment itself more than 3/4 of the growth?

A. I don't know. I haven't done that study.

Q. Now, you identified those two components in your testimony, so you can't point to anything since 1994 that shows that there was any shareholder

contribution at all to the growth of the pension
asset; is that correct?
MR. KUTIK: Objection; asked and
answered.
EXAMINER FARKAS: I'll allow it. Go

ahead.

A. Well, I think the shareholder contribution to the growth of the plan would go back to the fact that the plan was founded and funded by shareholders and perhaps ratepayers back when contributions were being made into the plan, and to the extent that there was positive pension expense in any preceding rate cases. Since 1994 there has not been positive pension expense in the company's rates. So since 1994 we know that it was not ratepayer funded.

But to the extent that the company did fund the plan and caused it to grow, managed the plan and managed the labor costs, then I consider that to be the management and the investors' contribution.

Q. Okay. You indicated that there's about five or six things in that answer. Let's start with the first one. You indicated that initially the shareholders funded the pension asset. Is that what

you said? So I can make sure I'm understanding.
     A.   I said shareholders and perhaps
ratepayers to the extent that there had been pension
expense, if there had been pension expense in rates
prior to 1994.

Q. So the way you're responding is that you know for sure that shareholders contributed and that perhaps ratepayers contributed.

A. Yes.

Q. And how do you know for fact that shareholders contributed?

A. Somebody had to put the money in the plan.

Q. But you don't know who.

A. I don't. I just said that I don't know the extent to which ratepayers funded the plan prior to 1994.

Q. So is it possible that the plan was initially funded entirely by ratepayers?

A. Well, you know, I don't think that we track dollars between ratepayers and the company in terms of what comes in the rates, what's set -- what is in the rates and what flows through the rates and what goes into the cash account and where that cash goes, whether it goes into the pension plan or not, so I'm not sure because nobody tracks cash for that purpose. I don't know that you could draw a direct nexus.

Q. Okay. You can't draw a direct nexus that said that ratepayers did fund it, but can you tell me with certainty that ratepayers did not fund it?

A. I don't know what portion ratepayers funded.

Q. Now, you indicated that you believe that the shareholder contribution comes in the form of managing the expense over the years; was that correct?

A. The shareholders provide capital to the corporation and the shareholders -- the corporation provides the management of the plan, the Dominion officers and management overseeing the plan. The plan's actually I guess administered by Mellon Bank, but the corporate investment decisions were made at the Dominion corporate level.

Q. Now, you indicated that shareholders provide capital. Do you know if there's been any stock offerings to raise capital for the pension fund?

A. I'm not aware of any.

Q. You're not aware of any to '93, or are you aware of any, period?

A. I'm not aware of any, period. But I would doubt that they would be earmarked to fund the pension plan.

Q. So it's possible that if there was a stock offering to raise capital, that none of that money could have been earmarked to the pension fund, correct?

A. I don't know. It could be conceivable all of it was earmarked for the pension fund, but I doubt either -- either extreme I would doubt.

Q. But there's nothing in the application or anything in this record that would lead you to be able to point to it and say this stock offering raised money that went to fund a pension asset.

A. Not that I'm aware of.

Q. Now, you indicated that the other contribution is through officers, company management. To the best of your knowledge, does the cost of officers through salary and benefits, is that passed on to ratepayers in the form of the rates that are paid?

A. Well, to the extent that the -- yes, with
a qualification. Corporate officers and corporate overhead is allocated among subsidiaries, whether or not those dollars are actually collected in rates is a function of when the rates were last set and what

the allowed levels of cost were in the rates.

Q. But if we go back to the '93 case, to the extent that the company reached an agreement, you would agree with me that the company was willing to accept that whatever rates came out of that case provided sufficient revenues that the company was satisfied, correct?

A. Well, I think I testified earlier it was my knowledge that was a settlement and a settlement is just that, it's a settlement, it doesn't -- I don't think there's any admission by the company that they were satisfied with the results and it covered all of their costs. I wasn't there, I wasn't part of the settlement, but I'm sure that they did not stipulate as to whether they were satisfied or not.

Q. Is it your understanding that the 1993 rate case settlement was a black-box settlement?

A. I have heard that, yes.

Q. What's your understanding of what a

black-box settlement is?

A. Well, there's -- I don't know that
there's a dictionary definition or a technical
manual, but the black-box settlement typically
involves a settled cost of service and it may specify

certain elements that were relied upon in arriving at that such as rate of return or rate base or cost of service.

But typically it's a settled number that produces rates and it may or may not be disclosed depending on the jurisdiction.

Q. So it's safe to say that you can't go back in the black-box settlement and point to any dollars and say "the settlement specifically did this" unless the settlement had particular language that explained that, right?

A. Well, I think I testified that the settlement was crafted along the lines of the staff report in the 1994 case and '93 case.

Q. But you didn't verify that by going back and looking at the staff report yourself.

A. Well, I didn't, but I was informed by company personnel that it generally followed the lines and I had no reason to doubt the company

personnel, and certainly if that were not true, I
wouldn't testify to that.

Q. But you didn't go back and check the
stipulation, the order, or the staff report to
confirm what Mr. Murphy told you.

MR. KUTIK: Objection; asked and answered.

EXAMINER FARKAS: I'll allow it.

A. As I answered before, I did not.

Q. Okay. Now on page 5 of your testimony, line 11, you say "To the extent that pension-related costs were an expense rather than a credit prior to DEO's last rate case." Do you know if the pension-related costs were an expense prior to the last rate case?

A. Well, I don't know when, but I'm sure at some point in time they were a positive expense.

Q. But as of December 31st, 1993, the pension asset had a positive amount in it, correct?

A. It had a positive amount just short of $25 million as of December 31st, 1993.

Q. So when you say to the extent that there was an expense, you're saying to some period prior to '93 when that 25 million was not a positive number.

A. The $25 million pension asset was the
balance as of December 31st, 1993, and sometime
prior to that pension expense was probably positive,
yes.

Q. And we don't know that because the

company couldn't find those records to demonstrate at what point in time it was determined, correct?

A. That's what I testified to.

Q. Now, on line 18 of your testimony, page 5, you say "DEO has not made a cash contribution." There's been no cash contribution from either ratepayers or shareholders, correct?

A. Well, the sentence says that DEO's not made a cash contribution since 1992.

Q. And when you say "cash contribution" there, you mean from either shareholders or ratepayers, correct?

A. Well, the cash contribution would have come from Dominion's bank accounts and gone into the plan. Now, the source of that cash, I think I've already said, we do not trace the source of cash.

Q. Okay. Now, on page 6 of your testimony you describe what you're calling a windfall on line 9. Can you define for me what you mean by a windfall?

A. Well, I define it in the testimony itself. I simply said that the ratepayers have received $77.5 million which is a $6.2 million credit over those 12-1/2 years.

Q. And what you did is you multiplied that 6.2 times 12-1/2 to get the 77-1/2 million?

A. I did.

Q. Could a windfall like that work in the opposite direction where it was a windfall for shareholders?

A. Well, it could, but it hasn't.

Q. So it is possible that the windfall could work for either ratepayers or shareholders.

A. Well, to the extent that rates are set that include a pension expense that is greater than it turns out to be needed in subsequent years if the rates are still in effect, then you perhaps could overcollect if you were tracing dollars, but we don't trace dollars because we collect rates on an aggregate cost-of-service basis.

Q. And you say you don't trace dollars, you do it in the aggregate, so if you were to take this windfall that you identify and look at it in the aggregate, there's no way to identify a windfall. What you've done is you've specifically picked one item, correct?

A. I picked one item, yes.

Q. Now, I think you answered this, but just so we're clear, in your calculation of the windfall you didn't consider any other expenses or revenues other than just the 6.2 million with the pension asset, correct?

A. Well, I said that in theory they have received a cumulative credit, but I've already testified that I didn't factor in any other revenues or expenses.

Q. Now, does the amount of the pension expense recognized in rates by the PUCO affect Dominion's treatment of the pension expense for financial reporting purposes?

A. I'm sorry, I didn't hear. There was a lot of --

Q. Sure. No problem. I'll repeat it. Does the amount of the pension expense recognized in rates by the PUCO affect Dominion's treatment of the pension expense for financial reporting purposes?

A. For financial reporting purposes the

company follows FAS 87 and FAS 158.

Q. So that means that the amount of the pension expense recognized in rates by the Commission isn't necessarily the same as the pension expense for financial reporting purposes, correct?

A. For financial reporting purposes the company follows FAS 87 and FAS 158, but they don't follow the Commission-prescribed treatment for financial reporting purposes.

Q. Now, if we were in a situation where instead of a pension asset being overfunded it was underfunded, is it your belief that the company would be including an amount in the rate case to alleviate the underfunding?

A. Yes.

Q. That would be the normal process for a utility like Dominion, correct?

A. It would be normal to include a positive pension expense in the cost of service, yes.

Q. And that in turn would flow through in the form of rates that were paid by customers, correct?

A. Presumably.

Q. Are you aware of situations where

companies have issued stock in order to raise capital to fund a pension rather than trying to recover those costs through rates to customers?

A. I'm not aware of any specific issuance, but generally securities issuances or shelf filings are done to raise cash for general corporate purposes and that's a fairly normal type of issuance.

Q. And if a company does a general issuance like that, they wouldn't specifically identify what the purpose of the cash that was being raised would go to, do they?

A. They could.

Q. Are you aware if since '93 -- scratch that.

Are you aware if Dominion has ever done an offering like that where they specifically identified the pension asset as the source for the funds that were being raised?

A. I'm not aware of a specific case that would raise money specifically through a pension asset.

Q. Is that in general or just for Dominion?

A. In general. I can't cite a case for you.

MR. SERIO: Your Honor, I think that's

all I have.

Thank you, Mr. Ives.

THE WITNESS: Thank you, Mr. Serio.

EXAMINER FARKAS: Staff.

MR. REILLY: Thank you, your Honor.

CROSS-EXAMINATION

By Mr. Reilly:

Q. Good morning, Mr. Ives.

A. Good morning.

Q. My name is Steve Reilly. I'm here on behalf of the staff of the Commission.

A. Good morning, Mr. Reilly.

Q. Good morning. I just have a few questions for you.

Are you aware that the staff filed the Staff Report in this case?

A. Yes.

Q. Have you reviewed that Staff Report?

A. I did.

Q. Did you review the Staff Report with regard to the pension provision in the Staff Report?

A. I did.

Q. Okay. I'd like to --

MR. SERIO: Your Honor, before Mr. Reilly goes any further I'd like to make a motion to preclude cross-examination on what's in the Staff Report because Mr. Ives had an opportunity in his direct testimony to comment on the Staff Report and didn't do it. Anything that's elicited on cross-examination regarding the Staff Report the company could have put in the Staff Report [sic], they chose not to, so it's not even appropriate rebuttal testimony.

That's something that the company should have done directly or should have done in response to the Staff Report itself and they didn't do so.

MR. REILLY: Actually, I'm just setting a foundation.

MR. KUTIK: Well, as a factual matter, Mr. Ives' testimony was filed with the application before the issue was in the Staff Report.

EXAMINER FARKAS: I'll allow the question.

MR. REILLY: Thank you, your Honor.

Q. (By Mr. Reilly) Mr. Ives, could I direct you to page 20 of your testimony, question and answer 33. And would you review those two for me, please, question and answer 33.

EXAMINER FARKAS: Let's go off the record for a second.

(Discussion off the record.)

EXAMINER FARKAS: Okay. We can go back on the record.

MR. REILLY: Thank you, your Honor.

Q. Mr. Ives, have you had an opportunity to review question and answer 33 in your written direct testimony?

A. Yes.

Q. On line 21 you begin talking about an alternative; do you see that? You begin it with "Alternatively."

A. Yes.

Q. Is that alternative that you discuss beginning with the word "alternatively" on line 21, is that the way the Staff Report recommended handling the pension expense?

A. Yes, my recollection of the Staff Report, it recommends including the pension asset in the rate base along with the accumulated deferred income taxes. It was about a $600 million, $600 million plus asset, and the $200 million accumulated deferred income taxes were incorporated in staff's rate base, and the cost of service reflected the pension credit of approximately $50 million.

Q. In your opinion was staff's handling of staff's proposed or recommended method for handling the overaccrual of a pension expense consistent with generally accepted accounting principles?

A. Well, I believe the staff followed Financial Accounting Standard 87 in terms of developing the -- including the level of expense in the pension asset and the accumulated deferred taxes. FAS 87 states that you should provide accumulated deferred taxes on the asset, so from that perspective staff took that approach.

Q. Do you believe that staff's recommended approach is also consistent with FAS 158?

A. Well, I don't think it's inconsistent with FAS 158. FAS 158 goes to -- primarily goes to financial statement presentation of the pension asset rather than the computation of the expense in the asset itself.

MR. REILLY: Thank you, Mr. Ives.

THE WITNESS: Thank you.

MR. KUTIK: Your Honor, just a few questions.

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REDIRECT EXAMINATION

By Mr. Kutik:

Q. Mr. Ives, your recommended treatment of the pension expense is to set it to zero. Your recommended treatment of the pension asset is to not include it in rate base nor to adjust ADIT for pension related -- pension-related ADIT, correct?

A. Yes. My proposed treatment would have, in effect, not recognized any of those three elements, the negative pension expense would be zeroed out, the pension asset would not be recognized in rate base, nor would the accumulated deferred income taxes.

Q. Now, the staff, staff's recommendation, is recognize the pension expense credit, recognize the pension asset, and also adjust for the pension-related ADIT, correct?

A. That's correct.

Q. Are both proper ways to treat the pension issue for rate-making purposes?

A. Yes, they are. They're both -- they are both proper ways because they both are symmetrical in that they recognize all three elements of the expense, the asset, the accumulated deferred taxes, and they have been handled by various regulatory commissions in either way.

Q. You mentioned that it was symmetrical, both treatments. Why is symmetry important?

A. Well, if you are going to recognize deferred taxes in the rate base, for example, the ratepayers should be bearing the expense as well in the cost of service. So if you recognize deferred taxes in rate base, you should also recognize the asset itself because the deferred taxes relate directly to the rate base.

Q. Now, Mr. Serio asked you a series of questions about where the pension asset may have come from; do you remember those questions? Did ratepayers contribute, did shareholders contribute, so forth.

A. Yes.

Q. Is that a relevant determination with respect to the proper issue of these pension issues for rate-making purposes?

A. No. I don't think it's relevant because we don't track the funds, as I testified.

Q. Mr. Serio also asked you a question about

whether if the pension was underfunded and there was
a pension expense, that ratepayers would be expected
to pick up that expense; do you remember that?
A. Yes.
Q. Why isn't it the case, then, that in a

situation where the pension expense is a negative, in other words that it generates revenues, that ratepayers shouldn't get credit for that?

A. Well, the problem with it is it creates a deficiency in cash flow for the company in collecting its cost of service. If you put a $53 million -- a $50 million credit in the cost of service, the company is not able to collect those funds to cover all the other elements of its cost of service and its capital needs.

Q. Why isn't the company able to collect those funds or use those funds?

A. Because under pension law, as I've testified in my written testimony, there's no access to the funds. You can't dip into the corporate pension fund to -- for any other purposes.

Q. That pension law that you referred to, is that ERISA?

A. That is ERISA.

MR. KUTIK: May I have one moment, your
Honor?

No further questions.

EXAMINER FARKAS: Mr. Serio.

MR. SERIO: Thank you, your Honor.

RECROSS-EXAMINATION

By Mr. Serio:

Q. Mr. Ives, you just indicated that where the pension asset came from is irrelevant. Is that what you said?

A. I said because we don't track -- we don't track the funds.

Q. If it's irrelevant, why did you mention on numerous occasions in your testimony that it didn't come from ratepayers?

A. Because ratepayers are receiving credit in the cost of service since 1994.

Q. But you indicated that that's based on looking at a single issue and not looking at the total, correct?

A. Well, I said that it was an element of the cost of service that was settled in 1994.

Q. Under your recommendation or the staff recommendation shareholders would receive a return on

the pension asset itself; would they not?
A. Well, they would receive a return, but it would compensate for the fact that there was a $50 million credit flowing through the cost of service.

Q. To the extent that you cannot point to anything that shows definitively that shareholders contributed, why is it appropriate to allow shareholders to receive a return on funds?

A. Well, it's appropriate so that the cash flow needs of the company are met. I just said we're flowing through a credit and the cost of service for $50 million, the company has no access to the fund, it cannot, under ERISA law, raise its pension fund to recoup that, so the pension is really a one-way street. You put money into the fund, but you can't take it out.

So one method of treating that is to include the pension asset and the accumulated deferred pension in rate base along with the inclusion of the negative expense.

Q. Is the company entitled to a full return on that pension asset that is a one-way funding?

A. Yes.

Q. They are. Would they have to issue stock
on that?

A. I don't know.

MR. SERIO: That's all I have, your
Honor. Thank you.

Thank you, Mr. Ives.

MR. REILLY: I have nothing further, your Honor. Thank you.

EXAMINER FARKAS: Thank you.

MR. KUTIK: Your Honor, at this point the company moves for the admission of Dominion Exhibit 8.0.

EXAMINER FARKAS: Any objection?

MR. SERIO: No, your Honor.

EXAMINER FARKAS: Okay, then it will be admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

EXAMINER FARKAS: You're excused.

THE WITNESS: Thank you.

(Witness excused.)

EXAMINER FARKAS: Why don't we take a ten-minute break.

MR. KUTIK: Certainly.

(Recess taken.)

EXAMINER FARKAS: Let's go back on the record.

MR. KUTIK: The company for its next witness calls Tim C. McNutt.

EXAMINER FARKAS: Raise your right hand.

(Witness sworn.)

EXAMINER FARKAS: You can be seated.

You may proceed.

MR. KUTIK: Thank you.

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TIMOTHY C. McNUTT

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Kutik:

Q. Please introduce yourself.

A. Timothy C. McNutt.

Q. Mr. McNutt, do you have before you DEO Exhibit 10.0 and 10.1?

A. Yes, I do.

Q. What are those documents?

A. This is my direct testimony.

Q. And Exhibit 10.1?

A. Is my --

Q. Is your supplemental?

A. It's my supplemental testimony, yes.

Q. Do you have any additions or corrections to make to those documents today?

A. No, I do not.

Q. If I asked you today the questions that appear in these documents, would your answers be the same as appear in these documents?

A. Yes, they would.

MR. KUTIK: I have no further questions.

EXAMINER FARKAS: Mr. Serio.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. McNutt.

A. Good morning.

Q. In your prefiled direct testimony it indicates that you're currently the Director, Gas Operations - Planning & Asset Utilization; is that correct?

A. That's correct.

Q. And how long have you held that position?

A. I've been in that role since April of this year, 2008.

Q. And in that current position your responsibilities include repair, replacement, maintenance of Dominion's infrastructure, their pipeline, correct?

A. Not exactly. I'm responsible for our capital budget and our centralized planning organization along with program development in our implementation group.

Q. Your responsibilities with the budgeting would include how much you budget to have available for the next year for pipeline repair and replacement, correct?

A. That's correct.

Q. And you base those budgetary projections in part on what you've experienced in the recent past, correct?

A. We build our budget based on leak history on our facilities for repair or replace, which you reference. We also base it on the number of pending leaks that we have on our system. We also look at customer outages, heat tapes that we install on an annual basis, those items all factor into the budget amount that we have for replacement of our infrastructure.

Q. And all of those efforts are done in an effort to ensure that the system remains safe and reliable, correct?

A. That's correct.

Q. Now, prior to your current position what position did you hold?
A. I was the director of Gas Planning & Asset Optimization I think was the title. It was just a little bit different than the one I have right now.
Q. And how long did you hold that position?
A. I was in that position from April of 2006 until April of this year.
Q. Now, did your duties as the director of Gas Planning & Asset Optimization, were they similar to the duties you have now?
A. There were some similarities, but I also had some different things in that role. I had our transmission pipeline integrity organization at that time which is different, that group doesn't exist in our new organization.
Q. Were you still responsible for budgeting efforts with regards to the funds that would be

available for pipeline repair and replacement?

A. In the job that I had from April of 2006 until April of 2008 I was not directly responsible for the overall capital budget, no.

Q. Were you involved in any of those efforts

even though you weren't responsible for them?
A. Yes, I was.
Q. And to the extent that you were involved, you provided input so that the ultimate budget still reflected sufficient funding to make whatever repairs and replacements were necessary to ensure that the system remained safe and reliable, correct?
A. In the role that I had from April of 2006 to 2008 I wasn't directly involved with the distribution replacement capital budget and the development of that budget. I was involved with other portions of our budget on the transmission, storage, gathering, and compressor side of our business more so, and transmission pipeline integrity.
Q. Okay. Prior to April '06 what was your job title?
A. I was the manager of Gas Planning prior to that period.

Q. And for what period of time did you have
that position?

A. I was in that role from, it was July of
2003 until the April of 2006.

Q. And what was the -- what were your duties as Manager of Gas Planning?

A. In my role as the manager of Gas Planning I had our system planning group which did -- does our hydraulic modeling of our system to ensure that we have enough gas at the customer's burner tip. So we have a very extensive hydraulic model that we can run that we can simulate situations on our system to determine whether or not we'll be able to provide reliable service to our customers.

Q. Did the hydraulic modeling, was that also used in determining leak rates or identifying problem areas with the distribution system?

A. The hydraulic model does not identify leak rates, but it does identify problems on our system. For instance, if we have an area that, you know, we can run temperature simulations on our system, if we have an area that because of maybe growth in the area or some other things that have occurred that the model would show us that we would have trouble serving those customers on, you know, a cold day in the winter.

So, you know, we use the models to help us identify those types of problems, but it does not identify the leak rates and leaks. That's not what the hydraulic model is for.

Q. Okay. Then prior to being Manager of Gas Planning what was your position?

A. I was the director of Gathering Operations for Ohio at that time.

Q. And can you explain to me what the director of Gathering Operations for Ohio involved?

A. In that role I was responsible for all of East Ohio's gathering pipeline system, which gathering pipelines are the pipelines that producers feed their gas into and then they flow from our gathering system into our transmission system, inevitably the transmission system to the distribution system to the customer, and I was responsible for all of our gathering operations in Ohio.

I had our Cambridge operation that reported directly to me, it was an operating operation, field operation, and I was the point of contact with the producing community in the state of Ohio in that role.

Q. And when did you begin that position?

A. It was sometime either early in 2000 or sometime in 2000 or around that period of time.

Q. Okay. So then if I go to your testimony on page 2, you indicate ultimately in 1998 you became responsible for all design, construction, and corrosion functions. That's the position you held prior to being Director of Gathering Operations?

A. That's correct.

Q. Okay. And the position that you had in 1998, was there a specific title?

A. You know, Mr. Serio, I don't remember the exact title I had.

Q. That's fine. Not necessary.

The position that you held from '98 to 2000 where you were responsible for the design, construction, and corrosion functions, that means that part of your job involved keeping track of leak rates, identifying pipe that needed to be repaired/replaced; is that correct?

A. I mean, generally speaking that's what I was responsible for. In summary, we didn't necessarily track leak rates, but we kept a close eye on leaks in particular areas where our field operations would identify that we were having problems in an area so that we would look specifically at those areas using the leak system where we document all of our leaks and that would, you know, drive, you know, repair/replace type decisions on our system.

Q. At the bottom of page 2 you summarize your current responsibilities saying "In short, my job is to determine what the company needs to do to maintain a safe and reliable system." Do you see that?

A. I do.

Q. Would you agree that today Dominion's distribution system is safe and reliable?

A. Yes, it is safe; however, when you start looking at the facts of our system, and it's important to outline -- when you start looking at the facts, you know, a lot of times it's good to be No. 1, but unfortunately East Ohio right now is No. 1 in a couple of categories, particularly we have over 3,800 miles of bare pipe in our system which ranks No. 1 in the entire nation.

The other fact is we had, in 2006 we had over 3,300 corrosion leaks that we fixed which also was No. 1 in the country as far as corrosion leaks are concerned.

When you look at our infrastructure, we

have 1,150 miles of pipe that was installed before 1940. We have 1,900 miles of pipe that was installed before 1950. And when you look at our leak rates, our leak rates for corrosion have actually increased over the last five years.

So on our system what we're literally looking at here is that unless we start to do something proactively to address this leak activity, because the science of corrosion leaks on pipelines is once they start to leak, that rate's going to probably increase exponentially, and when you look at our leak rates on our system, they are below our peer group, and we're really proud of that fact because we worked real hard to get to that point.

But when you look at the facts about our system, the amount of bare pipe that we have, the amount of leaks that we have, we're going to have to do something proactively to address that issue, and we think that this program will allow us to address those issues.

MR. SERIO: Your Honor, I asked if the system was safe and reliable and I got a regurgitation of the entire testimony. I understand an expert witness gets to explain his answer, but it seems to me "Is the system safe and is it reliable today" are questions that can be answered with a yes or no.

MR. KUTIK: Safety and reliability is hardly reduced or reducible to a one-word answer.

EXAMINER FARKAS: I'll let the answer stand.

Q. So are you saying that the system is not reliable today?

A. The system is reliable.

Q. Today.

A. It is today, yes.

Q. System was safe and reliable yesterday, correct?

A. Yes, it was.

Q. It was safe and reliable a year ago.

A. Yes, it was.

Q. It was safe and reliable back in 1998 when you became responsible for all design, construction, and corrosion functions, correct?

A. Correct.

Q. And it was safe and reliable to the best of your knowledge continuously from 1998 through the present, correct?

A. That's correct. However, what we're looking at going forward is --

MR. SERIO: Your Honor, my question was through today. I didn't ask him about tomorrow yet.

EXAMINER FARKAS: Answer the question.

THE WITNESS: Ask the question again, please.

(Record read.)

A. And I said correct. I said however, what we're concerned about is the leaks are going to increase exponentially and when you look at the amount of bare pipe we have and the amount of corrosion leaks we have, unless we start doing something to address those issues, you know, we're going to end up with a lot of leaks and it's going to be very difficult for us to manage those leaks, it's going to be increased O&M to manage the leaks, and it also potentially in the future puts the safety and reliability of our system potentially at risk.

Q. You have today corrosion and leak
problems, correct, on the system?

A. I wouldn't say that we have problems. We
have corrosion and leaks just like every other
operator who has bare pipe in the ground, and we

manage those leaks, you know, effectively right now.

Q. And you manage them by either repairing the leaks, replacing the pipeline or, if a leak is not severe, by simply monitoring it, correct?

A. That's correct.

Q. And that's what you've done, to the best of your knowledge, since 1998, correct?

A. That's correct.

Q. And you've been able to manage the leaks that have occurred or that you anticipate are going to occur through your regular pipeline maintenance, repair, and replacement efforts, correct?

A. To the first part of the question you asked that's correct, in the past we've been able to manage.

Q. Okay.

A. I mean what we're concerned about going forward is, and that's the second part of your question --

MR. SERIO: I didn't ask him about going forward yet.

EXAMINER FARKAS: I'll allow him to continue his answer.

A. The second part of your question was

going forward and that's the part that we're concerned about, because again, when you look at how much bare pipe we have, how many active leaks that we've had from a corrosion standpoint, you know the science of corrosion is it's only going to expedite, and we had a study done by Black & Veatch that points clearly to that fact that the science of corrosion is that once the pipes start to leak, then they're going to increase and it's going to increase exponentially.

What we're concerned about is that when that starts to increase exponentially, you know, the management of that leak backlog could be challenging from a resource standpoint for East Ohio and it potentially at that point puts our system at risk from a reliability and safety standpoint.

Q. You just indicated a study by Black & Veatch. Is that the same Black & Veatch that Mr. Ives used to be employed by?

A. I think it is, yes.

Q. Now, one of your current duties is
projecting budgets into the future, correct?
A. That's correct.
Q. The budget that you've projected for the
next year, is it sufficient to make sure that you can

repair and replace pipeline that needs to be repaired or replaced in order to maintain a safe and reliable system for the next year?

A. For the next year, yes.

Q. And do you project budgets more than one year into the future?

A. Typically we budget five years out with our budget plan, our capital budget plan.

Q. And is your budget for the next five years as planned sufficient to provide a safe and reliable system through the repairs and replacements you've built into the budget plan?

A. The answer is yes, if we would continue in the same reactive mode that we're in right now in managing safety and reliability on our system. What we've been doing, you know, over my career at the gas company is we react to problems that we have on our system and I think we can show that we've done a really good job of that at East Ohio.

MR. SERIO: Your Honor, I asked if the budget for the next five years is sufficient. He answered "yes."

EXAMINER FARKAS: Just try and answer the question the best you can.

MR. KUTIK: Can he finish his answer, though, because he was answering the question?

EXAMINER FARKAS: I think -- he can continue his answer.

Why don't we go on to the next question.

Q. Now, you're familiar with the operation and maintenance procedures that Dominion employs today to address any corrosion problems that you find on the infrastructure, correct?

A. That's correct.

Q. And those procedures are done in order to make sure that if you identify leaks or corrosion problems, you can repair or replace the pipeline that's causing that problem, correct?

A. Ask that question again, please.

(Record read.)

A. That's correct.

Q. So to the best of your knowledge today, Dominion has engaged in operation and maintenance procedures that make sure that the pipeline, Dominion's pipeline today is in compliance with Department of Transportation pipeline safety requirements, correct?

A. Absolutely.

Q. And when we say "Department of Transportation," we're talking about the United States Department of Transportation or the Ohio Department of Transportation?

A. That would be the federal Department of Transportation minimum pipeline safety regulations I think you're probably referring to.

Q. So anything in your testimony when you say "DOT," we can assume that means United States Department of Transportation.

A. That's correct.

EXAMINER FARKAS: Just for the record, can you state, when you say "bare pipe," what you mean by that?

THE WITNESS: Bare pipe is steel pipe in our system that doesn't have any protective coating on it, versus a coated pipe which is a pipe in the ground that has a protective coating on it that protects it from the environment that it's in.

An example would be your car. You know, your car's painted to keep it from rusting. If you get a chip in the paint, then it potentially rusts at that point. A bare pipe has no protective coating on it at all so it has -- the full surface of the pipe is exposed to the environment it's in.

EXAMINER FARKAS: Thank you. Go ahead.

MR. SERIO: Thank you, your Honor.

Q. You indicated that you're responsible for the budgeting that goes on, correct?

A. That's correct.

Q. And can you tell me how much is budgeted for the next year to do repair and replacement of any infrastructure that would cause leaks or that might not be safe and reliable pipe?

A. I mean, I think the numbers are in the interrogatories we provided. I don't have those numbers memorized.

Q. Can you give me a ballpark what those numbers might be?

A. Again, I don't have those numbers committed to memory. I mean, they're in the documents I know that we've provided.

Q. And can you tell me, if you remember, is

the amount that's included in the budget projected to
increase over the next five years?

A. In our current plan if we stay the course
with our reactive mode, those numbers are relatively
flat as we project them out, working our plan in a

reactive mode.

With the pipeline infrastructure program that we're proposing, obviously there would be a significant increase in our capital plan if we move forward with that program.

Q. So based on your budgeting with a relatively flat projection going forward for the next five years you believe that the company would be able to maintain a safe and reliable system continuing along the same path that you've used today, yesterday, and in the recent past, correct?

A. That's correct. However, when we look at our budget, we're projecting five years out, and when you're dealing with a pipeline infrastructure that's buried and you're kind of reacting to what you find on any given day in any given year, I think what we've said all along is if our system would change or we would see an increase in certain leak activity, we would have to increase, you know, our capital budget in those areas to be able to react to that.

So it's very reactionary and, I mean, you can't really predict exactly from year to year, you know, what that reaction's going to be, but Dominion's committed to spending the money necessary to maintain, you know, a reliable -- safe and reliable system in a reactive mode.

Like you said, if we would change and go more proactive, which is what the PRO program really proposes to do, you know, there would be a ramping up of our capital spend and resources required to accelerate and become more proactive with our replacement activity.

Q. Is this reactive mode something new today or is that the way you've been operating in the past?

A. Pretty much my entire career, you know, we've been in a reactive mode and we've been really good at it in maintaining safe and reliable service.

Q. So based on your past experience with reactive mode, that's helped contribute to your projections of what you'll need to be in a reactive mode in the future, correct?

A. That's correct.

Q. So when you say that the next five-year budget is just a projection, it's a projection based on your experience of what you've done in the past and how that past projection matched up against actuals, correct?

A. Generally that's correct.

Q. Now, on page 5 of your testimony you identify a large number of Grade 1 leaks that occurred from 2000 to 2007. You indicate that 99 percent were repaired within 24 hours.

A. That's correct.

Q. And that's based on your reactive mode as you've operated under in the past, correct?

A. That's correct.

Q. And then you also indicate a large number of Grade 2 leaks and that 99.99 percent of those were repaired between 6 and 15 months after identifying the leak, correct?

A. That's correct. And that's a compliance requirement for us.

Q. And that also is done under your current reactive mode, correct?

A. That's correct.

Q. And that reactive mode you said, to keep in compliance, means that your reactive mode has been sufficient to meet all the requirements of the United States Department of Transportation safety rules, correct?

A. That's correct. Up to this point we have -- we maintain our system and meet the requirements that we have. But again, I make the point that when we look at our infrastructure and the amount of bare pipe we have and the amount of corrosion leaks, those two factors are a significant concern for us going forward.

MR. SERIO: Could I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I think the next OCC exhibit number would be OCC Exhibit 6. I'd like to mark for purposes of identification a one-page document in case 07-829-GA-AIR, it's interrogatory PIR interrogatory set 2 in 06-169-GA-ALT, question No. 70.

EXAMINER FARKAS: It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have that item that's been marked as OCC Exhibit No. 6, Mr. McNutt?

A. That's the one you just handed me?

Q. Yes, I just handed you.

A. Yeah, I'm reading it.

Q. Okay.

A. Okay.

Q. At the bottom of the response it indicates "Preparer of Response: Tim McNutt."

That's you, correct?
A. That's correct.
Q. All right. And it indicates in your response here that over the last five years Dominion has replaced an average of 40 miles of bare steel, cast iron, and wrought iron pipe per year, correct?
A. On average, that's correct.
Q. And that average has been based on how much you needed to replace in order to keep the system safe and reliable, correct?
A. That's correct.
Q. Example, if you would have needed to replace 50 miles a year, I presume that you would have been replacing 50 miles a year, correct?
A. That's correct. If the needs, compliance needs, the leak indications we had, if that's what was required, that's what we would have done.
Q. So your policy is to do whatever is necessary in order to keep the system safe and

reliable.

A. That's correct.

Q. Now, on page 9 of your testimony in your answer to question 26 you identify some pipeline there. You identify that there's 3,907 miles of bare

steel pipe; is that correct?
A. That's correct.
Q. 35 miles of cast iron pipe.
A. That's correct.
Q. 78 miles of wrought iron, and 1 mile of copper, correct?
A. Correct.
Q. And that's the pipe that you've talked about or you have a concern going into the future is this total of these four categories, correct?
A. That's correct.
Q. To the extent that the company's been replacing about 40 miles a year over the last five years, that means that you've been whittling this number down gradually over the last five years, correct?
A. That's correct.
Q. And, in fact, if you were to go back more than five years, you've been gradually whittling that

number down as a matter of routine operation and
maintenance every year; isn't that true?

A. That would be true.

Q. The only thing that would vary might be
the amount of pipe, correct?

A. From year to year the amount would vary, yes.

Q. And that would vary based on how much needed to be replaced.

A. Again, it would be driven by our compliance requirements, you know, the things that we had in front of us to maintain and operate the system.

Q. Now, on line 10 you identified 35 miles of bare steel transmission. Is that included in the 3,907 miles of bare steel on line 6 or is that in addition to?

A. No; that's included in that number.

Q. Okay. Now, you've indicated that Dominion has more bare steel than all but a few gas companies, correct, in your testimony?

A. Actually we have more bare pipe in our system than all companies.

Q. Okay. That's in the United States or

Ohio?

A. In the United States.

Q. And despite the fact that you've got more
bare steel than anybody else in the country, you've
managed to repair or replace any problems that you've

had with that bare steel and are still able to
maintain a safe and reliable system today, correct?

A. That's correct. But, however, when you look at, you know, our leak rates, you know, our leak rates are lower than our peer group. Again, as I stated before, we're proud of that fact. The concern is what's going to happen in the future with the leak rates as the bare pipe continues to corrode in the ground.

Q. And your concern going forward is for the period more than five years out because at least for the next five years you think that the budgeted amounts that you have could continue to repair and replace pipe and maintain a safe and reliable system, correct?

A. That's not necessarily correct. I mean, we aren't sure exactly what's going to happen physically in the ground with our infrastructure tomorrow. I mean, this increase in the leak rate which is the science of corrosion, you know, it could start tomorrow. It could start a year from now. It could start five years from now. I think, you know, that's what we're dealing with with our infrastructure.

Q. But your budget projections are based on the best available data you have on the science of corrosion to the best of your ability today, correct?

A. They're based on our historical reactive approach to maintaining our system.

Q. So to the extent that you indicate that Columbia replaced 50 miles of bare steel in 2006, that's obviously what they determined they needed to do in 2006, correct?

A. I can't speak for Columbia.

Q. Well then what does the 50.6 miles represent in your testimony?

A. I think it's just a factual piece of information that that's how much pipe they replaced. I'm not familiar with Columbia's operation and, you know, what their purposes of replacement are.

Q. So you don't know if that 50.6 was done under the same kind of reactive mode as the one that Dominion East Ohio operates under, correct?

A. I don't know that for a fact, no.

Q. For all you know, Columbia could be replacing that bare steel in a proactive manner in 2006, correct?

A. I think I can fairly certain answer that they wouldn't have been proactive because they're in the process of going through the same pipeline infrastructure rider type application we are to become proactive, and we have had some discussions with the Columbia people just about the things that they're doing in preparation for the program and they have indicated that, you know, they are ramping up proactively, and I think they were in more of a reactive mode like we were in the past.

Q. So based on your discussions with Columbia is their 50.6 a comparable number to your 40 miles over the last five or six years?

A. I would say it is, yes.

Q. And for Vectren where you identified 10.5 miles, based on your discussion with Vectren would you assume that that 10.5 is comparable to the 40 miles that Dominion has replaced over the last five to six years?

A. We have not had any discussions with the folks at Vectren concerning their numbers. I'm not familiar with the Vectren system.

Q. So do you know then, could Vectren be doing a more proactive type of replacement than the reactive mode that you indicated that you're doing and is your understanding that Columbia's doing?

A. I don't know that for a fact, but Vectren also is proposing a pipeline infrastructure program to become more proactive and they have that -- I don't know if it's filed, but I think it may be already filed.

Q. So would that lead you to believe, then, that the 10.5 is probably a comparable type number, that that's what they've needed to do to maintain a safe and reliable system?

A. Like I said, I haven't had any specific discussions with Vectren, so I can't really respond to that specifically.

Q. Top of page 10 of your testimony you indicate that if Dominion continued at its current rate of 40 miles a year, it would take approximately 89 years to replace all the bare steel, cast iron, and wrought iron pipelines, correct?

A. That's correct.

Q. And that is based on the presumption that you would just continue to do the same amount of replacement that you've done in the past and that you wouldn't increase to the extent that you needed to do more than 40 miles a year, correct?

A. That's the way the math works out. I mean, it was just purely a mathematical equation to get to that number of years.

Q. So there is absolutely no projection by Dominion that says beyond the current five-year budget cycle you're anticipating only having to replace 40 miles of bare steel pipe a year based on the current operations of the company, correct?

A. I wouldn't say that. When you project the five-year like you've indicated before, you know, we aren't sure exactly what the system -- how the system is going to react, the issues that we're going to be faced with. I think what we said is every year we reset that five-year plan based on what we know, and things could change tomorrow for us, and then that would change the amount of money that we budget if we stayed in the same mode that we're in right now today.

Q. And if something changed tomorrow, you'd

make an adjustment to the budget in order to deal
with that problem, correct?

A. In our reactive mode, that's correct.

Q. Now to the extent that you keep
indicating that you don't know what's going to happen

tomorrow, you don't know that a piece of pipe will start leaking severely tomorrow, and you don't know that it won't; is that correct?

A. That's correct. I think, however, when you look at the science of corrosion and it's -- you can't change it, it's a fact that the bare pipes that are in the ground exposed to the environment that they're exposed to, they are going to leak at some point. It's not a matter of if, it's a matter of when, and sooner or later we're going to have to deal with that through repair or replace.

Q. Not all bare steel pipe corrodes at the same rate, correct?

A. That's correct.

Q. So some could corrode much more quickly than other pipe, and in turn some could corrode much more slowly than other pipe, correct?

A. That's correct.

Q. So when you can't make a prediction, it's because each piece of pipe is distinct and unique based on soil conditions and a bunch of other factors that would affect how it's corroding, correct?

A. That's correct. And that's one of the reasons why, you know, we're developing a prioritization tool which will bring in different factors where we can then prioritize the replacement of the pipe. So you would obviously -- the pipe that leaks the most, you'd want to fix that first, then over a 25-year, you know, time frame the chances are, you know, the pipe that isn't leaking as much today, you know, in year 20, there's a real good chance it's going to be leaking a lot more than it is today and it would be prioritized accordingly.

Q. And you say it will probably be leaking more, but at some point between year 1 and year 20 if it started leaking more and became a serious problem, you would address it at that point in time, correct?

A. That's correct. We would do that in a reactive mode. In our proactive mode with, you know, with the tools that we're developing where you could prioritize and identify the areas that we're leaking the most, we would change our priorities and schedule accordingly to address that pipe quicker than later.

Q. So even under your proposed PIR there is going to be a certain amount of reactive repair and replacement that would have to go on, correct?

A. Correct. I think what we anticipate, though, is that as you get proactive to your replacement you would go after the pipe that leaks the most early on, and a good example of that was the, I think it was the expert witness Scott Rubin that provided testimony for the Consumers' Counsel, he provided a study by Puget Sound which is out on the west coast and they have a program where they are working forward to replace all their bare pipe and their cast iron, and they're I guess about ten years into the program of prioritizing, and they've seen a 60 percent decrease in the amount of leaks that they had.

So -- they were prioritized so they were focusing on the pipe that leaks the most first and then over time, you know, you would continually change your prioritization and your focus to make sure that you were working the worst first.

Q. Now, the company's identified a cost associated with the PIR, correct, the pipeline infrastructure replacement program?

A. That's correct.

Q. And I think in your testimony on page 12 you list some of those estimates.

A. Yes.

Q. And I believe on line 19 you say that the pipeline replacement portion of the program will cost, I think it's approximately $1.66 million. Do you see that?

A. Yes.

Q. Now, you say that that's in 2007 dollars. That's not the total cost of the program at the end of the 25-year period that you're projecting, correct?

MR. KUTIK: Just so we --

EXAMINER FARKAS: Did you say "million" or "billion"?

MR. SERIO: I'm sorry. Billion. I wish it was million.

MR. KUTIK: So do we.

Q. Let me repeat that, the 1.66 billion that you identify there in 2007 dollars, that doesn't indicate what the total cost is projected to be at the end of the project, correct?

A. The $1.656 billion is a number that, at a

high level with the scope that we have right now,
identifies in 2007 dollars what we think the
program's going to cost.

Q. But you haven't done any projection as to
what that dollar amount will be at the end of the

program; is that correct?

A. That's correct. And the problem that we have in projecting those costs is that we're dealing right now with not a project, we're dealing with a program and a process we're trying to develop and, you know, as an engineer, which is my background, until you get to a specific project level it's impossible to really refine your cost estimates.

So we're working at a high level with just a magnitude based on a high-level scope of these assets in our system that we're working with, and until we get to a point where you got projects that you can really estimate, and we'll end up with thousands and thousands and thousands of projects that are part of this overall program, it's impossible for us to hone in on specific costs for the program.

Q. Is there any reason you couldn't factor inflation into your estimate?

A. We could have factored in inflation. You know, that would have just been a mathematical equation that you would have put in. I mean, we focused on 2007 dollars because we had 2007 type of cost estimates, we knew what it cost us today to do the work, and then we used that with the scope that we identified in arriving at the $1.656 billion.

Q. You use inflation adjustments when you do your budgeting process, correct?

A. In some forms, yes.

Q. So it would have not been that difficult to do the same kind of inflationary adjustments to the cost for the PIR, correct?

A. Potentially we could have done that, yes.

Q. Why didn't you do that?

A. Again, when we look at trying to create a, just a high-level magnitude of the costs that we were dealing with, you know, we just didn't feel it was necessary, when you don't really understand exactly what the defined scope of the work you're going to be doing, that that was necessary. I mean, obviously adding inflation on, you know, that's just a mathematical equation that you could do.

Q. When you do your budgetary projection,

what inflation factor do you use for the budget that
you plan out for the next five years?
A. I mean, typically we're using 3 percent,
I think, plus or minus.
Q. So it wouldn't be unreasonable if I

wanted to do an inflationary adjustment to it to multiply it by the 3 percent annual inflation effect?

A. You know, that would be reasonable.

Q. Is it possible that the reason that you didn't do the inflationary calculation is that you wanted to understate the value or the cost of the project --

MR. KUTIK: Objection.

Q. -- so that customers might not react more negatively to it?

MR. KUTIK: Objection; argumentative.

EXAMINER FARKAS: I will allow it. You can answer.

A. Yeah; that wasn't the case at all. Again, I think we're working with a program now that we're trying to identify in scope at a very, very, very high level, and when you start trying to place, you know, specific numbers on exactly what this is going to cost, we aren't sure exactly what it's going to cost.

There's a lot of factors that will come into play as we move forward with the program. You know, for instance we reference I think in my testimony that we have a lot of areas where we have multiple lines on both sides of the street in residential areas and we're proposing that we'll be able to replace it with just one line on one side of the street, and we've taken a stab at identifying how often we'll be able to do that.

We think that that's going to be a significant cost savings in the scope of the program and we've identified that in the testimony. But we aren't sure exactly what that's going to entail when we get into all the details of the projects for the program.

Q. I believe at the very beginning of the response to my question you indicated that that was not the case at all. So you're saying that the company did not apply an inflation factor and there's no reason that the company was afraid of what that total dollar amount would be and letting the public know that; is that correct?

MR. KUTIK: Objection. The witness has

already given his answer as to why he did what he did.

EXAMINER FARKAS: Asked and answered.

Q. Can you point to me anything that the company has done that would let customers know that

the dollar amount that's estimated does not include
any inflationary effect?
A. I'm not aware of anything we've done to
do that, no.
Q. Now, the 1.66 billion, that's just to
replace the pipeline that you identified on page 9,
lines 6 through 8 of your testimony, correct? Or 6
and 7 I should say.
A. That's correct.
Q. Okay. So that's the 1.66 billion. Then
there's another 490 million or half a billion that
you identify and that's associated with main-to-curb
replacement costs that you anticipate, correct?
A. That's correct.
Q. And that has to do with the approximately
515,000 main-to-curb connections that you anticipate
having to replace, correct?
A. That's correct.
Q. And those 515,000 main-to-curb

connections make up a little less than half of your total main-to-curb connections, correct?

A. Roughly, that's correct.

Q. So you're only projecting having to replace a little less than half as a part of your program.

A. What we're projecting to replace the main-to-curbs that would be associated and connected to the main line that we're proposing as part of the program.

The main-to-curbs are the connection between the main line and the customer service line so they get incorporated in with the replacement of the pipeline. We have to cut the old service off and then we have to reconnect it up.

Q. The 515,000 main-to-curb connections, those -- you don't have any problems with those leaking today, do you?

A. I wouldn't say that. Our main-to-curbs leak on a regular basis.

Q. Is the percentage similar to what you experience with your bare steel, wrought iron, and cast iron?

A. Yes, it is.

Q. And do you currently engage in repair and replacement of those main-to-curb connections?

A. Yes, we do.

Q. And approximately how many do you replace or repair in a year?

A. How many main-to-curbs?

Q. Connections, yes.

A. Connections do we replace? You know, I don't have that number off the top of my head, Mr. Serio.

Q. Can you give me a magnitude? More than a hundred thousand? Less than a hundred thousand?

A. I don't have that number readily available. I mean, it's a number that we would have, I just don't have it in my head.

Q. The 515 main-to-curb connections that you're proposing to replace, there's at least some subset of those that you would replace even though they would not have any leak or problems with the line itself, correct?

A. Could you ask the question again, please?

Q. Sure. Let me ask it this way: Are you projecting that all 515,000 main-to-curb connections are going to leak and, therefore, need to be replaced?

A. I think what we're projecting is the 515 would be the number of main-to-curbs that would be connected to the pipelines that we're proposing to replace as part of the PIR program.

Q. So it's possible that a large number of those main-to-curb connections could be operating in a safe and reliable manner but the company would still have to replace them, correct?

A. That's correct. But the main-to-curbs that we're referring to here are the ones that are tied into these bare assets and most of those main-to-curbs would be of the same type of material, they would be bare, unprotected, no coating on them, and they would be aging and corroding in the ground very similar to the pipeline themselves.

Q. So having said all that, you don't know for fact that they'll all be leaking when you do replace them.

A. That's correct. We don't know that fact.

Q. Now, the third dollar amount is 516 million and that I see is for replacement cost of service lines. And that's the line that goes from the center -- from the distribution line to the consumer's meter, correct?

A. The service line runs from the end of our main-to-curb, where our ownership ends, to the customer's meter and it is owned by the customer at this point in time.

Q. And do you currently handle repairs and replacement of service lines?

A. No, we do not.

Q. So you haven't been responsible for repairing or replacing service lines in the past, correct?

A. In the past, I mean the customer has always owned the service lines, so there was a point in time where we would have reacted to a problem on the service, which is an operational activity that we perform, and if the service had been leaking and needed to be replaced, our crews would have replaced it and we would have billed the customer.

We made a change in 2006 whereby if we come across a leaking service now, what we'll do is that if it's not an immediate safety situation for the customer, then we give the customer a ten-day tag and basically it tells them they've got ten days to get the service replaced with a plumber at their expense and then they call us back. If they don't repair the service within ten days, then we come back out and we'll shut their service down until they get the service repaired.

Q. Are you projecting that the service lines that you're going to replace as a part of the PIR would actually be service lines that are leaking or need to be replaced?

A. I think what we're proposing in our PIR right now is if we're replacing the main in front of a house and it has a service that feeds that house and it's a bare service, or we're proposing even if it were a coated steel service, that we would replace that bare service line or the coated service line with a plastic line which is not susceptible to corrosion at the time we do the construction.

Q. And you would be replacing those even though they might not be leaking at the time that you're doing the replacement, correct?

A. That's correct. We'd replace them, but with the same idea that we have them with the bare pipe, that if it is a steel pipe in the ground, at some point you're going to have problems with it leaking, and we would proactively replace that at that time knowing that we're going to have a problem in the future.

Q. So if I add the three dollar amounts in your answer 39 together, that's the approximate 2.66 billion that the company has used as a 2007 dollar estimate cost for the PIR, correct?

A. That's correct.

Q. And that does not include the cost of repair and replacing any existing service lines on other parts of Dominion's system, correct?

A. I think when we filed the application, we didn't have those numbers, and that's correct, it does not include that estimate at that time.

Q. Do you have those numbers today?

A. Yeah. I think we replace, in the services that Mr. Serio's referring to, these would be services that would be outside of a planned pipeline replacement, so if we had a service line that leaked on a street, we'd respond to that leak and at that time what we're proposing is we would replace that service. And we do between 5- and 6,000 of those a year I think is the number that, I think it's in maybe Jeff's testimony.

Q. Do you know how much each of those costs, approximately?

A. We raise -- it can range anywhere
typically from a thousand to $1,500 depending on the
type of material, the conditions, the restoration,
that all those things factor into the cost.

Q. So if I wanted to get a rough estimate of the cost at I think you said about 5,000 of those a year, I'd multiply that times 25 years and then multiply that by a dollar amount between a thousand and $1,500 to get a magnitude?

A. That would be a fair assessment, correct.

Q. And that would be in addition to the 2.66 billion, correct?

A. That's another part of the program; correct.

Q. And like the 2.66 billion, that would grow with any inflationary effect, correct?

A. I mean, as costs increase over time, that's correct.

Q. Okay. Now, you indicated that the 25-year time frame for the PIR was the shortest reasonable period that you could do the work. That means it's the shortest period that -- I guess what do you mean by "reasonable" there?

A. When we looked at the time frame required
to complete this type of work, it is obviously a
significant increase in the amount of work that we
would do. And so there's questions about our
internal resources, there's questions about external

resources, the availability of those, and you're also then managing risk on our system.

So we balanced both of those kind of together and we felt that 25 years was a reasonable period.

The other thing that we committed to do is that, you know, as the program moves forward, if we get to a point where the risk on our system is increasing, you know, potentially we have to step back and reassess and maybe you change, you know, the rate that you do.

I think the 25 years too, if you look at what Columbia's proposed, you look at -- Black & Veatch did the analysis of our system, you know, they said 25 years was consistent with what other companies have proposed for these similar type of programs.

Q. Your current program is doing about 40 miles a year. Under the PIR you would do more

than 40 miles a year, correct?
A. That's correct.
Q. So would it be safe to say that any program that did more than 40 miles a year would be an accelerated program? Or is there a minimum amount

of replacement per year that it would need to have in order to be considered accelerated?

A. I guess I've never really done that analysis or done that. I mean, you can see through the five-year history, you know, there is, you know, some wave to the replacement that we have, you have more some years, less some others, but you also have a lot of other work that's occurring on our system that could be independent of just replacing the bare pipe, things like transmission pipeline integrity, or we've got distribution pipeline integrity is the new rule that the government's working on right now that's probably going to come into play for us starting next year. Those are all things that impact, you know, whether you can accelerate or not.

Q. You're projecting approximately 40 miles a year going into the future, correct?

A. I think what I said before is that, you know, our replacement -- distribution replacement budget, which is where predominantly most of this work is, it's a flat budget, you know, projected out.

Q. And that flat budget is based on 40 miles a year, correct?

A. You know, on an average that's what we replace. Again, without going back to the numbers and doing all the math on it exactly, but that's typically historically how we work the budget.

Q. On average is a good number. That's fine.

So if your on-average projection is 40 and that's the current program, and you decided to start doing 50 miles a year, that 50 would be an accelerated program over the current program, correct?

A. If all you're going to look at is an average, I think if you go back and look at our five-year average, we had a year or two where we approached if not exceeded 50 miles of replacement based on the need. So I wouldn't say that, you know, 50 miles necessarily would be accelerated. It would be, you know, potentially reacting to what's in front of us.

Q. If I used an average number going forward

and you were going to do 50 miles a year going
forward and you've done 40 miles average in the past,
would the 50 be accelerated versus what you've done
in the past?

MR. KUTIK: Objection; asked and

answered.

EXAMINER FARKAS: I'll let him answer.

A. Well, if I understand your question, if we were focused purely on a 40-mile average per year which is the five-year average, knowing that you have some high and some low, and you were going to increase to 50 on an average, you know, obviously there is a little bit of acceleration that's occurring there; it's not a lot, though.

Q. Right. The amount of acceleration would be based on how much more the average number is over the 40 what you had in the past.

A. It's just a pure mathematical -- using just pure averages.

Q. Okay.

A. Again, when I look at our system, I would not construe that as an aggressive approach, a proactive approach to, you know, the bare pipe that we have physically in the ground and our corrosion leak rate on our mains.

Q. You didn't take it that I implied that that was considered an aggressive change, did you? I was just implying the numbers are the numbers. You understood that?

MR. KUTIK: Is there a question?

MR. SERIO: I'm trying to make sure --

EXAMINER FARKAS: He wants to -- I think he's trying to clarify the understanding of the witness as to his question.

If you want to ask him the question again.

MR. SERIO: Yeah.

EXAMINER FARKAS: The answer you gave previously -- well, I'll let you ask it.

Q. (By Mr. Serio) Your answer did not presume that I was implying that that was an aggressive change of 50 miles over 40 miles, did it?

A. I think you used the term "accelerate."

Q. Okay.

A. Wasn't that the term that was used?

Q. Yes. And the degree of acceleration would simply be a matter of how many miles over the 40, correct?

A. Okay. That's fair.

Q. Okay. Now, on page 14 of your testimony you indicate that the company anticipates O&M savings comparable to those reported by other companies. Can you identify who you mean by "other companies" there?

A. I guess the two companies that I would refer to would be, first one would be Duke, they've reported in some of the rate case proceedings they've had that they've reported savings due to leaks.
I think the other company that I would refer to again is the Puget Sound report where they indicated in the testimony of Scott Rubin that, you know, they've experienced a 60 percent reduction in their leaks after they implemented a program to replace all of their bare and cast iron pipe over a ten-year period. And I don't know the exact number of leaks, but 60 percent was a pretty, that was a pretty large number I felt.
Q. Now, when you indicate at Duke, you mean Duke Energy down in the Cincinnati area; is that correct? In Ohio?
A. That's correct.
Q. Do you know what the amount of the savings that Duke reported were?

A. I think in their filing they reported a savings of I think $8-1/2 million.

Q. Do you know over what period of time that $8-1/2 million covered?

A. The exact time frame, I think it was in their filing that they made when they came back to the Commission on a re-up of their replacement program, so I think it was maybe 2000 to 2007, I'm not sure of the exact, but I think that's roughly the time frame.

Q. So it's your understanding that was a cumulative amount over that period of time? That's not an annual number.

A. It was an accumulative amount. I think the way it was reported was they had a certain amount of leaks when they started, they had a certain amount of leaks now, and the resulting difference resulted in the savings.

Q. And do you know how much Duke spent over that time period that they reported?

A. I do not know that number, no.

Q. Do you know if it was more than $500 million?

A. Like I said, I'm not familiar with how much they spent during that period of time.

Q. Did you do any kind of analysis to determine if the amount that they saved versus the amount that they invested provided a reasonable cost-benefit analysis?

A. No, I did not.

Q. Did you do any kind of analysis with Puget Sound taking any savings they had comparing it to how much they spent to determine if there was a reasonable cost-benefit there?

A. No, I did not.

Q. When you indicate that you anticipate comparable savings, do you mean you anticipate approximately $8-1/2 million over a six- to seven-year period?

A. That's not what I meant when I said "comparable." I think "comparable" is a broad term. You know, we aren't sure exactly what we're going to save until we actually get into the project level and actually start replacing specific areas, you know, where we have leaks.

Again, we're going to be focused on doing the worst first so, you know, conceptually we're going to see the same types of savings on our scale that Duke and Puget Sound saw, I think, you know, the amount of replaced pipe, you're going to eliminate leaks, I think that's the fact and that's the term "comparable" we're using there.

Q. So if Duke saved $8-1/2 million over

seven years and spent $500 million and you spent $500 million over a seven- to eight-year period, you'd anticipate a similar $8-1/2 million savings.

A. Like I said, we haven't done, you know, a calculation like that because we aren't sure exactly how many leaks we're actually going to eliminate with our program. I mean, that's when we get into the details of it, you know, that will play out in front of us.

I think also the, you know, the key driver here is you go back to the amount of bare pipe, the amount of corrosion leaks that we have, and our concern is that that's going to accelerate and our O&M expenses in managing those leaks are going to accelerate and it will become unmanageable for us and it will require significant resource increases just to manage the leak level going forward. That's the concern we have at this point.

Q. Is it possible that you could experience considerably greater O&M savings than Duke?

A. Again, we aren't sure exactly what's going to unfold in front of us until we get into the specifics of the projects. Again, we used the term, you know, "comparable" with a couple of these other utilities that have embarked on a program similar to the program that we're proposing here.

Q. Let me try it this way: You don't know for fact that you'll achieve $8-1/2 million in savings, correct?

A. Like I've stated before, you know, until we get into the detail of the projects that we're going to do, I mean we're working at a program level right now, as we drive down to a project level you replace a piece of pipe, it's going to eliminate, you know, the leaks that exist there, it's going to eliminate potential leaks that you're going to have in the future on that piece of pipe, and then that's going to result in savings going forward.

We aren't sure exactly, you know, what that number's going to be or the magnitude it's going to be, but we do know that, you know, based on these other programs, you know, when you spend the money to replace those assets, you're going to see a benefit on the O&M side.

Q. So you can't say with any certainty
whether you're going to save a dollar, $10 million,
$20 million. The only thing you can say with
certainty is you think you're going to save

something.

MR. KUTIK: Objection; asked and answered, now we're being argumentative.

EXAMINER FARKAS: I'll allow it.

A. We know we're going to save some money. Again, for somebody to ask me what exactly are we going to save, you know, when we're dealing with almost 4,000 miles of pipe, I don't know the exact -- it's impossible for me to identify an exact number.

Q. Do you know how much Dominion spent in O&M expenses in the last year, during the test year?

A. No, I do not know that number.

Q. You don't know the magnitude of it.

A. You mean, plus or minus $10 million? You know.

Q. Do you know if it was more than $20 million?

A. It was more than $20 million on O&M activity.

Q. Do you know if it was more than $50 million?

A. I think it was more than 50.

Q. Do you know if it was more than a hundred million?

A. That's where some -- that number's readily available; I don't have that off the top of my head.

Q. So it's somewhere, to the best of your knowledge, between 50 and a hundred million a year?

A. Again, that exact number, the level of magnitude, I'm not familiar with those total numbers. That's not part of my responsibility.

Q. Okay. And to the extent that that's what you spent for total O&M, you don't know what the breakdown is for O&M related to repairing bare steel, wrought iron, and cast iron pipelines; is that correct?

A. That's correct. We do not separate out that specific O&M activity right now.

Q. I'm sorry, were you done?

A. Yes.

Q. Okay. You would agree with me that the subset of bare steel, cast iron, wrought iron, and

copper pipe, the O&M spent on that would be some
subset of the total O&M expenses, correct?
A. That's correct.
Q. Do you know if the subset for bare steel,
wrought iron, cast iron, and copper would constitute

more than half of the O&M budget?

A. At this point we don't separate those specific numbers. That's one of the things that, you know, we're looking at with our system right now as we move forward.

Q. So there's no way for us to go back and identify how much is spent on an annual basis to repair the particular types of pipeline, it's just done in a general overall manner?

A. Well, I think that, obviously, the largest driver of our O&M expenses on those bare cast iron and wrought iron pipes is our leak management, fixing leaks, those type of activities, the leak detection activities that occur and, you know, those are very finite type items on a specific project level that we'll be working to monitor that.

Q. Okay. If you want to reference back to page 9, you indicate that the company has over 19,500 total miles of distribution, and of that we're looking at approximately 4,000 miles that's the bare steel, cast iron, wrought iron, and copper, correct?

A. That's correct.

Q. That leaves about 15,500 miles that's not bare steel, wrought iron, cast iron, and copper,

correct?
A. That's correct.
Q. Do you know any breakdown between the 15,500 miles and the 4,000 miles as far as O&M expenditures?
A. In our current accounting system we don't separate by the type of asset. You know, we would keep track of maintenance for our distribution assets which would include our plastic assets, it would include our coated steel assets, it would include our bare assets, they're all included together.
Q. Okay. On page 14, back to page 14 of your testimony, on line 12 you indicate "The use of plastic mains will result in lower operating expenses." Have you done any kind of estimates of the lower operating expenses that you would expect to achieve?
A. We've done no estimates on that.
Q. But you know with certainty that there

will be some estimate -- or that there will be some
savings.

A. That's correct. If you replace the bare pipe with plastic pipe, obviously, you know, the plastic pipe's not going to corrode and it's not going to leak. And then the other thing you can do with plastic pipe versus the bare steel is you can extend out your leak detection requirements that are part of that DOT code regulation that we have from three years to five years; so there's a savings there.

Q. So there's some factors there that are measurable, correct? When you're comparing the steel to the plastic pipe.

A. They're measurable. The issue, the problem we have is the quantity of how much of that's going to occur exactly. That's the piece that we're trying to estimate that we don't know. I mean, we do know that obviously you replace a bare line with a plastic line, there's going to be leaks that are going to be eliminated or avoided, and you also know that you're going to be able to stretch out your leak detection schedule.

The thing you don't know is how much of

that are you going to replace, you know, when are you going to replace it, you know, those are the factors that are unknown until we really create the detailed projects that will unfold out of the program.

Q. Is there anywhere in the current

application, that's the PIR application, where you quantify the impact of stretching out the survey time or you do a calculation that shows that plastic pipe doesn't leak at this rate compared to steel pipe, any of that information anywhere in the record?

A. So if I understand your question, I mean obviously plastic pipe doesn't leak like bare pipe, and I think when you're stretching out the leak cycles, again, until we know the amount of pipe we're going to do and the timing of that exactly, it's impossible for us to really do that calculation.

Q. I understand you can't quantify the amount of pipe. What I was asking was to the extent that you identified two other factors, is there anywhere in the record that there's any calculation or any analysis showing those other two calculations that you referenced in your answer?

A. I think if you go to our application, we culled out those two specific items, there's no reference to a calculation in the application or in any of my testimony.

Q. So in the application you just stated there's nothing supporting it other than the statement itself.

A. That's correct.

Q. On the next paragraph on page 14 you identify the reduction of lost and unaccounted for gas. Am I correct that you've done no estimate or calculation on how much less lost and unaccounted for gas you might have as a result of all the changes in the PIR?

A. That's correct. Lost and unaccounted for, when you look at our lost and unaccounted for calculation, it's hard for us to really focus in and say that the, leaks and leak repair is going to be, you know, "the" factor in that. There's a lot of other things that factor into the lost and unaccounted for number on our system.

You have things like measurement error. You have things like gas theft becomes lost and unaccounted for. We operate a very extensive storage operation and you have migrational issues from year to year that impact lost and unaccounted for.

So there's a lot of factors that come
into lost and unaccounted for. We do know that if
you fix a leak, you know, it will impact that, it's
just very difficult for us to measure it and identify
exactly what the impact on the number will be for

that.

Q. Okay. I think you just identified three factors. You said measurement, theft, and migration from storage, correct?

A. Those are some of them.

Q. Okay.

A. I mean, there's others, obviously.

Q. Are there any others that you can recall right now? I wanted to go through those individually.

A. Those are the ones that I have. I mean, we could have some construction activity where gas would be vented potentially.

Q. Okay. So if we look at the first one, the measurement errors, if there's measurement errors today, there's nothing in the PIR that necessarily is going to eliminate or reduce measurement errors, correct?

A. That's correct.

Q. And if we look at theft, there is nothing in the PIR that's going to necessarily reduce or eliminate theft, correct?

A. That's correct.

Q. And if we look at migration from storage, there's nothing in the PIR that's necessarily going to impact the migration rate from storage; is that correct?

A. That's correct. I guess my point in looking at the lost and unaccounted for is that when you have a leak on our system, you can't measure it. You don't know how much is leaking. And the overall lost and unaccounted for number for our system is comprised of all these other things, and there may be ups and downs from year to year with these other things that may mask.

It's impossible for us to really hone in and say "This amount of gas loss could be attributed to leaks being fixed"; that's a very difficult number.

Q. Do you know what the current lost and unaccounted for gas rate is for Dominion?

A. I don't know that number off the top of my head, no.

Q. Do you know if that number has grown or fluctuated in the recent years?

A. Yeah, I -- without get into the specific details, I know that the number does fluctuate from year to year depending on a lot of these factors that we've referenced and mentioned.

Q. Within those fluctuations do you know if Dominion's average over the last few years is more or less than other similarly situated distribution companies?

A. I think our lost and unaccounted for number in total, you know, has been better than our peer group, but again, I go back to you can't necessarily, you know, point to that number and say, you know, the leak part of it is really the driving factor because you have all these other factors that come into play in developing that number.

Q. Right. If I'm trying to get a magnitude of the potential savings, to the extent that the four items you identified occurred today and will also occur after the PIR, and to the extent that your current lost and unaccounted for rate is less than your peer group, it's safe to assume that any savings as a result in fewer leaks reducing the lost and unaccounted for would not be a very significant number then, correct?

A. I don't think we know, we can't predict what that number's going to do going forward.

Q. I understand you can't predict it, but based on what you do know, it can't be a very large number, can it?

A. Like I said, I'm not sure we know exactly what that number's going to do and what the impact of the fixing of the leaks will be going forward.

Q. On page 15 of your testimony you indicate that under the company taking ownership of customer service lines there would be a significant cost savings and other benefits to consumers. When you identify the cost savings there, are you talking about the cost savings to individual consumers or cost savings to ratepayers on the whole?

A. I think the reference to cost savings there really addresses the individual customers. On every individual basis when we replace service as part of our PIR what we're proposing to do is to take ownership of the services. So in the world we're in right now today the customer bears that expense individually. You know, going forward the proposal is that we would incur the cost of replacing those services, so the individual customers would see that benefit instead of them having to pay for the replacement of their service.

Q. So that's a benefit that's really just entirely related to the individual customer and that individual's service line, correct?

A. And there's, you know, again obviously a large subset of our customers that are potentially impacted by that. You know, I agree if the number was, what, 500 and --

Q. 15,000.

A. 515,000 potentially which is, you know, almost pushing half of our customers potentially to impact positively.

Q. So if I take the 515,000 main-to-curb connections and I look at the cost of 490 million that you identified, if I divided the 490 million by 515,000, would that give me roughly the cost to do each curb-to-meter connection?

A. Mr. Serio, I think we got two numbers mixed together there. I think we said that the main-to-curb number and then we had a service number, right?

Q. I'm sorry, you're correct. Let me see if I can get the right numbers.

The service line number, is that the $516 million number on page 12?

A. Hang on.

516 million for service lines.

Q. And do you have a number of service lines that that would be associated with?

A. We assume that, you know, based on our main-to-curb proposal that is -- about one service per main-to-curb was the assumption we made at a high level with the scope that we're working with.

Q. Okay. So if I took the 515,000 main-to-curb connections, I could assume roughly 515,000 service lines, correct?

A. That's the assumption that we've made at the level of scope we're at.

Q. So I could take, then, the $516 million, divide it by the 515,000 service lines, and get a dollar amount per service line, correct?

A. That's correct.

Q. That's roughly a thousand dollars per?

A. Yeah, roughly. Yeah.

Q. Okay.

A. Yes.

Q. So that would be the cost to consumers in general and at the same time that thousand dollars would be the potential benefit to any individual consumer who had a service line problem, correct?

A. That's correct.
Q. Now, near the end of your testimony on page 15 you indicate that there are benefits to the company from the PIR program, correct?
A. That's correct.
Q. And would you agree with me that having a proactive program like the PIR instead of the reactive program that you have today would serve to reduce the uncertainty that the company faces on a going-forward basis?
A. I'm not sure that I would use the term "uncertainty." I think when we're looking at the PIR and the idea of becoming proactive versus reactive, I think what it does is it does allow us to extend our horizon that we look as far as our planning process is concerned.
In a reactive mode we're kind of dealing with what's in front of us or what's the next year. With the PIR program, what that would allow us to do

is maybe lift our eyes up a little farther, be able to look out, you know, you basically build a plan to replace all these assets and you could lay out a 25-year plan. That's exactly what Duke has done with their program over a ten-year program.

Q. Right. And by that --

MR. KUTIK: I'm sorry. Finish your answer.

A. So that provides us with, you know, being able to plan out ahead. There's economics. There's scale issues that will help us. You can get, you know, larger contracts set up with contractors and suppliers that drive efficiencies and effectiveness and allows you to coordinate a lot more with the municipalities which, you know, that's something that from a company benefit is always helpful to us.

So those are the benefits that we're looking to really try to get from the program is the ability to look out just a little farther than we're looking out right now in our planning process and our construction process.

Q. By being able to look out further, that reduces uncertainty for the company, correct?

MR. KUTIK: Objection; asked and

answered. He just answered that question.

EXAMINER FARKAS: I'll allow it.

A. As I indicated -- as indicated, the uncertainty is I don't think the proper word, so I would say it's not uncertainty. I mean, we've been operating the way we are right now for my entire career. I think the program allows us, again, to lift our eyes and look forward with a more proactive program that will drive a lot of other efficiencies and effectiveness that we're excited about.

Q. Would it be fair to say that under the PIR the company would have less estimate and more concrete knowledge going forward?

A. I'm not sure I understand your question.

Q. Well, you indicated you're able to look out over a longer time horizon, so that means instead of a short-term estimate, you've got a longer term picture ahead of you, correct?

A. If we implement the program as proposed, that's a true statement, we'll be working our plans, we'll be probably getting to a point where we're planning work, you know, today that will be actually in construction maybe three or four years out, and all the coordination with the communities and getting projects scoped and defined very tightly, that's a real positive thing because that's where you can really drive your efficiencies and effectiveness with your construction, your bidding process.

If you have very defined projects,

contractors can bid, you know, very well on those types of projects. If you have stuff that is kind of open-ended or not as defined, then typically that's going to cost you more.

Q. So to the extent that you've got more certainty, there's less risk for the company, correct?

MR. KUTIK: Objection.

EXAMINER FARKAS: I think he's answered the question so I'll sustain the objection.

Q. To the extent that you're able to look out further into the future and make plans under the PIR, the company gets a better idea of the cost of the project? It's a more concrete number versus more of an estimate?

A. I think if the program is approved and we move forward, then the process that we'll be applying will be to define projects and prioritize the pipe replacements and clearly define projects.

As you define projects, you know, now you can hone in on what they're really going to cost because you'll design them, you'll put plans together, you'll bid them to a contractor, you know, you'll buy your material and all those costs become much more known. So as we move forward developing that plan, developing specific projects there does become clarity to us as a company.

MR. SERIO: May I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I'd like to have marked for purposes of identification OCC Exhibit No. 7. This one's a two-page document, it has the same markings on it at the top as OCC Exhibit 6. This one's identified as question No. 5 in PIR interrogatory set No. 1.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Do you have that, Mr. McNutt?

A. Yes.

Q. And I think if you'd look on page 2 of that, it indicates that the preparer of that was Mr. Mark Messersmith.

A. That's correct.

Q. Do you know who Mr. Messersmith is?

A. Yes, I do.

Q. And does Mr. Messersmith report to you?

A. He does not report directly to me, no.

Q. Are you familiar with the information on this interrogatory?

A. Yes, I am.

Q. The formatting here is a little funny, so we understand what it does, if I look under Bare Steel Calculated Costs, there's a year, it says "2002."

MR. KUTIK: Your Honor, could we go off the record for a moment?

EXAMINER FARKAS: Yes.

(Discussion off the record.)

EXAMINER FARKAS: Let's go back on the record.

MR. SERIO: Your Honor, I think the company's willing to stipulate that if you look at the year 2002 under Bare Steel, that would be related to the first line under Distribution Pipeline Replacements, Transmission Pipeline Replacements, Distribution Pipeline Relocations, and System Improvements, and then accordingly 2003 would be the second one and 2004 the fourth [sic] so that if you put them on a horizontal chart, it would read across.

MR. KUTIK: Yes, we are willing to stipulate that, your Honor.

EXAMINER FARKAS: Thank you.

MR. SERIO: Thank you.

Your Honor, if you want to take a break right now, there's a few more of these documents that maybe after we get back on the record and get an agreement on stipulating them, it will make it a little quicker process.

MR. KUTIK: At your pleasure.

EXAMINER FARKAS: Okay. Why don't we take a ten-minute recess.

MR. SERIO: Okay. Thank you, your Honor.

(Recess taken.)

EXAMINER FARKAS: Let's go back on the record.

MR. SERIO: Thank you, your Honor.

Q. (By Mr. Serio) Mr. McNutt, if you look at OCC Exhibit 7 with the agreement of how the chart works, that provides me with an estimate of how much was actually spent in each of the last five years to replace or repair bare steel, wrought iron, cast iron, and copper pipeline, correct?

A. It's an estimate, I think we indicate, of how much we spent, correct.

MR. SERIO: Okay. Can I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I have a similar document I'd like to mark for identification purposes as OCC Exhibit No. 8. And the company has agreed to stipulate that the reading of the information on this is similar to how OCC Exhibit 7 operates.

EXAMINER FARKAS: Okay. It will be so marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. KUTIK: That's correct, your Honor, we have stipulated.

EXAMINER FARKAS: Thank you.

Q. (By Mr. Serio) Mr. McNutt, you're familiar with this document, correct? OCC Exhibit No. 8.

A. Yes, I am.

Q. Again, it was prepared by Mr. Messersmith?

A. That's correct.

Q. And this document indicates the ongoing infrastructure we investment level for each of the various categories, correct?

A. That's what's in our five-year plan at this point, that's correct.

Q. That's the plan going forward. And OCC Exhibit No. 7 is a snapshot looking backwards in time, correct?

A. And it's an estimate of the number of dollars for -- that we estimated we spent on the bare steel.

Q. Now, I believe that in our deposition you indicated that not all of the items listed on OCC Exhibit 8 are actually bare steel, wrought iron, cast iron, and copper; do you recall that?

A. Mr. Serio, ask that question again, please.

Q. Sure. In our deposition I believe you indicated that under the question there there's A through I --

A. Okay.

Q. -- I think you indicated that not all of those were the bare steel, wrought iron, cast iron, and copper pipeline, correct?

A. That's correct. These are budget
categories that we have in our capital budget so if
you took, for an example, Distribution Pipeline
Replacements, that would, you know, it would have --
obviously it would have our bare pipe replacement,

but also there's other replacements that we end up having to do throughout the year that would be not necessarily the bare pipe for other reasons. Those dollars in our forward budget are included in those categories also.

Q. And I believe you indicated that some of these categories do include the bare steel, wrought iron, cast iron, and copper, and would you agree with me that Distribution Pipe Replacements do include those categories?

A. Yes. Absolutely.

Q. And Transmission Pipeline Replacements include those categories?

A. Yes, they can.

Q. And Distribution Pipeline Relocations include those categories?

A. Yes, they can.

Q. Transmission Pipeline Relocations include those categories?

A. Yes, they can.

Q. And Transmission Pipeline Integrity would include those categories, correct?

A. Yes. Those are the five I think I stated in my deposition.

Q. And it's your understanding that the other four would not include those four categories of bare steel, cast iron, wrought iron, and copper, correct?

A. Traditionally they do not.

Q. Okay. Thank you.

MR. SERIO: May I approach again, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I'd like to have marked for purposes of identification OCC Exhibit No. 9, it's a one-page document, again it's a discovery response to PIR interrogatory set 1, it's question No. 10.

Q. Do you see that document, Mr. McNutt?

A. Yes, I do.

Q. And you are the Mr. McNutt, Tim McNutt, that prepared this response, correct?

A. That's correct.

Q. And this response indicates -- it

amplifies your response regarding the anticipated O&M
savings being comparable to Duke that you indicated
in your written testimony and in response to some
questions I had previously?

A. I think clearly in my response I

reference Duke, I also reference the study that we completed in the western part of our system where we identified that 25 percent of our pipe in our western area actually accounted for over 90 percent of our total leaks.

Q. And that's the Black & Veatch study that you referenced earlier?

A. No, that's not. This is a study that we completed; East Ohio.

Q. This is an internal East Ohio study, correct?

A. Yes, it is.

MR. SERIO: Could I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I'd like to have marked for purposes of identification as OCC Exhibit No. 10 a one-page document, it's an interrogatory response to question No. 25.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. At the bottom of OCC Exhibit No. 10 it indicates that Tim McNutt was the preparer of this response. That's you again, correct, Mr. McNutt?

A. That's correct.

Q. And you're familiar with this document?

A. Yes, I am.

Q. And this document indicates that the company does not have records that identify the original service life assumptions for the pipeline that was installed in each of the decades indicated above, correct?

A. That's correct.

Q. Does the company have any kind of records that indicate original life assumptions for the bare steel, wrought iron, cast iron, and copper pipe?

A. Not that I'm aware of.

Q. So you're not aware of any records that identify any of the original life assumptions, correct, for that pipe?

A. Are we referring again to the bare cast iron --

Q. Bare cast iron, wrought iron --

A. -- installed typically prior to 1950? We don't have records that indicated what the original

life of those facilities were that were installed
before 1950 typically.

Q. Do you have those records for pipe
installed after 1950?

A. Useful life's not something or the term I guess that was used here, original service life, that's not something that you typically keep track of.

Q. What would be something that you do keep track of when you're trying to estimate how long a piece of pipe is going to last?

A. Well, I think with our infrastructure when you put a piece of coated pipe in the ground originally and you protect it, or you put a piece of plastic in the ground, my experience has been with that pipe that if you take care of it and you maintain it and you do the right things, it may last forever.

Obviously, with these bare assets or the cast iron assets, you know, they're in the ground, you know, they're corroding, they're rusting in the ground, you know, they're leaking, you know, they're going to at some point reach the end of the road for those assets because you can't stop that corrosion because it doesn't have any protection on it.

When we talk about, you know, our pipes that have coating on them, or if you want to use the analogy of a car, if you keep the paint on it perfect, it could potentially last forever and not rust.

Q. I guess my question was for the bare steel, wrought iron, cast iron, and copper did you make any estimates when you put that pipe in the ground as to how long it might last?

A. Again, going back to the turn of the century I don't think that those assessments were made, no.

Q. Have those assessments been made since the 1950s for any bare steel, wrought iron, cast iron, or copper pipe put in the ground?

A. I think what we do with our bare pipe as we indicated, you know, we're looking at the immediate leak activity that's occurring on it and when we see that activity get to a level, you know, where it requires replacement, obviously that's the decision point we get to where that facility's reached its useful life or its service life and now it's time to replace it.

Q. All right. Let me ask the question this
way: You indicated that prior to 1950 you have no
records. Has there been any cast iron, wrought iron,
bare steel, or copper pipe installed since 1950?

A. Some, yes.

Q. And to the extent there was any of that type of pipe installed after 1950, was there any kind of estimate that the company had when they put that pipe in the ground as to how long it would last?

A. I'm not aware of any estimating of service life for our, you know, the bare pipe, the cast iron, the wrought iron that would have been installed. Typically most of those assets went in for sure before 1970, most of them on our system went in before 1960, that's the time frame that they would have been installed.

MR. SERIO: May I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I'd like to have marked for purposes of identification OCC Exhibit No. 11.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SERIO: A one-page response to OCC interrogatory No. 39.

Q. (By Mr. Serio) Do you know who Mr. Joe
Patten is?

A. Yes, I do know who Joe Patten is.

Q. Does he report to you at all?

A. No, he does not.

Q. Are you at all familiar with the information on this sheet?

A. At a high level I am familiar, yes.

Q. The response to this interrogatory confirms what you indicated previously, the company had not done any calculation -- strike that.

To the extent that you've provided testimony indicating that there would be cost savings to customers as a result of the PIR, does that include any activities of moving residential meters from inside the home to the outside?

A. We have estimated no cost saving from moving inside meters to outside because when you look at the application that we proposed, we have not proposed any specifics on that program.

The application basically states that as we work through our PIR program, if we identify an area where we have the potential to what we call upgrade our system from low pressure to medium pressure, which provides operational benefits, that we would put those projects together, we would present those to the PUCO staff on a forward view, and we would get approval for those type of projects before we would begin the projects.

So again, we're back to we don't really have any idea how many of these type of projects that we would do or if we would get approval to do them, so the resulting savings, if we would complete a meter location program where we effectively would move meters from the basement of homes to an outside location, we don't have any idea of whether or not and what the magnitude of that would occur.

Q. Is the cost savings that would come about as a result of moving meters from indoors to outdoors something that would drive doing the project or is that just an outgrowth of doing the project?

A. It's one of the factors that comes into play, absolutely.

Q. So you would agree that if the cost savings was not significant enough, that would be a reason not to engage in the project.

A. I wouldn't say that, no. There's lots of other operational benefits that potentially are derived by upgrading from low pressure to medium pressure. When I say "low pressure," low pressure is ounces pressure. If you had a leak in a low-pressure line, you could almost put your finger on it and stop it. If you have medium pressure, that's what we call regulated pressure where it's up to 60 pounds and you wouldn't wand to put your finger on that type of leak.

But if you can upgrade from low pressure to medium pressure, the things that we benefit from, you know, water cannot get into main lines if they have that pounds pressure because there just isn't enough force to push the water in, the gas will keep it from coming in. So there's lots of other benefits that come into play that we would consider when we're looking at a meter relocation plan or program for a particular area.

Q. So then if you're going to look at those other benefits, does any cost savings become what drives doing the project, or would you do the project for the other benefits and any cost savings is just a by-product?

A. I can't speak for how the Public Utility Commission is going to evaluate those projects because clearly in our application what we've said is we're going to put together what we think is the right thing to do and then we're going to present that on an annual basis as part of your review with the Commission and they'll be the ones that I think in the end will assess whether or not, you know, it's the right thing to do or not.

Q. Right. I understand that. I'm asking you from the company perspective does the cost saving drive the project or does the cost saving fall out of the project? I'm not asking what the Commission's going to do; what your perspective is.

A. I think I stated before that part of the cost saving is going to be something that gets factored into the equation, but there's lots of other things that will be part of that decision-making process.

Q. So it's just one of many factors, it's not the driving factor.

A. Absolutely. Us not having to enter our customers' homes because if a meter is in the basement, we have a requirement to get in once a year to inspect, you know, if we don't have to do that, you know, the customers -- in general they don't want us in their homes, and if we don't have to do that, we see that as a benefit, plus it's an activity that we don't have to perform.

Q. Does the cost estimate in the PIR program include all the costs associated with meter

relocation?
A. It doesn't include any costs associated with the meter relocation.
Q. And have you done any kind of estimate on how much it would cost to relocate meters?
A. I think, like I stated before, you know, we don't even know if we're going to do any of these. The application basically leaves the opportunity for us to put a program together and put a project together to present it to the Commission to get their approval to do it, and we don't have any idea of what's going to happen in the future with that program. And we haven't estimated something we don't know what we're going to do or how we're going to do it.
Q. Do you know the cost of relocating a single meter?
A. You know, at a high level, again, I guess we really haven't looked in detail about that,

Mr. Serio.

Q. So we have an unknown cost and an unknown quantity, correct?

A. I mean, with me speaking right here today, I mean, I don't have those numbers in my head.

Obviously, as we focus on putting one of these type of projects together, those are going to be costs that are going to have to be defined as part of a project that gets presented.

MR. SERIO: Could I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: A multiple-page document this time I'd like to mark for purposes of identification as OCC Exhibit No. 12.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. Can you look at the second page of that document, Mr. McNutt? That's -- again, the preparer is Mr. Messersmith?

A. Yes.

Q. And if you look at the document, page 2, and the answer, if I go under Miles of Pipeline and I look at the numbers across, the 42, 48.5, 45.3, 36.3, 39, and 47.7, those would be the actual miles of

pipeline that were replaced in each of the years
listed above, correct?
A. That would be the total amount of mileage
in that category for all types of pipe in that
category.

Q. And the average of those is where you got that approximately 40 miles, correct?

A. That's not correct.

Q. No? Okay. Can you tell me where you got your average of 40 miles?

A. The average of 40 miles was a subset of these numbers for just the bare assets --

Q. Okay.

A. -- and the cast iron and the wrought iron. These numbers represent all work that we've done and you have situations, for instance, in distribution line replacement where we may have times when we have to relocate facilities so we'll have to actually replace an asset that may be coated; it wouldn't be in the bare subset. Or in some cases even, you know, plastic sometimes has to be replaced because of maybe it's in the way of something.

Q. And then if I look at the top half of that answer where it says "DEO Capital Program,"

those are dollar amounts that were spent that would
correspond with the number of miles that were
replaced in each year?

A. That's correct.

Q. And then again, the 40 miles of bare

steel, cast iron, wrought iron, and copper average would be a subset of the dollars that were spent in the top half of that response here, correct?

A. Yeah. That's correct to a point because -- we used the term "average of 40 miles." We know, and I think we've provided, you know, exactly what we think we replace from a bare standpoint on a year-by-year basis, so you could overlay those exact numbers because we're talking about specific years now, you know, and we know how much bare pipe we replaced in each one of the years so the average maybe now doesn't necessarily apply.

Q. So if I went back to I think it's OCC Exhibit No. 7 that was looking back in time and gave an estimate of the costs, I could compare those costs to the total costs that are in OCC Exhibit No. 12 and I could see the relationship between the total spending and the bare steel, wrought iron, cast iron, and copper spending, correct?

A. I guess I got confused here. What are
you --
Q. OCC Exhibit 7 is the response to question
No. 5.
A. Now is that the only document you're

going to have me refer back to now?

Q. Well, I was going to compare that to the numbers in OCC Exhibit No. 12, the last one I gave you.

A. Okay.

Q. So that if for 2002 I took the amounts under each of the categories on OCC Exhibit 7, they would provide the subset that would compare to the total spending that's listed in OCC Exhibit 12, correct?

A. That's correct.

Q. Okay. I just wanted to establish what the relationship was.

Did the company obtain an independent review of the PIR program before you filed it with the PUCO?

A. Before we filed, no.

Q. Have you obtained an independent review of the PIR program since you filed it?

A. Yes, we have.

Q. And would that be the Black & Veatch study?

A. Yes, it is.

MR. SERIO: Could I approach again, your

Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I'd like to mark this one for purposes of identification as OCC Exhibit 13.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SERIO: This one's going to have three separate parts. There's a single page that's a cover page that indicates it's response to question No. 11, and then there's two attachments to it.

MR. KUTIK: Just so we can be clear which order they're in.

MR. SERIO: Yes, I'll get to that. Give me just a second.

Okay.

EXAMINER FARKAS: Why don't we mark these, the single sheet as 13 --

MR. SERIO: 13A and 13B?

EXAMINER FARKAS: -- 13A and 13B. Which

would be 13A then?
MR. SERIO: 13A would be the Scope of Dominion East Ohio's Bare Pipe Exposure dated 2007, and B would be the Dominion Infrastructure Replacement Team Report Out for PUCO dated January

23rd, 2008.

EXAMINER FARKAS: Thank you.

MR. KUTIK: Just for clarity, OCC Exhibit 13 is the single page, 13A is the scope, and 13B is the replacement report; is that correct?

MR. SERIO: Yes, that is my understanding.

EXAMINER FARKAS: Thank you.

Q. (By Mr. Serio) Mr. McNutt, you're familiar with the two reports, 13A and 13B?

A. Yes, I am.

Q. In fact, 13A lists you as the person that was doing the presentation or providing the report?

A. That's correct.

Q. And that report was done either by you or under your direction, correct?

A. Yes, that's correct.

Q. And that's an overall report looking at Dominion's total bare steel, wrought iron, cast iron,

and copper exposure compared to its total pipe,
correct?

A. That's one of the things it does, yes.

Q. And the various comparisons that are done
in this, correct?

A. That's correct.

Q. If you look at the page about 1/3 -- 2/3 of the way into the document, it's Bare Pipe Replacement Estimate is the title at the top of the page. I apologize, they were not numbered.

A. That was my fault.

What was it --

Q. It's Bare Pipe Replacement Estimate.

A. Okay, I'm there.

MR. SERIO: Do you have that, your Honors?

EXAMINER FARKAS: Yes.

Q. And that indicates, it says "Size & Pressure Range" to the far left and then across the top there's Miles Replaced, Replacement Material, Cost Per Foot, Cost Per Mile, and Estimated Replacement Cost, correct?

A. That's correct.

Q. And what this shows is what you're

estimating the costs to replace the bare pipe that's
included in the PIR program, correct?

A. That's correct.

Q. And this is just the bare steel, or is
this the cast iron and wrought iron and copper also?

A. This is all the pipe in the program, cast iron, wrought iron and --

Q. All four categories.

A. -- copper. Yes.

Q. Okay. So if I look at the cost per mile, can you explain to me what those different categories make up? The first one is "Less than or equal to 6 inches," and it says "Less than 100 # MAOP." What's a MAOP?

A. MAOP stands for maximum allowable operating pressure. That's a code requirement for us to establish on the systems we operate. And the different categories that you have here, we say less than or equal to a 6-inch, when we were developing our cost estimates, there was a couple things that we had to identify, you know, at a high level in arriving at cost. There's a couple things that really drive cost.

First, you know, 6-inch is kind of a

cutoff for ours -- from a distribution perspective, and a hundred pounds is a critical factor because if you have a pipeline system that operates over a hundred pound MAOP, you have to replace it with steel pipe. So if we had a line that was operating at

125-pound MAOP and it was bare line, it was part of the program, when we go back to do the replacement of it, we're going to have to replace it with steel pipe versus plastic.

So anything less than a hundred pound MAOP we can use plastic for the replacement, and then the size cutoff for 6-inch was kind of a traditional cutoff for us as far as our distribution systems.

Q. So that's why the different ones indicate whether it's plastic or steel as a replacement material, correct?

A. That's correct.

Q. Okay. Now if I look at the miles replaced, the total, 3,567, and I compare that to page 9 of your testimony, line 6, you list 3,907 miles.

A. That's correct.

Q. So this 3,567 is a subset of the 3,907 in your testimony.

A. It's a subset of the entire amount of
pipe that we proposed as part of the program. I think the actual number in the application, we added the cast iron and the wrought iron and the copper in, I think it was 4,122. Going by memory now. It was

in our application.

Q. Okay. If I look at the estimated replacement cost, the $1.655 billion, that's the comparable number to your testimony page 12, line 19, correct?

A. That's correct. The numbers that you see here, the 3,567 is different from the 3,907 because of, and I referred to it previously, what we called our low pressure double main adjustment that we made. That was because in a lot of our older residential areas when they originally laid the mains in those areas back, you know, before 1950 or sometimes even around the turn of the century, we laid main lines on both sides of the street versus just laying main on one side of the street.

And again, what we've proposed as part of the program is we feel, using our hydraulic modeling tools and other tools we have, that we'll look at those situations when we get in to design the specific projects and there's a really good chance in a lot of those cases we'll be able to actually just lay main on one side of the street so effectively you get kind of a two for one. You eliminate two lines with one replacement so you end up with actually less replacement mileage than the total that's existing right now today. And I hope that makes sense.

Q. Yes. So the approximately 400 miles difference is that you think that that's situations where you can replace the two parallel lines with a single one.

A. Yeah. I think that the number is actually a little more than that that we estimated base on the analysis we did.

Q. Whatever the differences are.

A. That's correct.

Q. Now, if I go to the very next page, the Main to Curb Replacement Estimate, and I look at the total dollar amount, the $490 million, that's comparable to the $490 million on page 12, line 20 of your testimony?

A. That's correct.

Q. And the total miles are the same for the whole project throughout these breakdowns on OCC

Exhibit 13A, correct?

A. That's correct. And then we took into consideration in all cases that low-pressure adjustment that I just spoke of.

Q. And then if I go to the next page, the

Service Line Replacement Estimate, the 515 million that's listed there would be comparable to the 516 million that's listed on page 12, line 22 of your testimony?

A. That's correct.

Q. So the very next page where it says "Summary of Replacement Costs," the 2.66 billion there is the number that's being used as the 2007 dollars estimate for the total PIR program.

A. That is correct.

Q. Okay. And if I go to the second-to-last page of this document, it says "Comparison to Other Pipeline Replacement Programs." You list there Duke Energy of Ohio and Kentucky, that's Cinergy. That's referring to the Duke plan that you referenced earlier in your testimony, correct?

A. That's correct.

Q. And Columbia Gas of Pennsylvania, that's a program that Columbia of Pennsylvania is doing in the state of Pennsylvania?

A. I think's a program that they've proposed. I'm not sure that they are in the middle of doing it. They may be.

Q. Okay. So you don't know if they've

actually even begun that program yet.

A. I'm not positive --

Q. Okay.

A. -- on this, but it was a program that had been proposed, there was news releases on it I think.

Q. And then the last two are both Dominion East Ohio with the Dominion M/L Only being for main lines only and the Dominion total project being the complete project, correct?

A. That's correct.

Q. And then under Costs Per Mile, that just breaks down the cost per mile for each of those four different categories, correct?

A. That's correct. What we were trying to do there is just give some order of magnitude as to how our costs were comparing to others. I think the purpose of breaking down the Dominion into two parts was that we knew that the Duke program until this recent filing and order that they received, the

service ownership was not part of their program,
that's why we separated those two for comparison
purposes.

Q. So is it your understanding, then, that
the Dominion M/L Only, the third category, is more

closely related to what Duke Energy did in the first phase of its program?

A. We were trying to just give an order of magnitude of comparison here.

Q. I'm sorry. Yes?

A. That's what we were trying to do is give an order of magnitude comparison.

Q. Right. But what I'm saying is that the third category, the Dominion M/L Only is the one you feel is more comparable to the Duke Energy-Ohio, correct?

A. When we put these numbers together, that's what we felt, correct.

Q. Because the total project includes costs that were not in the Duke total cost project.

A. At the time that was correct.

Q. Okay. Now if you could turn to --

EXAMINER PIRIK: Mr. Serio.

MR. SERIO: Yes.

EXAMINER PIRIK: Before we go on, just
for citing purposes, I don't know how you intend on
using this but I think it would be helpful if we used
page numbers and so I added page numbers.

MR. SERIO: Okay.

EXAMINER PIRIK: I included the first cover page as page 1.

MR. SERIO: Okay, cover page will be page 1.

EXAMINER PIRIK: Which would then put the bare pipe chart on page 19, the main-to-curb chart is on page 20, the Service Line chart is on page 21, the Summary of Replacement Costs is page 22, and then the Comparison to Other Pipeline Replacement Programs is on page 26.

MR. SERIO: Thank you, your Honor. Then obviously the other pages would fill in between.

EXAMINER PIRIK: Yes.

Q. (By Mr. Serio) Okay. If you could look at now Exhibit 13B, that's the Dominion Infrastructure Replacement Team Report dated January 23rd, 2008. Do you have that?

A. Got it. I'm there.

MR. SERIO: This one does have page

numbers, your Honor.

Q. If you turn to page 4 of that document, under your assumptions, there this is a continuation of assumptions, you indicate a high degree of oversight involvement from the PUCO and public.

Setting aside the PUCO for a moment, I want to focus on the "and public." What do you mean by "and public" there?

A. I think when we were putting this document together, when we said "and public," we were referring to the municipalities that we -- where our facilities exist, and I think when we said "a high degree of oversight and involvement," we clearly recognized and we had some discussion with the folks at Duke Cinergy that, you know, getting the municipalities involved actively as we were developing the projects was going to be very, very important and, obviously, if you're going into those municipalities and digging up lots of the streets in the municipalities, it was going to have an impact and we needed to make sure we coordinated and worked closely with them.

Q. So the involvement and oversight from the public is really you working with the municipalities in planning on a going-forward basis.

A. That's what this was focused on, yes.

Q. This didn't involve any going out to the public and determining how the public would react to the scope and magnitude of the infrastructure program

itself, correct?
A. That's correct. That was not part of my charge with putting this proposal together.
Q. I just want to make sure I'm not mischaracterizing it.
And to the best of your knowledge there wasn't any effort included in going out and talking to the public and getting any public input on the scope or magnitude of the project; is that correct?
A. I'm not involved in that part of the process. I'm not aware that that was done, no.
Q. There's nothing in this report that would lead you to believe that that type of activity was done, is there?
A. That's correct.
Q. If you could turn to page 8 of Exhibit 13B. I think there's recommendations that says continued from previous pages.
A. Yeah.

Q. The last one there on that page says
"Effective communication within DEO and with the PUCO, local communities and other external stakeholders."

Again, setting aside DEO and the PUCO, to the extent that you referenced local communities is your effective communication, again, with the municipalities aimed at coordinating with them on a going-forward basis scheduling and looking at projects into the future?

A. That's correct.

Q. Again, there was no intent here to reference going out to the public and getting any input from the public on the scope or magnitude of the PIR project.

A. That's not what this bullet was referring to.

Q. Okay.

MR. SERIO: May I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I think for purposes of identification we're up to OCC Exhibit 14.

EXAMINER FARKAS: Yes.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SERIO: This one is a two-page document, it's a response to question No. 41. And at the bottom of the page it indicates that Tim McNutt was the preparer.

Q. And that's you again, Mr. McNutt?

A. That's correct.

Q. If you look at page 2 of OCC Exhibit 14, this provides the summary of pipe replaced with plastic or coated steel pipeline, and it lists the years 2002 to 2007. Would this constitute the bare steel, cast iron, wrought iron, and copper pipe that's been replaced that you referenced earlier as the averaging 40 miles?

A. That's correct.

Q. I believe earlier you indicated that there would be some savings, O&M savings, resulting from the installation -- strike that.

Do you have your supplemental testimony with you?

A. Yes, I do.

Q. That's Exhibit 10.1?

A. Yes.

Q. Could you turn to page 2 of that document? Do you have that?

A. Yes, I do.

Q. On your answer 5 you indicate that
" . . . if an effectively coated service line holds a pressure test, 'those lines should be reconnected and ownership should remain with the customer.'"

To the extent that an effectively coated service line holds a pressure test, does that mean that that line is safe and reliable?

MR. KUTIK: I object, your Honor. The testimony here is quoting the Staff Report. This isn't the witness's statement.

MR. SERIO: I'll rephrase, your Honor.

EXAMINER FARKAS: Thank you.

Q. To the extent that you're citing to the Staff Report, is it your understanding that a effectively coated service line that holds a pressure test is safe and reliable?

A. Yes.

Q. On page 5 of your testimony you identify yard meters. Am I correct that there's approximately 25,000 total yard meters in the Dominion system?

A. That's correct.

Q. And the company is not proposing to replace all 25,000 yard meters, are they?

A. That's correct.

Q. You're proposing to do some subset of the 25,000?

A. I think what we've proposed there is if we had a problem or a leak on a yard meter -- and I don't know if we need to define what a yard meter is. A yard meter is a meter that instead of being back at the house against the house wall, the meter actually was installed out by the street.

So you had the main line, you had a short main-to-curb, and then you had a short service, and then you have the meter in the customer's yard. And then downstream of the meter is actually the house line, so it's the customer's responsibility.

I think what we've proposed is that if we had a problem with one of these situations that when we went out and if we had to cut the service, at that time we would move the meter back to the house wall because the meter out by the street is susceptible to vehicular traffic and that type of thing. So we would only propose to relocate the yard meter at the time that we had a specific problem with it that required us to disconnect it from the main.

Q. Is the cost of replacing yard meters

included in the $2.66 million estimate --

MR. KUTIK: Objection.

Q. -- for the PIR program?

MR. KUTIK: You mean billion.

MR. SERIO: Billion. Wishful thinking

again. I'm sorry.

EXAMINER FARKAS: Okay.

A. It's not included in those numbers.

Q. And do you know how much it cost to relocate a single yard meter?

A. I haven't done that exact calculation. Obviously it's a number that we could work up. We don't even know the magnitude of how many of these that we would potentially have; it would be more reactionary in nature.

Q. I understand you can't do the second half of the equation which is how many, but for the first half, how much it costs per, do you know if it's more than $5,000 per unit?

A. Oh, no. No. It's going to be -- the work's going to be very comparable to a service line replacement type activity, you know, because you're going to have to dig a hole.

If you were replacing a service and the

meter was back at the house, you're going to have to dig a hole at the house where the meter is. In this case you would just take that meter out, you would install a plastic service, then you would reinstall the meter and the meter manifold back at the house wall.

So the dollars are going to be comparable to a typical service line replacement with a little additional cost on moving the manifold.

Q. Roughly the thousand to $1,500 estimate?

A. That's going to be a good estimation.

Q. Okay. So since you've got 25,000 total, the maximum possible cost there would be 25,000 times that thousand to 1,500.

A. I mean, if we had a problem with every one of them, you know, over an extended period of time, that's the magnitude of the issue.

Q. I'm just trying to get a worst-case magnitude, okay.

MR. SERIO: That's all I have, your Honor.

Thank you, Mr. McNutt.

EXAMINER FARKAS: Mr. Rinebolt, any questions?

MR. RINEBOLT: Yes. Thank you, your Honor. I appreciate the indulgence. I'll be happy to start the first questioning after this.

- - -

CROSS-EXAMINATION

By Mr. Rinebolt:

Q. Mr. McNutt, good morning.

A. Good morning.

Q. Or afternoon. We'll make this relatively quick. You talked a lot about the plastic pipe is now the state of the art and that's what you've transitioned to installing, but I assume plastic pipe does occasionally fail.

A. Very infrequently.

Q. Very infrequently? What are the nature of the types of things that would cause plastic pipe to fail?

A. I mean, the only plastic failures that I have ever been on is that with plastic pipe when you connect it together, you fuse it with basically an iron that gets really hot and you heat the pipe up on both ends and then you have a machine that pulls it together and basically, you know, binds it together, the plastic melts together.

I mean, I could count probably the number of failures where if you, say don't get that iron hot enough when you're installing it, you'll get what they call a cold fusion.

Q. Okay.

A. And over an extended period of time sometimes if you have a cold fusion and you get movements in the ground or different things happening, then you have a potential for that fusion to fail. But I could probably count the number of cold fusion replace -- or failures that I've been on in my entire career of almost 23 years on one or two hands in that entire time.

Q. Well, that's a good record.

Now, you look at replacement costs as in terms of miles replaced or feet of line replaced; is that how you do the estimates?

A. Well, I think we actually start with a cost per foot, I mean, because that's, you know, if we're working the numbers that we put together, and we looked at specific jobs that we had done very recently and looking at specific jobs and how much footage and how much did it cost, you end up with a

unit cost per foot, and then I think in the summaries
for just purposes of presentation we equated it then
to a cost per mile.

Q. Okay. Now, you mentioned to Mr. Serio
that in older neighborhoods you're able to eliminate

parallel pipe when you go in and do these
infrastructure upgrades, correct?

A. That's our -- definitely our plan.
That's what Duke has done. We've talked to Columbia;
that's also their plan.

Q. Now, given that you're reducing pipe and
the distance between properties is even lower in
these old neighborhoods, I mean they're more densely
packed, populated, the cost of pipe necessary to
serve a particular home is lower in a more densely
populated area than in, say, the suburbs where you
have larger lots and you need more pipe to be run; is
that a reasonable assessment?

A. I'm not sure I understand your question.

Q. Well, let me put it a different way. In
an urban area where you've got older, smaller homes
tightly packed together, you're going to have more
connections per mile of pipe than, say, in a suburban
or exurban area where you've got fewer service

connections per mile of pipe.

A. That's correct, absolutely.

Q. Now, is it reasonable to assume that it
would cost more per connection, then, to serve a
customer in a suburban area than in an urban area?

A. Are we talking about a new customer? Are we talking about --

Q. Well, we're talking about replacing a lot of your pipelines so if we're going to replace that pipeline, you're going to use more feet on a bigger lot, right? And if you have less customers connected to a given mile of pipe, by definition it's costing more to serve that individual customer where you've got bigger lots and less dense population.

A. I guess to be honest I've never really kind of thought about that. I mean our system, you know, to get gas to our system the system has to work as a whole. You can't, you know, have one part of it working and one part of it not working.

Obviously, the density, you know, of our customers, you know, changes based on where we're at in our system. You know, some of the older areas where, you know, you do have smaller lots, we have a lot of facilities in tight spaces, you know, that's going to be different than when you get out into, you know, maybe a suburb or even a rural area where you're going to have longer stretches of pipe.

But a lot of times the pipe that may be serving the longer stretches, it may be connecting to a supply point that it has to be there to be able to serve the dense residential areas because the gas has to get from this point to that point.

Q. Okay. Thank you.

Let me see here. Now, the company, if the situation warranted, could spend more money on infrastructure replacement than it did in the test year, couldn't it?

A. I mean, if the situation and the need on our system was such, you know, we would spend the amount of money necessary to maintain a safe and reliable system; that's what we've stated all along.

Q. Well, and you have mentioned that there are upcoming federal rules, so you may well have to make investments above what you have traditionally done, what's in the test year, in order to comply.

A. That's a correct statement. You know, distribution pipeline integrity rule is working through the approval process right now, we're reviewing the notice that's put out in the Federal Register right now, and they're anticipating that rule will go into effect potentially at the end of this year.

Q. And so if you had to make those kinds of investments, exempting whether there's a PIR plan or not or that there isn't one, you could make those investments and then file a rate case to recover the dollars, or you could file an application for CWIP, for construction work in progress, couldn't you, too to ultimately collect the cost of that investment?

MR. KUTIK: Objection. Your Honor, this witness isn't here to testify about recovery of costs and cost mechanisms, recovery of cost mechanisms.

EXAMINER FARKAS: I'll allow him to answer the question.

If you know.

A. I'm not familiar with the cost recovery parts of our business. I'm an engineer, a planner, a designer, that's my role. There's other people in our organization that are very versed in those areas.

Q. Well, lucky you. I'll ask Mr. Murphy about that when he gets on the stand.

Just one more thing to check here,

Mr. McNutt, we may be done.

MR. RINEBOLT: Your Honor, I have no more questions. Thank you very much.

EXAMINER FARKAS: Mr. Reilly, or Ms. Hammerstein.

MS. HAMMERSTEIN: I have just a couple questions.

EXAMINER FARKAS: Okay.

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CROSS-EXAMINATION

By Ms. Hammerstein:

Q. Good afternoon, Mr. McNutt. My name is Anne Hammerstein, and I represent the staff of the Commission.

You testified that, and I'm looking at your Exhibit 10.1, your supplemental testimony, question 8, answer 8 on page 4 where you talk about the company's objections regarding the staff recommendation on taking ownership of the service lines.

The ownership of the service line isn't going to impact the company's responsibility for maintaining that line, is it, in terms of the pipeline safety rules in part 192?

A. Are we referring specifically to which section of my testimony again here?

Q. Where you discuss the taking ownership of service lines on page 4 in your supplemental testimony.

A. We're referring to specifically the coated, the effectively coated surfaces, is this the section that we're specifically referring to?

Q. Well, actually no, but we can start there. If you're looking at it just in general, because the next question down you talk about DEO proposes to take ownership of plastic service lines as well when they're separated, pressure tested, and retied.

A. Okay.

Q. More or less under the same circumstances as --

A. Okay.

Q. -- the effectively coated lines, correct? Your proposal's the same for both if they're --

A. I'm having a hard time hearing you.

Q. I'll speak up.

You're proposing to take ownership of effectively coated lines when they're separated from the main and then retied, correct?

A. That's what we propose, yes. Correct.

Q. And you made the same proposal for plastic lines under those same circumstances.

A. That's correct.

Q. Okay. My question to you is, then, under part 192 whether or not the company owns a service line, the company's responsibility for those lines are the same, correct?

A. That's correct. I think what we've proposed here is that if the goal, if the end goal is for East Ohio to own services, then what we've said is that if we have a situation where we have to separate a service, for whatever reason, it could be a main replacement, could be a cause leak replacement that we go out on, could be other situations where we have to separate the service, that at the point that we separate the service that would be the trigger point for us to take ownership of that service.

To your point in your question that you asked, does it change the maintenance activity on that service, specifically on the service, and if we're referring to the leak detection activity, whether we own it or don't own it we still are going to leak detect the service irregardless of whether we own it or we don't own it.

We just felt that that was the proper trigger for us to take ownership of any service at the point that we separate it from the main line.

And again, we're not talking about going out proactively and taking every service. We would have to go out for a specific reason and if we separated the service, that would be the point that we would take ownership at that point.

MS. HAMMERSTEIN: Thank you, Mr. McNutt. I don't have any further questions.

EXAMINER FARKAS: Mr. Kutik, any redirect?

MR. KUTIK: I do. Your Honor, may I approach the witness?

EXAMINER FARKAS: Yes.

MR. KUTIK: I'd like for this to be marked as DEO Exhibit 11.

(EXHIBIT MARKED FOR IDENTIFICATION.)

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REDIRECT EXAMINATION

By Mr. Kutik:

Q. Mr. McNutt, there has been some testimony

today about the Black & Veatch report. Can you
identify Dominion Exhibit 11?
A. This is the report, the final report that
we received from Black & Veatch for -- we asked them
to review our proposal and also just take a look at

our system and compare it to other gas companies and peer groups within the United States.

Q. Now, you also mentioned a western area study.

MR. SERIO: Your Honor, just a second. Can we go off the record?

EXAMINER FARKAS: Yes.

(Discussion off the record.)

EXAMINER FARKAS: Let's go back on the record.

Q. Go ahead. Do you remember the western area study?

A. Yes, I do.

Q. What is that?

A. The western area study was a study that we embarked on early on in 2007 where we identified that with all these bare assets that we have, you know, the most of any utility in the entire country, that we needed to develop a plan and a tool to prioritize those replacements so that we could become more effective in identifying what we needed to do there.

So that study was completed as part of our Six Sigma. We have a Six Sigma program at East

Ohio. We have an employee who worked under me who completed the study with a team of East Ohio folks and the bottom line conclusion of the study was that in our western area of our service territory, which is the western side of Cleveland for us which comprises kind of our downtown Cleveland area and then some of the western suburbs, you get out as far west as Rocky River, Fairview Park, those are the communities that the study showed that in that service territory we had -- 25 percent of our pipe is low pressure bare pipe and that actually when you looked at the leak activity for that entire area, we had 91 percent of our leaks were occurring on 25 percent of our pipe which was the bare low-pressure assets.

Q. Do you believe that that western area study supports your conclusion that there will be savings that result from a PIR program?

A. Absolutely.

Q. How?

A. When we look at that, you know, I guess we had known and the numbers just completely supported it that you start to replace your low-pressure main, you can focus your replacements, you know, on this subset and that subset, if you build a tool that allows you to do the worst first, then you can go after the pipe where you have the most leaks and you're going to see a reduction in your leak, you know, leaks going forward very quickly because you can focus on a specific subset of your assets.

Q. Does a reduction in leaks translate to a reduction in O&M costs?

A. Absolutely.

Q. Now, speaking of costs, and let me refer you to OCC Exhibit 13A, I believe Mr. Serio referred you to pages that have now been designated as page 19, 20, 21, and 22.

A. I did not number them as --

Q. Well let's, for example, look at one. I'm looking at the Main to Curb Replacement Estimate.

A. Okay. I'm there.

Q. Now, there is a reference at the bottom of the chart, it says "Note: All figures are 2007 dollars." Do you see that?

A. Yes.

Q. Does that notation appear on other cost figures in this document?

A. All of them.
Q. And did you use the phrase "2007 dollars" in your direct testimony?
A. Yes, I did.
Q. And why do you use the phrase "2007 dollars"?
A. Because that's the way the numbers were put together.
Q. Does 2007 dollars indicate whether you're using inflation or not?
A. Yes, it does.
Q. What does it mean about whether you're using inflation?
A. It means we did not include inflation in the numbers that we put together.
Q. To use inflation does it help to know when you're going to incur a cost in the future?
A. Absolutely.
Q. And do you know when you're going to

incur costs in the future under the PIR program?

A. We do not know that until we start to develop specific projects and we start to build those projects into a plan. We do not know that.

Q. Is that one of the reasons that you did not use an inflation factor in determining what potential costs of this program might be?

A. Yes, it was.

Q. There was some testimony about service line repairs; do you remember that?

A. Yes.

Q. And, Mr. McNutt, if a service line holds its pressure test at the time you go and are doing your main replacement around that area, or if the service line today is safe and reliable, why replace the service line when you're out there?

A. Well, particularly in the case of a steel service, it's a little different than plastic, but if you have a steel service, the pressure test is just a snapshot in time and you don't know what's going on below the ground with the service. So it could leak a week from now after you've done the test on it.

If we have to come back, you know, once the main -- and we're replacing the main and we've got everything opened up, you know, the cost of replacing the service at that time is a small incremental amount because you only have a couple of activities that are really incremental to what you're going to need to do to disconnect the service from the existing main and then retie it into the new main that you've installed.

So what we look at is that small incremental cost makes sense versus having that steel service, you know, you test it, you put it back in service, a year later or two years later, five years later it leaks, so now you're back out in that situation, you're re-tearing up the sidewalk, you're re-tearing up the customer's yard, and it's going to cost you significantly more than that incremental piece that it would cost you to replace it at the time of destruction.

Q. And have you determined what the difference is between doing what you propose to do, which is to deal with the service when you're opening up the ground for the main, or coming back and dealing with it later?

A. Yes, we have. The incremental cost is less than $300 at the time of destruction.

Q. And what are the costs if you come back
later?

A. It's going to range anywhere from a
thousand to 1,500. I think the number that we've
provided as a specific estimate was like 1,310, plus

or minus.

Q. Now, does the company anticipate operating its system for more than five years from today?

A. Since I have maybe 10 or 15 to get to retirement, I hope so.

Q. And does your -- does the company's preference for a proactive versus reactive approach help the company deal with the system either next year or five years from now?

A. Absolutely.

Q. First, let's talk a little bit about what's the difference between a reactive and a proactive approach to pipeline replacement?

A. I think, as I indicated before, when we're in reactive mode, you're basically in a mode where you're dealing with the compliance activities that are right in front of you. So you have your eyes kind of to the ground focused, you know, ensuring that you're maintaining compliance on a day-to-day basis, but you don't have the opportunity to look out on the horizon and put a plan in place that it's farther out when we're in reactive mode.

As we go into a proactive mode, again, it allows us to look up, you can build plans, you can put projects together that are larger in scale that probably work better than replacing small incremental pieces that are more reactionary in nature. That allows you to go into areas and, you know, make almost complete improvements in some cases that set you up well into the future and those opportunities really allow you to drive, you know, cost savings and the scale allows you to really drive efficiencies.

Q. In your judgment being someone who's experienced in putting together capital budgets, which results in the less expensive replacement program, a reactive approach or a proactive approach?

A. Hands down, proactive. When you're in reactive mode, you're doing smaller pieces and parts, and proactive allows you to put together a better plan, a tighter plan. Definitely proactive.

Q. Are there things that the company is doing today to prepare for a proactive approach should the Commission approve the PIR application?

A. Absolutely. Again, we started with, you know, the western study we talked about, you know, we embarked on that even before we filed the base rate case and just building a tool that will allow us to prioritize these assets that need to be replaced.

And then we're also in the process of really reorganizing. My job that I have right now that was -- that I took on in April of this year, we kind of reorganized a lot of our organization with this more proactive approach in mind.

We're also in the process of developing and actually we're working off of the western study we did and we learned a lot when we did that and now we're finding the tool that we're going to use to prioritize the replacement of these assets that we spoke of and we're hoping to -- well, we will have that in place sometime in the second quarter of next year and we'll probably have some working version on a smaller scale even potentially before that.

Q. Could you describe in a little more detail this tool you're going to use to prioritize the work that might be done under a PIR program?

A. Yeah. What we're actually learning from the experience is we have transmission pipeline integrity, because we built a very extensive risk ranking tool that we used, consulted Bass-Trigon, it allowed us to do that, and it's similar to the tool that Puget Sound developed that was part of Scott

Rubin's testimony.

The tool that we're building right now to deal with our distribution assets, it's going to focus specifically on our historical leaks, the leaks that we have in front of us right now today, it will also bring into play the year that the facility was installed, it will bring into play the type of material obviously, and then the two other factors that come into play will be the amount of customer outages we've had in an area and the amount of what we call heat tapes.

Heat tape is a device that we put on a low-pressure meter in the winter because if the leaks will let water into the systems, so if we get water into the customer's meter, they freeze, so we actually put an electric heat tape on it to keep the meters from freezing.

So those are the six factors that initially are part of our program that we'll use.

We'll bring the data in and then we'll use that to prioritize where our replacements will occur.

Q. One last question going back to Dominion Exhibit or DEO Exhibit 11, the Black & Veatch study. Do you know whether this was provided to OCC in discovery?

A. Yes, it was.

MR. KUTIK: No further questions.

EXAMINER FARKAS: Just for the record, you were going to make a statement regarding --

MR. KUTIK: Yes, your Honor. And that was the point of my last question, your Honor. We have provided this to OCC in discovery and although there is a legend on the document that it is attorney-client work product prepares in anticipation of litigation, we have waived that claim obviously since we gave it to OCC in discovery.

EXAMINER FARKAS: Thank you.

Mr. Serio.

MR. SERIO: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Serio:

Q. Mr. McNutt, when you filed your

supplemental testimony, did you have the Black &
Veatch study available to you?

A. The supplemental would have been -- yes.

Q. You chose not to attach it to your
testimony, correct?

A. That's correct.

MR. SERIO: Your Honor, I'm going to move to strike Dominion Exhibit 11 and all the redirect that was done relating to Dominion Exhibit 11 because the purpose of direct testimony is for the company to make its direct case.

To the extent that this was available to Mr. McNutt when he filed his supplemental testimony, if it was important, he could have and easily should have attached it to his testimony so that we would have had an opportunity to review this in time and if we had questions about it, we could ask him today.

Instead, the company is introducing it as a document on redirect and I've got the better part of 15 minutes to see if I want to ask any questions about it. I think that's absolutely inappropriate and doesn't fulfill the requirements that the company's supposed to file its direct case with the evidence that meets its necessary burden of proof.

MR. KUTIK: Supplemental testimony in this case was to respond to the Staff Report. The Black & Veatch doesn't respond to any specific point made in the Staff Report relating to our objections.

Mr. Serio opened the door when he asked

Mr. McNutt questions about the Black & Veatch report, and indeed he had a problem understanding what the Black & Veatch report, a problem which I imagine that the Bench may have in understanding the difference between the various reports.

Given the fact that there was testimony about the Black & Veatch report it is perfectly appropriate at this time for us to introduce exactly what the Black & Veatch report is.

With respect to Mr. Serio's claim of prejudice, that rings hollow given the last question and answer that we had in our redirect, that this document was provided to OCC in discovery.

MR. SERIO: It was provided, your Honor, but that doesn't mean that along with the other thousands of sheets that were provided to us in discovery that I have to come to the hearing and be prepared to cross-examine the witness on it.

The company has the burden of putting

with its direct case, and in this instance its supplemental case, the burden necessary to prove its case. If the Black & Veatch report is necessary to prove the case, it should have been part of the direct case; it was not.

And if it's some type of rebuttal testimony, then it's absolutely inappropriate to introduce it as part of redirect to this witness at this point in time.

If it's going to be rebuttal, then it should be done as appropriate rebuttal testimony and then we have to determine could it have been done as part of the direct case instead of the rebuttal case. Those are the standards that this Commission uses, your Honor.

MR. KUTIK: If Mr. Serio's going to ask him questions about the Black & Veatch report, he can't claim that he's prejudiced because he hasn't been able to see the Black & Veatch report.

EXAMINER FARKAS: I'm going to deny the objection.

MR. SERIO: Your Honor, I'd ask to have at least whatever we're going to take for a lunch break so I can go over this in a little more detail and see if there's other specific questions since the entire report's now coming into the record.

EXAMINER FARKAS: Okay. Do you have any objection to that?

MR. KUTIK: No, we don't, your Honor.

EXAMINER FARKAS: Why don't we break for lunch. Let's go off the record for a second.

(Discussion off the record.)

EXAMINER FARKAS: Let's go back on the record. Why don't we break until 2 o'clock, then.

(Thereupon, at 12:46 p.m. a lunch recess was taken until 2:00 p.m. of the same day.)

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Wednesday Afternoon Session,

August 6, 2008.

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EXAMINER FARKAS: Let's go back on the record.

MR. SERIO: Thank you, Mr. Honor. Your Honor, before I have any questions I did have another motion I'd like you to consider. Again, I'd ask to strike DEO Exhibit No. 11, but this time because it's a clear violation of the hearsay rule, Rule 802 of the Rules of Evidence.

As I look under 803, the exceptions of the hearsay rule, there's no situation that applies to this instance. Moreover, it is my understanding that a staff report does not get entered into the record until the staff is able to authenticate it. In this case the Staff Report has to be authenticated by staff and the Blue Ridge report, unless the parties waive it, has to be authenticated by Blue

Ridge. In this instance Mr. McNutt cannot authenticate Dominion Exhibit No. 11 because he didn't produce Dominion Exhibit No. 11.

In fact, to the extent that he's going to authenticate it, he's relying on double and even triple hearsay to the extent that the folks that actually prepared this relied on things that they were told by people, and the witness in this instance is saying "Well, other people told the people that did the study this and I'm authenticating that this is what they told them." That's double, triple, could even be quadruple hearsay and, clearly, the Commission rules don't allow for that.

If the company wants this in, unless they can bring the author of the report into the hearing, put them on the stand and allow us to ask them questions about how they did the report, what went into the report, the assumptions and analyses they used, Mr. McNutt is not qualified to respond to any kind of questions like those regarding what Black & Veatch did. He can only respond to what his understanding of the report is, and not what the actual authors of the report did or intended.

MR. KUTIK: Your Honor, there are two

things that have to be established with respect to a document, the first is authentication, the second is does it pass the hearsay rule. So Mr. Serio confuses a bunch of things.

With respect to authentication, we asked

Mr. McNutt "What is this?" He says "It's the Black & Veatch report." It's the Black & Veatch report that he talked about with Mr. Serio. So he has authenticated the document.

Now with respect to hearsay, Mr. Serio assumes what Mr. McNutt's going to testify. He hasn't asked Mr. McNutt anything about what he knows about the report and whether he can, in fact, go into hearsay rule. I have not asked Mr. McNutt any questions about it, but frankly, because it was talked about in testimony, testimony elicited by Mr. Serio, I think Mr. Serio's waived any hearsay objections he might have had.

EXAMINER FARKAS: I'm going to deny your objection.

MR. SERIO: I'd like to note for the record that's a continuing objection and I guess my question would be would an OCC witness then be able to authenticate the Staff Report? I don't see the difference, your Honor.

MR. KUTIK: Well, for example, I note, your Honor, that Mr. Rubin has attached to his testimony a report from Puget Sound Gas. I would assume that we can have a motion to strike

Mr. Rubin's testimony; we may or we may not. So what is sauce for the goose is sauce for the gander. We think in your discretion you should allow the report to come in especially since it was the subject of testimony.

EXAMINER FARKAS: Well, I'm going to allow it in so let's proceed.

MR. SERIO: For clarification, can I ask under what rule of the hearsay exceptions it's being allowed so that I can make my appropriate objections in briefing that?

EXAMINER FARKAS: It's just -- I'm overruling your objection.

MR. SERIO: Thank you, your Honor.

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TIMOTHY C. McNUTT

being previously duly sworn, as prescribed by law, was examined and testified as follows:

RECROSS-EXAMINATION (continued)

By Mr. Serio:

Q. Mr. McNutt, if you turn to page 2 of the Black & Veatch report, the first full paragraph, last sentence of that paragraph says "Furthermore, it is Black & Veatch's experience that corrosion leaks on underground non-cathodically protected (unprotected) bare and coated steel pipe can be expected to increase exponentially over time until the pipes are either cathodically protected, retired, or replaced."

Do you know what Black & Veatch's experience is?

A. In discussions with Black & Veatch we were working closely with Steve Vitale who's an expert in the corrosion field, he has extensive qualifications in the area, and we talked quite a bit about this subject and how it related to East Ohio's system and, clearly, we're back to this is the science of corrosion and when corrosion begins on a bare infrastructure in the ground, it can be expected to increase exponentially and there's been many studies done on that.

My experience in corrosion, I already knew that --

MR. SERIO: Your Honor, I wasn't asking

his. I was asking about the authors of the document.

MR. KUTIK: He's testifying about his discussions with Black & Veatch. I think he should be able to finish his answer.

EXAMINER FARKAS: I'll let him finish his answer.

A. Again, we had extensive discussion with Steve Vitale who is an expert that was working with us and worked with Black & Veatch on the report and he's a recognized expert in the field of corrosion and cathodic protection.

Q. Do you know if Mr. Vitale's ever appeared before the Public Utilities Commission of Ohio?

MR. KUTIK: It's Natale.

MR. SERIO: I'm sorry. Natale?

MR. KUTIK: Natale.

A. Vitale.

Q. Can you spell that for me?

A. V-i-t-a-l-e, I think.

EXAMINER FARKAS: Subject to check.

THE WITNESS: Subject to check.

Q. His first name?

A. Steve.

Q. Was he the main author of the document?

A. He was the expert consultant that Black & Veatch -- the gentleman we worked with at Black & Veatch is Ed Anderson and we had lots of discussions with Ed Anderson and Steve Vitale in development of the document.

Q. Do you know where Mr. Vitale went to school?

A. I think he was a graduate of Penn State. We have his résumé, I don't have it in front of me, but --

Q. It's not attached to this document at all?

A. I don't think it was part of this document. I think actually I remember reading Steve Vitale's résumé because he provided also testimony for Columbia Gas of Ohio that's part of I think a record that's out there.

Q. Do you know if the Columbia testimony that he provided has been entered into the record at PUCO yet?

A. I don't know that.

Q. Do you know if Columbia's had their hearing yet?

A. I don't know that either.

Q. Do you know Mr. Vitale's work experience?

A. Again, I'm just going by memory from his résumé. I mean, he has multiple degrees. He's worked all around the world. He's, again, a recognized expert in cathodic protection and corrosion related activities.

Q. Do you know if the PUCO's ever recognized him as an expert?

A. I don't know that.

Q. Do you know where Mr. Anderson went to school?

A. No, I do not.

Q. Do you know if Mr. Anderson's ever been recognized as an expert by the Public Utilities Commission of Ohio?

A. I do not know that.

Q. Do you know if there's any other employees of Black & Veatch that worked on this document?

A. Like I said, the contacts that we had were specifically Ed Anderson, and Steve Vitale was on most -- was involved in most of the discussions we had.

Q. So to the extent they were involved in

the discussions, is it your understanding that they
actually did the work or do you know if they had
subordinates that actually did the work?

A. I don't know that.

Q. And do you know if -- to the extent that they might have had subordinates work on this, do you have any idea what sections Mr. Vitale or Mr. Anderson might have worked on or which sections they may have had any other employees of Black & Veatch work on?

A. I don't know specifically what other sections other folks have worked on.

Q. On page 5 of the document under the blue heading Department of Transportation data, do you see that?

A. Yes, I do.

Q. The second paragraph says, "The DOT data, as of April of 2008," and then the last sentence before the bullet point says, "In addition, Dominion has provided updated data for 2002 to 2006." Do you know if the Black & Veatch included updated data for any of the other distribution companies that they looked at?

A. I think they focused their comparisons specifically on 2006 data.

Q. I understand. But what I'm asking you is, it says here Dominion provided updated data. Do you know if other distribution companies provided similar updated data?

A. I don't think that they changed the data from other companies, no.

Q. You know that for fact.

A. I know that for fact.

Q. Is there a reason it doesn't say that in the report?

A. I'm not sure why it would say that.

Q. Did Mr. Vitale or Mr. Anderson specifically tell you that or is it based on your conclusion?

A. What was the question again?

Q. That Black & Veatch did not include updated data for the years 2002 to 2006 for any other distribution company.

A. Again, I think I responded that I don't think that they changed the numbers from other companies, no.

Q. And my question is: How do you know that?

A. We had --

Q. How do you know what they did?

A. -- no discussions about that.

Q. So they specifically told you that they did not do that.

A. Well, there was no way that they were going to change the data from -- we used a couple different subsets of peer groups, one of them had 83 companies in it, the other one had 30-some for the regional group. There was no way that they were going to change data from those peer groups.

Q. Okay. I understand you're saying there was no way they were going to. Do you know for fact whether they did or did not?

MR. KUTIK: Objection; this is the third time the question's been asked.

EXAMINER FARKAS: I'll allow it.

A. I think I responded before, they didn't change the numbers, update the numbers from other companies.

MR. SERIO: Your Honor, how can he know what they did or didn't do when he's basing his answer on "there's no way they could have"?

MR. KUTIK: He said he spoke with them

and that's what they said. That's what they said. How many times does he have to say it?

MR. SERIO: That's not what he answered.

MR. KUTIK: That's what he answered.

Q. Did Mr. Anderson or Mr. Vitale

specifically tell you that they did not update the data for any other distribution company other than Dominion?

A. I know for a fact they did not do that per our discussions that we had with them.

Q. So they told you that.

A. We discussed it specifically.

EXAMINER FARKAS: I think his question is did they tell you that in discussions or otherwise?

THE WITNESS: Well, I mean in our discussions they weren't going to do that.

EXAMINER FARKAS: No. The question is did they verbally tell you that, not -- I mean, in discussions other otherwise, did they say that to you?

A. Yes, they did.

Q. In that many words.

A. They were not going to change data from other companies.

Q. So to the extent that you have updated
Dominion data and data for other utilities that is not updated, isn't it true that you're not doing a true comparison of Dominion to the other distribution companies?

A. That's not true.
Q. Then why did you update the Dominion data in this report?
A. When we started looking at our DOT data that we reported on our annual reports, we clearly had some data issues with the data that we had reported, and they were just clear, obvious errors, and when we got into this information in detail, we adjusted the numbers to reflect what they actually should have been.
Q. Is it -- I'm sorry, were you done?
A. We had the information to clearly support that and back that up.
Q. Is it possible that the data for other distribution companies that was initially reported to the Department of Transportation had similar errors to the errors that you identified in the data that you initially provided to the DOT?
A. I don't know that.

Q. So you don't know that the data that they provided was as accurate as the updated data that then you provided to Black & Veatch; is that correct?

A. I don't know, you know, for the other companies I had -- would not be of knowledge of whether their information was accurate or not.

Q. So if their information isn't accurate, what good does it do to compare Dominion to the other companies?

MR. KUTIK: Objection. I mean, he said he doesn't know how accurate it is. It's reported to the DOT. They relied upon it --

EXAMINER FARKAS: If he has an opinion, I'll let him offer it.

A. I think when you look at the numbers, a lot of them, again, it's an order of magnitude type issue. I mean the changes that we made in general in summary weren't that extensive, but it was clear that some of the numbers when we were looking at them and poring through them, they weren't completely accurate. So as we got into the numbers we recognized that and we're going to be working, you know, through a process of revising and correcting those numbers as we go forward.

Q. Can you show me anywhere in this report
that the data contrasts the original data that
Dominion provided and then the updated data?

A. No.

Q. So there's nothing in the report where anyone else could determine just how significant or insignificant the changes might have been.

A. I mean, we can talk about what the changes were.

Q. Can you tell me in detail every change that was made by the updated data from 2002 to 2006?

A. We changed -- there was basically three categories where we made minor changes, and one of them was when we looked at the last three years for our bare distribution noncathodically protected pipe, we showed that number as exactly the same for the last three years. Well, obviously, I've already testified today we've replaced, you know, some pipe on each one of those years, so that number should have gone down by the amount of pipe that had been replaced the previous year. And for whatever reason when we reported those, we hadn't changed that number.

The other change that --

Q. Can we do those one at a time?

MR. KUTIK: Well, can he finish his answer?

EXAMINER FARKAS: Yes, he can finish his answer.

A. The other two changes that occurred were as parts of our transmission pipeline integrity work and in compliance with that work we shifted and we changed the operation of some facilities and it shifted them from classification -- from a transmission bare cathodically protected classification to a distribution bare cathodically protected classification. Those are columns that are on the DOT report.

And we had not made those changes with those numbers. So the numbers shifted from basically one column to another on the report that's filed with the DOT. So those were -- that was the magnitude of the changes that we were working with.

Q. You initially indicated there were three categories; you just gave me two.

A. No. We have distribution, bare, noncathodically protected.

Q. Okay.

A. That was the one where we've been
replacing pipe that I've testified to, whether it's
an average of say 40 miles a year, the last three
years we hadn't changed that number. So, obviously,
we replaced that pipe so that number should have gone

down by that reflective amount that we replaced.

Q. That was one category.

A. Okay. The second category was transmission bare cathodically protected. And that was a category where we had reclassified and we moved some of that pipe from the transmission classification to a distribution bare cathodically protected classification. So it was a corresponding change. You had a movement of pipe from here to here.

Q. So that second category had actually two different changes.

A. Yeah. It was just moving one group of pipe, we just changed the classification, so we went down here, we went up here.

Q. Okay. Now, the first category, do you know if any of the other distribution companies listed had instances where they might have consecutive years where their bare distribution

noncathodically protected pipeline was the same for
more than one year and at the same time that the
company was replacing bare steel noncathodically
protected pipeline?

A. I don't know that.

Q. And to the extent that there might be situations like that, then how Dominion ranks against the other companies could be affected, correct?

A. I mean, when you looked at the magnitude of the numbers as a percentage, you could have had an impact, but I think it would have been a small impact based on the changes we made.

Q. And that's based on the changes for Dominion. It's possible that other distribution companies had changes that might be significantly greater than Dominion's, you don't know that, correct?

A. I don't know that. It doesn't change the fact that, you know, we have more bare pipe than any company in the entire United States and have more corrosion leaks than any company in the United States I don't think.

Q. I understand that. But this study goes to more than just the number of pipes and the number of leaks, correct?

A. Yeah, it does, but that's primarily the focus of the report when you read through the whole thing.

Q. Do you know if there's any other

situations where distribution companies might have changed transmission pipeline -- bare cathodically protected transmission pipeline to distribution pipeline?

A. I don't know that.

Q. And so you don't know if there's companies that could have had a similar change that might have affected how Dominion ranks against those companies, correct?

A. Again, I don't know that.

Q. Now, on page 6 there's some observations regarding the data. Do you know why Black & Veatch chose the sorting criteria that they chose?

A. We talked quite a bit about that; yes. We wanted to have a peer group subset that was reflective of our group and, you know, they selected all gas companies, LDC gas companies that had more than 50 miles of bare pipe as a reflective. So, obviously, we have a lot more than that, so it brought in quite a few companies so that we could get a good reflective peer group.

So we ended up with I think there was about 83 companies that were in that peer group, so it gave a good cross-sectional representation across the whole country for comparison purposes with East Ohio.

Q. So to the extent a company had 51 miles of bare steel pipe, they would have served as a surrogate to compare to Dominion who's got almost 3,950 miles of bare steel pipe, right?

A. Well, they would have been one of the companies that was in the peer group. There was obviously a lot of larger companies in that same peer group.

Q. Do you know how many of the 83 peer group had more than a thousand miles of bare steel pipe?

A. I don't know that number off the top of my head, no.

Q. Do you know how many had more than 2,000 miles?

A. Off the top of my head I don't know that.

Q. Do you know if that number's in the report?

A. You know, it may be. I mean, they
don't -- if you go to page 8, so if you just kind of drew a line there at a thousand, you could see how many companies would fall into that category over a thousand.

Q. So if you drew the line at a thousand, that would be 67?

A. Over a thousand would be 67 to 83, so you'd have 16 companies that had over a thousand miles of bare we would have been compared against.

Q. Do you know if there's any analysis done just compared to those 13 companies that are over a thousand miles of bare steel pipe?

A. Well, those 13 companies show up on all the charts so, you know, there's -- you can compare, you know, based on that comparison on every one of these charts.

Q. Do you know why there's no comparisons done just based on the companies with more than a thousand miles of bare steel pipe?

A. I guess I'm not sure why that type of cut wasn't done. Obviously, I think the information is all right there in front of you to look at just those 16 companies, I think you can just take a subset of the information that's provided here if you wanted to do that.

Q. Okay. I believe you indicated you don't know why they didn't do that study; is that correct?

A. Well, I --

MR. KUTIK: Objection.

A. The bottom line is we didn't instruct them to do it because we were working with them throughout the process.

Q. Now, if a company's only got 51 or 61 or 71 miles of bare steel pipe, what they do in one year if they replaced 5 or 6 miles, that could have a significant impact on how their statistics play out versus East Ohio replacing 40 miles of its 3,900 miles of bare steel pipe, correct?

A. Well, statistically that could have an impact, sure.

Q. So you don't know for the companies that had significantly less bare steel pipe if they did any kind of analysis separating them out to see if there were instances where one or two years of repairs or replacements might have caused an anomaly in their numbers which could potentially skew how they stand up against East Ohio; isn't that correct?

A. That's correct. That wasn't done, but I
think we were, again, primarily in the comparison
focused on the upper end. I think bringing in the
larger peer group it was just trying to bring as
broad a comparison as we could to the process. I

think we were effective in bringing in a large number of reflective companies.

The other peer group that they established as part of all the graphs was a regional group where we also looked at the utilities that had more than 50 miles of bare pipe that were touching the state of Ohio, that subset was I think 30-some, and all the charts reflect both that national peer group and also the regional peer group.

And the regional peer group I think is important because it gives a -- may be a little more reflective of the environment that we're in here at East Ohio. You compare it against, the Columbias and the other companies that really are representative of East Ohio.

Q. Do you know if the soil conditions for the three or two other pipelines used are similar to the soil conditions that Dominion East Ohio experiences?

A. Soil conditions can change from this
place in Columbus to three blocks down the road so,
obviously, you're going to have a whole range of
different soil conditions in different companies. I
mean, that's -- but to say you're going to have one

specific type of soil condition with any different
gas company depending on where they're at in the
country, I mean unless you're maybe in a desert, but
not a lot of gas companies in deserts.
Q. But you would agree with me that soil
conditions is one of the direct -- one of the items
that directly impacts corrosion on bare steel pipe,
correct?
A. Oh, absolutely.
Q. And different soil conditions would
affect corrosion in different ways, correct?
A. That's correct. And that's also why we
took a national look and we also took a regional
look.
Q. Okay.
A. Two different numbers so that we could
compare ourself against companies that are in the
same area we are.
Q. Did you do any analysis to determine if

any of the 83 national companies you looked at had the same general soil conditions as those that Dominion East Ohio has?

A. No, we did not do that.

Q. Did you do any comparison of the peer groups to see if their general soil conditions were the same as Dominion East Ohio?

A. The study was not designed to get to that level of detail. It was designed and we asked them, we wanted a comparison and we wanted a third-party opinion of the program that we were proposing. The comparisons were designed to be done at a higher level comparing information that was readily available on a lot of different companies.

So we did not get into detailed specifics of soil conditions because, again, soil conditions can vary significantly from just place to place within your own system. I mean, East Ohio operates a system that runs from Maumee up on the lake on the western side, to Ashtabula, down to the Ohio River. We have different soil conditions in all parts of our system, and it would be reflective probably of all other gas companies.

Q. But you don't know that for fact, if

other gas companies have the same range of soil
conditions, the same type of corrosivity in the soil
of the service territories where they operate,
correct?

A. I don't know that specifically, no.

Q. In fact, some of those 83 companies that have significantly less mileage could be distribution companies that operate in very small areas where there could be significantly different soil conditions than anything that East Ohio has in its service territory; isn't that possible?

A. You know, it's possible.

Q. Did you specifically tell Black & Veatch not to look at the soil conditions for the different gas companies that they were comparing Dominion East Ohio to?

A. Soil conditions was not a factor that we wanted them to consider because it's not something that's readily known, you don't know where it changes, how it changes. It's not an objective type of thing. It's very variable from company to company.

Q. From a scientific standpoint isn't it true that different soil conditions will impact bare steel pipe in different manners?

MR. KUTIK: Objection; asked and answered.

EXAMINER FARKAS: I'll let him answer this question.

A. I mean, I've answered that question before, but yeah, the soil conditions have an impact on corrosion rates, absolutely.

Q. On page 13 of the document I think Figure 5 says that that's the total corrosion leaks eliminated or repaired on mains. Is that correct?

A. That's correct.

Q. And that shows that Dominion eliminated or repaired more leaks than any other distribution company in the country; is that right?

A. In 2006 that's correct.

Q. And they did that under the current system of repair and replacement that does not include the pipeline infrastructure replacement program, correct?

A. That's correct.

Q. On page 14 of the document, I think it's the seventh paragraph that begins with the word "While," do you see that paragraph?

A. I'm reading it.

Q. Okay.

A. Okay.

Q. That paragraph basically says that
Dominion put extra effort into reducing its backlog

and was able, therefore, to reduce more leaks than any other distribution company, correct?

A. That's correct, that's what it says. And it also goes on to speak about the fact that just because the fact that we fixed the leaks, and we're proud of the fact that we fixed the leaks and we're maintaining our system, but it also goes on to say that, you know, with the bare pipe in the ground the leaks are going to continue exponentially and we may have more leaks next year than we had, you know, the previous year.

I think what we've said all along is that, you know, either we start to address, you know, the leaks with replacement activity or at some point, you know, that leak rate's going to get to a point where we're not going to be able to manage it the way that we have been managing it. It's going to cost a lot more in O&M dollars to fix the leaks and it's going to put strain on our resources and, in the end, what it potentially could do is it could put the safety and reliability of our system at risk. And that's why -- that's why we're proposing the program.

Q. I believe you indicated that you needed to do the replacements in the future. The company

does pipeline replacements today, correct?
A. That's correct.
Q. And those replacements that you do today are aimed at eliminated pipeline leaks in the future, correct?
A. The replacement activity obviously is focused on pipes that have leaks.
Q. So the replacement activity you do today is similar to the pipeline replacement activity you're proposing, you're just proposing it to be more extensive and more systematic in the future, correct?
A. That's correct.
Q. On page 15, Figure 6, that tracks the backlog of leaks on the pipeline system, correct?
A. That's correct.
Q. And that shows that Dominion in the last couple years has dramatically reduced its pipeline leak rate and is significantly lower than the national and peer groups, correct?

A. That's correct. And there's one major reason why that change occurred. We made a significant change, and I think I testified already earlier to this fact, that in 2006 we changed the way that we handled our service line leaks with our customers.

Prior to 2006 when we had a leak on our services with our customers, what we did is we put that leak into our leak management system and then we managed it like any other leak on the system. We notified the customer they needed to get it fixed, but we let them do it in their time line. So what happened is that you had lots of leaks, sometimes thousands of service leaks that would have been out there aging and in some cases, you know, it would push right up against our 15-month requirement to get them fixed.

Well, in 2006 we made a change in how we handled that. When we found a service line leak in 2006, the change that we made was we hang what we call a ten-day tag on the customer's door when we find a leak, and what it says is "You got ten days to get this fixed, get a plumber to get your service fixed, and then call us and we'll come back out and we'll restore the service after you've had the service replaced," okay? If you don't react to that in ten days, we come back after ten days and we shut the service in, and then that forces the customer to address the issue.

So what you see here happening is that up until 2006 -- in 2005 we were carrying a very large number of service line leaks in our backlog, and when we made that change you can clearly see, you know, we eliminated our backlog of service leaks because we give the customer ten days to address the issue and if they don't, we shut them in. So basically we force the issue so that's why we've eliminated the backlog of service leaks in our leak backlog.

Q. And that change is part of your current policies today, correct?

A. Correct.

Q. And that's something that you're not proposing to change in this case going forward, are you?

A. No.

Q. Okay. So to the extent that that change helped reduce the backlog, it's correct that it will help keep the number of future service line leaks down, correct?

A. No; that's absolutely false.

Q. It won't cause an increase to a backlog in service leaks, correct?

A. You wouldn't increase a backlog, but you will have to address the service line leaks, you know, going forward. And again, if you have the bare pipe in the ground, it's going to continue, you know, to corrode and you're going to have these leaks that you're going to have to deal with.

Q. On page 19 of the document it says that Dominion's 2006 rate of .56 is better than the regional and national averages. So that means that the corrosion leaks per mile of nonprotected bare steel and coated steel distribution mains, Dominion actually has fewer leaks than the national and regional companies, correct?

A. If you look at the pure numbers and the pure rate, our numbers are in the middle of the pack here. And you know, I've indicated before, you know, we don't apologize for that, we're proud of that fact that we operate and we maintain and we stay on top of things.

It doesn't change the fact, again, that

we have more bare pipe in the ground than any other
LDC in the company and we have more corrosion related
main line leaks than any company in the entire
country.

Q. Yet you still are below the national

average when it comes to leaks on nonprotected bare steel.

MR. KUTIK: Objection.

A. When we're looking at the pure rate, that's a rate per mile, that's what that number is, when you're just doing the math on it, we're in the middle of the pack there.

Q. Aren't all the statistics here just pure numbers?

MR. KUTIK: Objection; that's argumentative.

Q. You're characterizing the one, I believe you've characterized --

EXAMINER FARKAS: Do you want to rephrase your question?

Q. In your opinion is Figure 9 different than the other figures in the report or do they also rely on the same type of pure numbers?

A. I mean, I look at Figure 9 and, again,

I'm not -- the numbers are what they are and, again,
we're not questioning the numbers. You know, our
rates, our leak rates per mile, because we have so
much pipe and we do such a good job of maintaining
it, they're less and, you know, again, we're proud of

that fact. But it doesn't change the fact that we have the most bare pipe and the most corrosion leaks on mains than any company in the entire United States.

Q. I understand that. My question was: Are the numbers in the other figures in this report different than the quality of numbers that are in Figure 9?

MR. KUTIK: Objection; asked and answered.

A. I haven't contested that fact.

MR. KUTIK: Mr. McNutt, if I object, I'd like you not to talk until the attorney-examiner's made a ruling. Thank you.

THE WITNESS: Sorry.

MR. SERIO: Can you read back the answer? I'm sorry, I did not get the answer in the exchange.

(Record read.)

MR. SERIO: Thank you.

Q. Can you turn to page 26? This is a pretty graphic picture there on Figure 14 and there's also one on page 25, Figure 13. Do you see those two?

A. Yes, I do.

Q. Do you know where those pipe came from?

A. I think the picture on page 25 is a picture that Black & Veatch had. I think the picture on page 26 is a picture we provided them from an East Ohio pipeline.

Q. Do you know where that piece of pipe is located, the picture that you provided Black & Veatch?

A. I couldn't tell you exactly where that came out of, no.

Q. Do you know what county?

A. We had a bunch of pictures that we provided to Black & Veatch that our construction and maintenance crews took, and the gentleman that was putting those together for me, he worked out of our Akron area so I'm assuming that it was someplace maybe in Summit County, Stark County.

Q. And do you know where Black & Veatch got the -- took the piece of pipe in the picture on page

25, do you know where that was located?

A. I don't know that.

Q. So you don't know what kind of soil
conditions the pipe in Figure 13 might have been
buried in.

A. I have no way of knowing that, no.

Q. And you don't know if the soil conditions for the pipeline on Figure 13 are similar to the soil conditions for the pipeline in Figure 14.

A. I don't have any way of knowing that.

Q. Now, on page 26 and 27 Black & Veatch indicates that they're Scenario 1 - Status Quo, Scenario 2 - Proactive. Is there anything that could occur between the status quo and the proactive?

A. I guess I don't understand your question.

Q. Let me rephrase it. Does the proactive mode have to include a 25-year replacement program as proposed by the company, or could a proactive mode include a different time line?

A. I think what we've looked at is if we're going to try to address the pipe that's in our scope, if we looked closely at the magnitude of that and we felt clearly if we wanted to replace all that pipe similar to other programs that have been proposed, example: Puget Sound where they're working on replacing all of their bare and cast iron, that it's going to take 25 years for us to get all that work completed.

Q. I understand that. Did you direct Black

& Veatch not to do any other scenarios that might be a proactive approach but over a different time period?

A. We didn't give them any direction like that, no.

Q. So you don't know why Black & Veatch didn't put any other scenarios into the report.

A. No, I don't know that.

Q. On page 32 of the report it talks about bare steel services. What does "bare steel services" mean? Is that a service line?

A. That's correct.

Q. It shows the Dominion number at, it looks like maybe 675,000.

A. Plus or minus, yes.

Q. Can you tell me what number that relates to in your direct testimony?

A. That number would not be reflected in my direct testimony because we were only looking at the services that were associated with the main replacements. This is a total across our entire system. We would still have some steel services -- if we've done some plastic replacements over the years and you didn't have a program to proactively replace the services, you would still have steel services attached to the plastic lines. And we would have that, you know, in considerable -- considerable numbers of those are still out there.

And those would be the types of services also that if they leaked in the future, that would be a cause service replacement that we would go out on and that we would, when we would separate the service, we would slip it with plastic and then we would retie it in. That was one of those 5- to 6,000 a year that we see happening on a regular annual basis.

Q. Okay. I believe in redirect you were asked by counsel about the inflation rate of 3 percent, and that you didn't know what it would be in the outlying years and, therefore, you didn't do -- you didn't factor inflation in; do you recall that?

MR. KUTIK: Objection; that

mischaracterizes his testimony. What he testified about was he didn't know the cost in future years, not the inflation rate.

Q. Do you recall the discussion about the inflation rate with counsel on redirect?

A. Yes, I do.

Q. Okay. In your current budget what inflation rate did you build into the budget for the next five years?

A. Again, I'm going from memory and, I mean obviously, those numbers are a part of our plan, but, I mean, 3 percent is a typical number we're using as an inflation rate as we're calculating costs with our budget.

Q. So it's your opinion that 3 percent is a reasonable surrogate to project inflation in a going-forward basis?

MR. KUTIK: The witness has already testified about this in the original cross-examination. Do we have to do this again?

EXAMINER FARKAS: I believe he did already testify to this.

Q. Okay. Service line repairs. Do you recall the discussion you had with counsel on

redirect regarding service line repairs, incremental
versus stand-alone costs?

A. Yes, I do.

Q. And I understand that the incremental
cost is $300 each, the stand-alone cost is between a

thousand and 1,500, and then you mentioned a $13 -- $1,310 figure. Can you point to anywhere in the record where that 1,310 appears?

A. If you refer to my supplemental direct testimony, page 2, at the bottom on line 20 I think we referred to the second trip to replace the line is over $1,300.

Q. All right. And I believe you already identified how many service line repairs the company has per year; did you not?

A. I think I indicated that on an average we typically do between 5- and 6,000 service line repairs outside, you know, we call them cause-type replacements where the service is leaking and we're reacting to it.

Q. So if I took a middle number of 5,500 and multiplied it by $1,300, I'd get the cost that you've incurred -- that would be incurred annually to replace service lines on a stand-alone basis under your current experience, correct?

A. Plus or minus. That's a high level.
It's a pretty decent estimate. You're going to have
some that are going to be high, some that are going
to be low.

Q. And that number for each year would contrast to the $300 incremental cost times the 515,000 service lines that exist on the entire Dominion system that you would propose replacing, correct?

A. I guess I didn't follow the whole question.

Q. Okay. If you look at the incremental cost, you took the $300 and multiply it times the 515,000 service lines that you previously identified, that would give me a total cost for incremental repairs to service lines, correct?

A. No, that's not correct. The reference to the 1,300 only, if you go to the supplemental testimony, it's focused specifically on coated, effectively coated services. I think what we've said is when you're replacing the main line, if the service line is bare, which is what we're going to find in most cases on these old bare lines because

the services typically went in at the same time the
mains did, so the services are bare, so what we're
saying is the bare service, it's going to get
replaced with the bare main.

I think the cost differential that we're speaking of here is we're going down and replacing a main and we run into, for an unusual reason because it will be relatively unusual that we have a coated steel service tied into a bare main, that would be an unusual situation, but we will run into it, what we're saying is that we want to replace that coated steel service, we want to put a piece of plastic through it at the time we got everything opened up because it's going to cost us less than $300 incremental to replace it at that time while everything's open versus just testing it, retying it back in.

So now you leave this steel service, coated steel service in the ground and then ten years from now it leaks, we got to go back out on cause now and it's going to cost us 1,310 or over $1,300 to replace it. It's going to be much more expensive plus it's going to be, again, disruptive to the customer a second time at some point in the future.

Q. What I'm trying to do is compare the two
costs. The 1,310 would be the stand-alone cost if
you replaced all 515,000?

A. No. I mean, the 515,000, those are --
that's our estimation of the services that are tied

directly onto these bare mains that we're going to replace, and those are going to get replaced as part of the main replacement program.

The incremental cost that we're talking about is a small, a small subset of the 1,550 that are actually coated steel services, and I don't know exactly how many of the 1,550 that's going to be, but -- it's not going to be a significant number of them, but it will be a situation that we encounter and what we want to do is we want to be able to replace that service at the time we're there because it's the most cost-effective time to do it.

MR. KUTIK: May we go off the record for a minute?

(Off the record.)

EXAMINER FARKAS: Go ahead.

MR. SERIO: Thank you, your Honor.

Q. Mr. McNutt, I think you were also asked a question about the survey that the company did of the western area of the service territory, and I think you indicated that's 9 percent of the company's service territory.

A. That's correct.

Q. Do you know what a statistically valid survey is? What the term "statistically valid" means?

A. Yes, I do.

Q. Did you do any analysis to determine if the 9 percent of the western area was a statistically valid reflection of the entire service territory?

A. We did not do that, no.

Q. Did you do any analysis to determine if the soil conditions in the 9 percent of the western area of the service territory were, for example, similar to the soil conditions in the Lima or the Marietta areas of your service territory?

A. We didn't do that, but I know from my experience, I've worked in every area of East Ohio and been involved also with West Ohio, our Lima operation, and in Marietta with the River operation, you know, the soils conditions vary across the state of Ohio, but, you know, you don't have one area where you have all one soil condition, soil type.

Each area, you know, has similar cross sections with some areas that are going to be one type of soil and another's going to have a different type of soil.

The western area, we selected the western area because it clearly was an area that was representative of our other mature residential and commercial areas where we have a lot of these bare cast iron, wrought iron type facilities and we felt, you know, very comfortable that the results that we found in our western area would reflect similarly in our Akron or Youngstown, our Canton, other parts of our Cleveland market.

Q. I have one last question. If DEO had to fund the pipeline infrastructure replacement program internally, would Dominion Resources fund it without more detailed information?

A. I don't know the answer to that question.

Q. Do you know who might, at Dominion?

A. I think that's a question that would have to be posed to our executives.

Q. Would Mr. Klink be one of those executives? Do you know who he is?

A. Mr. Klink is an executive, obviously he's our executive for East Ohio.

MR. SERIO: Thank you. That's all I have, your Honor.

EXAMINER FARKAS: Ms. Hammerstein.

MS. HAMMERSTEIN: No further questions,

thank you.

EXAMINER FARKAS: You're excused. Thank you.

(Witness excused.)

MR. KUTIK: Your Honor, at this time we move for the admission of DEO Exhibits 10.0, 10.1, and 11.

EXAMINER FARKAS: Objections?

MR. SERIO: OCC does not object to 10.0 or 10.1, it does object to Exhibit 11.

EXAMINER FARKAS: Let's admit 10.0 and 10.1 at this point.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER FARKAS: Does staff have an objection on the admissions?

MS. HAMMERSTEIN: No objections.

EXAMINER FARKAS: Okay. What's the basis for your objections?

MR. SERIO: My continuing objection over

the fact that it constitutes hearsay and the actual
author of the report wasn't here to answer questions.
I think through cross-examination I was able to
establish that there are numerous sections of the
report that Mr. McNutt did not know the answer to, he

was speculating, he didn't know why the Black & Veatch made certain decisions to include some things and not include others, and I think that that all casts a question on the validity of this report without the authors taking the stand and verifying it and then being able to respond to the questions about those specific areas.

EXAMINER FARKAS: We're going to admit it.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. SERIO: Your Honor, just for clarification, then, if OCC wants to contest it, that would be something you would have us do in briefs, or is this something you want us to do through an interlocutory appeal?

EXAMINER FARKAS: I'm not going to make a recommendation as to how you would object to a ruling that the Bench made.

MR. KUTIK: Your Honor, at this time we

call --

EXAMINER FARKAS: We have OCC exhibits.

MR. KUTIK: I'm sorry. Yes.

MR. SERIO: I'm sorry. Mr. Sauer just
pointed that out to me.

I'd like to move for OCC Exhibits 6, 7, 8, 9, 10, 11, 12, 13, 13A, and 13B.

MR. KUTIK: No objection.

MR. SERIO: And I believe 14.

EXAMINER FARKAS: No objection to 14 either?

MR. KUTIK: 14 was?

MS. HAMMERSTEIN: The response No. 41.

MR. KUTIK: Yes; no objection.

EXAMINER FARKAS: Then those will all be admitted.

MR. SERIO: Thank you, your Honor.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. KUTIK: Your Honor, for the company's next witness we'd call Vicki H. Friscic.

EXAMINER FARKAS: Would you raise your right hand?

(Witness sworn.)

EXAMINER FARKAS: You may be seated.

She's been sworn.

MR. KUTIK: Thank you.

- - -

VICKI H. FRISCIC

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Mr. Kutik:

Q. Please introduce yourself.

A. My name is Vicki Friscic, and I'm an employee of Dominion East Ohio.

Q. Ms. Friscic, do you have before you DEO Exhibits 2.0 and 2.1?

A. Yes, I do.

Q. Could you identify those for us?

A. Exhibit 2.0 is my direct testimony on behalf of Dominion East Ohio in this case, and Exhibit 2.1 is my supplemental direct testimony.

Q. Do you have any additions or corrections to make to either of those exhibits?

A. No, I don't.

Q. If I asked you today the questions that

appear in those exhibits, would your answers be the
same?

A. Yes.

MR. KUTIK: No further questions.

EXAMINER FARKAS: You can proceed with

cross.

MR. SAUER: Thank you, your Honor.

- - -

CROSS-EXAMINATION

By Mr. Sauer:

Q. Good afternoon, Ms. Friscic.

A. Good afternoon.

Q. I wonder if you might turn to page 11 of your direct testimony and in particular your question and answer No. 29.

A. Yes.

Q. And in your answer you state that DEO made an adjustment on Schedule C-3.19 to eliminate costs incurred by the service company for political activities. Do you see that?

A. Yes, I do.

Q. And that adjustment, was that for the exclusion of approximately $45,000?

A. Yes.

Q. And what type of costs were eliminated in
that adjustment?

A. Those are costs which on Dominion East
Ohio's books were classified as lobbying or political
expenditures.

Q. And do you know the nature of the political activities that were involved in this C-3.19 adjustment?

A. No, I don't.

Q. And do you know if the service company has a lobbyist or more than one lobbyist?

A. I don't know the number of lobbyists which the service company has.

Q. But the adjustment in C-3.19 represents DEO's share of that service company lobbying activity?

A. No. That amount represents the total for our test year of a general ledger account on Dominion East Ohio's books titled Lobbying and Political Costs.

Q. Did that C-3.19 adjustment remove all the costs that were in that general ledger account?

A. Yes.

Q. And is it true that DEO maintains an

office in Columbus, Ohio?

A. Yes, it is.

Q. And do you know why DEO maintains that office space in Columbus?

A. Well, that office is used for a couple different purposes. It houses a services company employee named Paul Briggs who is a state government affairs representative, I'm not sure of his exact title, it's something to that effect, and it's also used by Dominion employees such as myself and Mr. Murphy when we come down to Columbus on business.

Q. Do you consider Mr. Briggs to be a lobbyist for DEO?

A. He does that in part, yes.

Q. And do you know how long DEO has maintained that office in Columbus?

A. I do not know how long we've had that office.

Q. Do you know how long Mr. Briggs has utilized that office space in Columbus?

A. I do not know.

Q. Would Mr. Briggs' activities result in charges to that same general ledger account you were referring to earlier?

A. It could.

Q. Under what circumstances would it appear under that general ledger account?

A. Dominion East Ohio maintains its general ledger chart of accounts on what's called a natural account basis where the accounts to which expenses are recorded reflect the nature of the charges or credits to that account, so if Mr. Briggs were to incur an expense which he would code to that account, it would include that expense.

Q. And to the extent he would have coded a charge that resulted in its appearance in that general ledger account, would your C-3.19 adjustment have removed that charge as well?

A. Yes. If Mr. Briggs had coded any of his expenses to that general ledger account, they would have been excluded in the -- or, included in the total which we excluded from test year through that adjustment.

Q. Is Mr. Briggs considered a service company employee?

A. I believe he is.

Q. Would any of the rental expense related to that office located in Columbus be charged through that general ledger account?

A. No.

Q. Is there a reason why any of that rental
expense would not be charged through that general
ledger account?

A. Rental expense would be charged to an account probably titled Rent Expense.

MR. SAUER: May I approach the witness, your Honor?

EXAMINER FARKAS: Yes.

MR. SAUER: I'd like to have a document marked as OCC Exhibit 15.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. The document that was marked as OCC 15 is an interrogatory response from the fourth set of discovery, question No. 185 prepared by Vicki Friscic. Are you the same Vicki Friscic that prepared --

A. Yes.

Q. -- this response?

So you're familiar with this document?

A. I am.

Q. And if you turn to -- well, what is this document that is attached to the discovery response?

A. Attached to the discovery response is a
section of Dominion's 2008 proxy statement.

Q. And if you turn to page 17 of the 2008
proxy statement that was attached hereto, and looking
specifically at the first paragraph under the

Overview on the left-hand column -- do you see that?
A. Yes.
Q. -- it states "Our annual incentive program continues to play a critical role in our compensation practices and our philosophy of aligning the interests of our officers with those of Dominion's shareholders while rewarding performance." Do you see that?
A. I do.
Q. And at the top right "The annual incentive program," it states, "is designed to," under the first bullet, "Tie the interests of shareholders and employees closely together." Do you see that?
A. Yes.
Q. And the second bullet point states "To focus our work force on company, operating group, team and/or individual goals that ultimately influence financial results." Do you see that?

A. Yes.

Q. And to your knowledge is there anywhere in the incentive, the annual incentive program plan where there's an attempt to align the interests of the company employees with the ratepayers?

A. It's the company's view that by aligning the interests of the shareholders and employees together, that that will benefit the ratepayers such as in the way of reduced costs and the like.

Q. And that was -- wouldn't the alignment of employees and ratepayers also benefit shareholders?

A. Yes, but just because there's a benefit to shareholders doesn't mean there is not a benefit to ratepayers.

Q. But is it more of an indirect benefit?

A. Could be a direct benefit.

Q. In what way are you contemplating a direct benefit?

A. Well, reduction of costs would improve earnings which would benefit the shareholders, but a reduction of costs would also affect rates that ratepayers would pay going forward.

Q. A reduction in costs would affect rates if DEO was in for a rate case.

A. Correct.

Q. There's been approximately 14 years since DEO's last rate case, correct?

A. Correct.

Q. And any reduction in costs in those

incremental past 14 years weren't directly benefiting ratepayers at that time, were they?

A. No, not at that time. But from this point forward they will.

Q. If you turn to page 18 of the proxy statement --

MR. KUTIK: I'm sorry, what page again?

MR. SAUER: Page 18.

Q. -- the third paragraph, last sentence in that third paragraph, it states "However, the CGN Committee exercised negative discretion and approved 182 percent funding for the named executive officers, consistent with the funding level approved for all other plan participants." Do you see that?

A. I do see that.

Q. And in your supplemental testimony, page 8, question and answer 23, you refer to 182 percent in there as well. Is that the same 182 percent as the proxy statement was discussing?

A. Yes, it is, however, that relates to the
2007 incentive plan year which was paid to employees
in 2008 and was not part of our test year.

Q. In your answer 23 you said "182 percent
of the normal expected pay outs." What do you mean

by "normal expected pay outs"?

A. Each employee at -- in Dominion including Dominion East Ohio, based on their position, has a targeted payout percentage of their annual salary and there's a payout percentage for the union work force as well, I'm not entirely sure how that is determined, so the normal expected payout would be that targeted percentage times the employees' salary depending on the goals that were met as part of the criteria for the incentive plan payouts.

Q. And if you look at normal expected payout, could you characterize that as being, say a hundred percent and that what has transpired in 2007 plan year, you exceeded that by 82 percent?

A. Correct.

Q. And under the DEO short-term incentive plan how is it that participants are able to exceed the normal expected payouts?

A. Well, there are a variety of criteria built into the annual incentive plan which could contribute to that level of payout.

MR. SAUER: Could we go off the record for just a minute?

EXAMINER FARKAS: Yes.

(Discussion off the record.)

EXAMINER FARKAS: Let's go back on the record.

MR. SAUER: Could I have this marked as OCC Exhibit 16, please?

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SAUER: What I've just had marked as OCC Exhibit 16 is a discovery response received from DEO that was originally marked Confidential and was a response to our third set of discovery, question No. 67, by Vicki Friscic.

MR. KUTIK: Your Honor, at this time I should note that we waive our claim to confidentiality of this document at this time.

EXAMINER FARKAS: Thank you.

Q. (By Mr. Sauer) And are you the same Vicki Friscic who prepared the response to question No. 67?

A. Yes.

Q. And earlier you were speaking to several

factors that are part of DEO's annual incentive plan,
and is this the plan you were speaking to?

A. Yes. This is a description of the 2007
plan, yes.

Q. And if you turn to page 8 of that plan

there are different goals across the top,
Consolidated Financial Goals, Operating Group
Financials, Operating & Stewardship, and Six Sigma.
Do you see those?
A. I do.
Q. Is that the goals you were talking to
that could determine what the funding level would be?
A. Those are goals which would factor into
the amount of the payouts which were made as opposed
to the funding level of the plan.
Q. And for instance for the CEO/CFO category
at the left, 90 percent of their funding level is
determined by the consolidated financial goals; is
that correct?
A. That's correct, for the CEO/CFO of
Dominion Resources.
Q. And Other Officers, for example,
25 percent of their funding level is determined by
achievement of the consolidated financial goals,

50 percent the operating group financials, 15 percent operating and stewardship; is that correct?

A. That's correct.

Q. And if you add up each category of employees under this plan, that would equal

100 percent of their potential funding level if they achieve their goals for --

A. Of the potential payout level, yes.

Q. Of their potential payout.

And if you look at page 19, there's an example of an employee that received a hundred percent funding plus an earnings kicker. Do you see that?

A. Yes, I see that.

Q. And is it the earnings kicker that enables an employee to achieve a payout that exceeds the hundred percent?

A. Provided that the goal weightings enable a hundred percent payout. So there's a distinction between the level of funding that the company provides for the incentive payments and the actual payment calculations.

Q. And can you walk me through the funding of the award then?

A. Yes. The funding of the plan, there are
normally earnings targets for the company, the corporation, Dominion, on which it bases its funding of the plan. Then there are the goals that we looked at on one of those previous pages that has different

weightings for different categories of criteria that are set differently for different business units, different groups within those business units, and by level of employee.

So if in this case, as you can see, it's showing a funding level of 109 percent, 25 percent of the funding below the officer level is guaranteed, 75 percent based on earnings, and in this case, in this example, 9 percent do do earnings exceeding the corporate targets for this purpose.

However, this employee did not get a 100 percent payout because the criteria that applied to that employee did not reach 100 percent, it only added up to 90 percent.

Q. Now, for the 2007 year, I want to go back to that 182 percent.

A. Yes.

Q. Is it the earnings kicker that enabled that payout to exceed up to the -- that 82 percent increment we were talking about earlier?

A. Yes. The earnings on which the 2007 AIP,
which was paid in 2008 and is not part of the test
year, was based on earnings at a level that exceeded
the target.

Q. Okay. And do you know offhand what the payout percentage would have been for the 2006 incentive plan year paid in the test year?
A. That was at 103 percent due to a kicker on the Six Sigma goal.
Q. And the kicker was a 3 percent kicker, is that --
A. Correct.
Q. Okay.
A. I believe it was a 4 percent kicker but calculated in with payout goals ended up being 3 percent that was paid out.
Q. And again, if we can look at your supplemental testimony, again, page 5, there's some questions and answers regarding account 923 - outside services --
A. Yes.
Q. -- beginning with question and answer 14.
Do you see that?

A. I do.

Q. And you're the DEO witness responsible for addressing concerns raised by Blue Ridge in its report regarding the level of costs charged to DEO by Dominion Resources Services, Inc.?

A. Yes, I am.

Q. If I refer to Dominion Resources, Inc. as "DRS," is that all right?

A. That's fine.

Q. And the costs for DRS to DEO are in DEO's test year expense in account 923 - outside services, correct?

A. I'm sorry, could you repeat the question, please?

Q. These costs -- let me take a step back.

And these costs from DRS to DEO are in DEO's test year expenses in account 923.

A. The costs that Blue Ridge looked at were 2007 actual rather than Dominion East Ohio's 2007 test year, but yes, they are in account 923.

Q. And do you agree with the Blue Ridge report where it stated that DEO's test year account 923 expense is $58,709,255, subject to check?

A. Subject to check.

Q. And you also agree that Blue Ridge report
stated that DEO's 2007 actual account 923 expense was
$58,712,560, subject to check?

A. Subject to check, yes.

Q. And that DEO's average actual 923 expense for 2002 through 2006 was 50,424,364, subject to check?

A. I'm sorry, I need to hear that question again, please.

Q. Do you agree that in Blue Ridge's report they had stated that DEO's average actual account 923 expenses for 2002 through 2006 was $50,424,364, subject to check?

MR. KUTIK: Your Honor, just so we can expedite the checking process, if counsel could specify some pages, that would help us. It's a 150-page report if I recall.

MR. SAUER: Yeah.

Q. Under the first question I asked you was in regards to DEO's test year account 923 expenses of $58,709,255 is at the Blue Ridge report page 144.

A. That sounds correct.

Q. The second question I asked you was in regards to DEO's 2007 account 923 expense that was

$58,712,560, that was in the Blue Ridge report at page 145.

A. Subject to check, yes.

Q. And that the average actual account 923 expense for 2002 through 2006 being 50,424,364 was at the Blue Ridge report page 150.

A. Subject to check, yes.

Q. On pages 5 and 6 of your testimony you explain that Blue Ridge identified four service categories of cost from DRS that showed noticeable increases and one of those categories is executive/administrative compensation charges for which you say the test year expense for that category is $8,084,079; is that correct?

EXAMINER FARKAS: Is that in her testimony or supplemental?

MR. SAUER: Page 6, line 8 of the supplemental testimony.

MR. KUTIK: Page 6, line 8?

A. I'm not seeing that on page 6, line 8.

Q. Page 7.

MR. SAUER: I'm sorry, your Honor.

Q. Page 7, line 8.

A. Could you repeat the question, please?

Q. In your testimony you explain that the Blue Ridge identified four service categories of costs from DRS that showed noticeable increases and one of those categories was executive/administrative compensation which incurred charges in the test year of $8,084,079.

A. Yes.

Q. So of the 58.7 million in account 923 in the test year, approximately 8.1 million is DRS executive/administrative compensation; is that correct?

A. Correct.

Q. If you could turn to page 12 of your direct testimony, question and answer 34 discusses a C-3.25 adjustment.

A. Yes.

Q. Subject to check, does that adjustment, was that an adjustment of an expense amount of $4,873,246?

A. Subject to check, yes.

Q. And is that 4.8 million in the annual incentive plan expense related to the 8.1 million in DRS executive/administrative compensation in the test year account 923?

A. No. The 4.8 million represents actual
payouts to Dominion East Ohio employees for the 2006
plan year paid in February of 2007.

Q. Also on page 7 in your supplemental
testimony at line 10, it says "prior to 2006," it

says "Dominion"; do you see that?

A. Yes, I do.

Q. Do you mean DRS or DEO?

A. DRS.

Q. And you talk about in that same location discretionary awards. Can you explain what you mean by "discretionary"?

A. Yes, I can. What we're talking about here is the comments made by Blue Ridge for account 923 which is Outside Services Employed. That's where the corporate charges from DRS to DEO come into play.

So Blue Ridge questioned the increase from 2006 to the 2007 actual amounts of executive/administrative compensation and this is an explanation for a portion of that increase.

So the discretionary awards were to executives. Prior to 2006 they were paid in restricted stock. In 2006 a new plan was implemented where they paid the executives long-term incentives in the form of 50 percent restricted stock and 50 percent performance grants which could be in either cash or stock.

Q. And when you say a new long-term incentive plan, that's new beginning in 2006?

A. Correct.

Q. Beginning at line 13, "The value of the long-term incentives is expensed pro rata over a three-year vesting period for the restricted stock." Do you see that?

A. Yes.

Q. What do you mean by "value"?

A. Well, for the restricted stock they're making the stock grants at a point in time and so it's valued at that point in time based on the price of Dominion's stock. That entire value is not expensed on the books right away, it's spread over the period -- the three-year period during which the executive's right to that stock vests. And over that time the changes in the value of the stock itself would be factored into the expense as it's spread over that three-year period.

Q. How was the value of the long-term incentives determined in 2006?

A. As I said, the long-term incentive plan
includes restricted stock and performance-based
awards which are primarily cash awards to the
executives. So the value of the stock portion would
depend on the value of the Dominion stock at the time

and over the period of vesting.

Q. Do you know how it was valued in the test year?

A. What is included in the test year is -- well, the test year includes the three months of actual, January through March 2007, and then planned amounts for executive compensation for the remainder of the year.

Q. Do you know what the total value of that was in the test year?

A. Not off the top of my head.

Q. What period of executives' performance was tied to the award?

A. If you're talking about the performance-based grants, that is based on company performance over a 24-month period.

Q. So in 2006 it was a 24-month period prior to --

A. For example, the executive grants are normally made on April 1st of the year, so for 2006 they granted the executives restricted stock and performance-based cash or stock awards on April 1st. For the performance portion of the grant the value would be determined based on company performance from January 1 of 2006 through December 31 of 2007, and there would be targets, performance criteria that would be used to determine what the value of the ultimate payout would be.

Q. How was the company's performance measured?

A. I don't know the answer to that.

Q. Was it strictly based on earnings, or were there other criteria involved?

A. I don't recall.

Q. In 2006 what would have been the three years of the three-year vesting period for restricted stock?

A. It would be three years from April 1st of the year in which the restricted stock is granted.

Q. The last sentence of your answer 20, it says "Accordingly, 2006 included long-term incentive expense for April through December 2006, and 2007 included a full year of expense for the awards granted in 2006 and nine months of expense for the awards granted in 2007." Do you see that?

A.   Yes, I do.

Q.   Is that because the awards granted in

2006 were not fully expensed in 2006?

A. Yes. And because of the April 1st grant take.

Q. And in addition to prorating the expenses of awards granted in 2006, in 2007 is there also included expensing of awards granted in 2007?

A. Yes.

Q. Why is there only nine months of expense in 2007 for the awards granted in 2007?

A. Because a grant is made on April 1st of 2007 so you would have April 1st through December 31st of 2007 related to that.

Q. Do you know offhand what that expense is in 2007?

A. Not off the top of my head.

Q. How do you know that this level of expense is reflective of the ongoing compensation?

A. Well, as I already mentioned, the plan for executives with regard to long-term incentives was changed in 2006 and that resulted in an increase in the expense charged from DRS to DEO for executive compensation related to that plan. That plan is in place now and is reflective of ongoing expense.

Q. The Blue Ridge report at page 148 states the reason for the approximately $10 million increase in short-term incentive plan expense is that it was based on 2007 earnings. Do you agree with that?

A. Yes. Again though, the Blue Ridge report compared 2007 actual numbers to 2006. That AIP increase was recognized on the books in late-2007 and, therefore, would not have been included in our test year as it was not planned at that 182 percent level.

Q. Subject to check would you agree that DEO's test year DRS executive/administrative compensation, that $8,084,079 figure, is $2,303,611 greater than DEO's actual 2000 expense?

MR. KUTIK: 2000 did you say?

MR. SAUER: 2006 expense.

A. I'm sorry. Would you repeat that, please?

Q. Certainly. Subject to check would you agree that the executive/administrative compensation number, that 8,084,079 figure we talked about earlier, is $2,303,611 greater than DEO's actual 2006 expense?

A. Subject to check, yes. In dollars it's greater. DEO did not receive a greater portion,

however, in 2007 of allocations from corporate for
executive/administrative compensation.

Q. You're saying that 2.3 million increase
was a result of DRS allocations, an increase in DRS
allocations?

A. No. I'm saying that while that expense
category increased, the overall allocations as a
percent of total corporate charges did not increase
in 2007 and that's allocations to DEO from DRS for
executive/administrative compensation.

MS. HAMMERSTEIN: Your Honor, could I
have the last response read?

EXAMINER FARKAS: Yes.

(Record read.)

A. I have a correction to that statement.
DEO's allocated portion of executive/administrative
compensation in 2007 was not greater than the
allocation of that expense category for 2006. So we
were not allocated a greater portion of

executive/administrative compensation in 2007.

Q. So you're saying it was greater in dollars but not greater in proportion.

A. Percentage proportion, correct.

MR. KUTIK: May I have the question and

answer read, please?

(Record read.)

Q. If you recall, I think Blue Ridge identified five reasons for the increase in executive/administrative compensation in 2007.

MR. KUTIK: Your Honor, I guess I had no problem when it was maybe one or two or three questions on the Blue Ridge report. If we're going to have continued questions on the Blue Ridge report, I ask the witness be shown the Blue Ridge report so that she can refer to it.

EXAMINER FARKAS: Okay. Why don't we take a short recess, our computer is down again, and she can look at the report if she chooses.

(Recess taken.)

EXAMINER FARKAS: Let's go back on the record. You can continue, Mr. Sauer.

MR. SAUER: Thank you, your Honor.

Q. It's my understanding that during the break Ms. Friscic was provided a copy of the Blue Ridge report.

A. I was.

Q. And if you could turn to page 148. At the very top of that page there's a discussion of

Blue Ridge's analysis of the reasons for the increase in 2007 compared to 2006. Do you see that?

A. Yes.

Q. I believe in your testimony you've stated that two of the reasons in particular aren't applicable to this analysis, one being the increase in short-term incentive plan expense; is that correct?

A. Correct.

Q. One being the increase in executive pension settlements?

A. I think that that isn't exactly what I'm saying in my testimony. I'm explaining in my testimony each of these items, these items are increases between actual costs in 2007 and 2006, but I do comment on whether each of them is or is not in our test year, considered in our test year.

Q. Well, whether or not they're in the test year, they still may or may not be an explanation for

the difference in actual expense 2007 over 2006,
correct?

A. Correct.

Q. And would you -- with that understanding
does that change your position on the increase in

short-term incentive plan expense?

A. What position are you referring to?

Q. The fact that regardless of whether it's in a test year, it still may or may not be an explanation for an increase in the actual expenditures compared to 2007 to 2006.

MR. KUTIK: I'm sorry, I don't know what the "it" is in the question.

EXAMINER FARKAS: Could you clarify that?

Q. "It" is the impact on the comparison of 2007 to 2006 actual expenses. So for example, they've listed five -- Blue Ridge has listed five reasons for that difference between the two years, correct?

A. Correct. And so with regard to the long-term incentive for plan expense, while the amount's shown at the top of page 148 are the increase between 2006 and 2007, because the new plan was introduced in 2006, it was included in planned numbers for 2007 and would have been in that way included in test year amounts for corporate charges with regard to executive/administrative compensation.

As opposed to the short-term incentive plan expense which the primary reason for that

$10.6 million increase is the level of earnings on which 2007 annual incentive plan expense was accrued. That expense was planned at the 100 percent level and, therefore, that's the level that would have been included in amounts in our test year versus the increase in AIP attributable to the 182 percent funding which would have been recognized as actual expense late in 2007 and would not be in our test year.

With regard to executive pension settlements, that represented pension settlements for three executives who retired in 2007. Nothing was planned for executive/administrative compensation for executive retirement for 2007 so that would not be in our test year.

Consulting expense, the increase from 2006 to 2007 is 700,000, 464,000 was included in the plan and would have been included in the test year for that.

And even though that's an increase over 2006, that's reflective of ongoing expense for the consultants because there were changes to rules by the Securities & Exchange Commission in mid-2006 related to the disclosure of information on executive compensation provided to investors and, therefore, the Compensation Governance and Nominating Committee that determines executive compensation expanded the role of its outside consultant to ensure compliance with those new SEC rules and, therefore, the level of expense that was planned for 2007 and/or incurred for 2007 is reflective of ongoing expense.

Q. So if I understood your testimony just then, the long-term incentive plan and increase in restricted stock amortization expense are responsible for the test year 2007 increase over 2006.

A. I'm sorry, I couldn't hear the question.

MR. SAUER: Could you reread it?

(Record read.)

A. Well, they contribute to that increase, yes.

Q. Could you turn to your supplemental testimony page 3, question and answer -- I'm sorry, page 4, question and answer 10.

EXAMINER FARKAS: Question and answer
which?

MR. SAUER: Ten.

EXAMINER FARKAS: Ten. Thank you.

Q. And in that answer 10 you're discussing rate case expense and the last sentence states "Because it is more likely that DEO will file another rate case in three years rather than five years, a three-year amortization period should be allowed." Do you see that?

A. Yes, I do.

Q. What is the basis for that statement?

A. Well, the company, although we've not had a rate case in 14 years now, with the earnings impacted by conservation and the like we believe that we may be required, based on our revenue requirements, to come in more frequently in the future for a rate case.

Q. Have you performed any analysis on DEO's prospective need for future rate relief?

A. I have not.

MR. SAUER: May I approach the witness, your Honor?

EXAMINER FARKAS: Yes.

MR. SAUER: This should be marked as OCC Exhibit 17.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. What was marked as OCC Exhibit 17 is a

PIR interrogatory set No. 2, question No. 77. Are you familiar with this document?

A. Mr. Sauer, I can't hear what you're saying.

Q. I just asked if you were familiar with this document.

A. I recognize it as a response to a discovery request.

Q. And the question as put to the company was whether or not -- if they had identified the number of rate cases the company plans to file in the next 25 years if the PIR program is approved, and do you see the company's response?

A. Yes, I see the company's response.

Q. The company has not performed any calculations; is that correct?

A. That is correct. However, another factor in determining that our rate case expense ought to be recovered over three years is that there is one other item in the rate case that is going to be amortized over three years, it's what the company proposed and it's what staff supported, and that is the overrecovery of FERC order 636 transition costs. And if that is recovered over three years, it makes sense to us that the rate case expense should be as well.

Q. Could you turn to page 2 of your supplemental testimony, question and answer 6. In that answer 6 there's some discussion of work force reductions in 1995. Do you see that?

A. Yes, I do.

Q. Were you present for Mr. Ives' testimony today?

A. Yes.

Q. And are the work force reductions that you're discussing here, are those the same work force reductions he was discussing when he was talking about the company employee levels going from 2,100, approximately in this time frame, down to 1,000-plus employees?

A. I'm not recalling that specific testimony of Mr. Ives. And I don't know how it relates necessarily to this explanation.

Q. Are the work force reductions that you're

talking about here, did these all take place
subsequent to the company's previous rate case?

A. Yes, they did.

MR. SAUER: Could I have the question and
answer reread?

(Record read.)

MR. SAUER: We have no further questions.

EXAMINER FARKAS: Okay. Mr. Rinebolt.

MR. RINEBOLT: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Rinebolt:

Q. Mr. Sauer just -- good afternoon.

A. Good afternoon.

Q. Mr. Sauer just asked you about your statement in your supplemental testimony that it would be more likely that Dominion would file another rate case in three years than in five years, and did I understand your answer correctly that you are concerned about the impact of conservation and the reduction in sales and that's why you think you may be coming back in?

A. Well, what I'm saying is that the company is going to be monitoring its revenue requirements and we'll make determinations as we go as to when the appropriate time to come in is; however, we did think that perhaps it may be in three years more likely than it would be in five years.

Q. Do you think it could extend beyond five years?

A. I don't know.

Q. Okay. Now, you are familiar with the Staff Report and its promotion of a straight fixed variable rate design?

A. Yes.

Q. Now, is it your understanding that a straight fixed variable rate design provides the company with some surety that their revenue requirement will be collected?

MR. KUTIK: Objection, your Honor, beyond the scope of direct. This witness is not here to testify about SFV and what it may or may not do.

MR. RINEBOLT: Your Honor, with all due respect, the testimony indicates that they're going to come in within three to five years because of revenue erosion. They did not request a straight fixed variable rate. I'm merely trying to inquire if the adoption of a straight fixed variable rate makes it more likely that they need not come in.

MR. KUTIK: Well, that may be a question that's valid to be raised as part of this case, but not to this witness.

EXAMINER FARKAS: If she knows, I'll let

her answer.

A. I do not know.

Q. Was the decoupling rider that was included in the company's filing designed to stabilize revenue recovery?

MR. KUTIK: Same objection.

EXAMINER FARKAS: I'll allow her to answer if she knows.

A. Yes, it was.

MR. RINEBOLT: That's all the questions I have.

EXAMINER FARKAS: Ms. Hammerstein.

MS. HAMMERSTEIN: No questions, your Honor.

EXAMINER FARKAS: Any redirect?

MR. KUTIK: Yes, your Honor.

EXAMINER FARKAS: Okay.

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REDIRECT EXAMINATION

By Mr. Kutik:

Q. Ms. Friscic, let me refer you back to OCC Exhibit 15, marked for identification, and specifically page 18 of the Dominion 2008 proxy statement. Mr. Sauer read you a paragraph, particularly I guess in the third paragraph down from the top and the second sentence which refers to named executive officers. Do you see that?

A. Yes, I do.

Q. Does that reference any officers of Dominion East Ohio?

A. Dominion East Ohio's annual incentive plan expense for the test year did not include any executives.

Q. Now, Mr. Sauer also asked you some questions about the excess of the payouts of the incentive plans over the planned amount. Were any of that excess over the planned amount part of test year?

A. No. The excess payout was recognized as expense in late-2007 once the company knew what earnings would be. It was not planned. Annual incentive plan expense was budgeted at the 100 percent level and, therefore, the increase was not included in the test year.

Q. Let me now have you refer to what's been marked for identification as OCC Exhibit 16, and specifically please refer to page 8. This sets out for different levels of employees within the company how their potential incentive compensation can be awarded, correct?

A. Correct.

Q. And as one gets higher in the organization, the compensation's based more on earnings than on other factors, correct?

A. Correct.

Q. Now, have you done any analysis of different levels of employees that are described on this chart and the types of or the amounts of payouts made?

A. Yes. Based on information I was able to obtain from our compensation services or Dominion's compensation services department, as I said, there were no officers included in the annual incentive plan expense on Dominion East Ohio's books so there were directors and managers and employees below that.

Of the payouts in 2007 for the 2006 plan there were 1,438 employees paid of which 37 of them were directors and managers and 1,401 were employees below that level.

As you can see, the employees below that level have 65 percent of their payouts based on operating and stewardship goals which are not financial goals. And in addition, of the dollars paid of the approximately $4.8 million included in Dominion East Ohio's test year, 800,000 was for the group of directors and managers and approximately 4 million was for the employees below that level whose nonfinancial goals or operating and stewardship goals are 65 percent. So the majority of the payout was nonfinancial.

Q. Mr. Sauer talked with you about the 2006 payout being 103 percent of the plan.

A. Yes.

Q. And you said that 3 percent, that is the extra percent over 100 percent, was based upon Six Sigma?

A. Yes. That 3 percent --

Q. First, can you explain to the attorney-examiners what Six Sigma is?

A. Yes. Six Sigma is a business methodology that focuses on process improvements using

statistical analysis and it's on an ongoing program
of process improvement.

Q. And the 3 percent related to the Six
Sigma goals?

A. Yes. The 3 percent related to exceeding

Six Sigma goals set out for the Six Sigma programs in place at Dominion.

Q. Ms. Friscic, to the extent that any of the incentive compensation is based upon the company meeting certain earnings criteria, is that a reason, in your view, to exclude it from test year expenses?

A. No. We don't believe it should be excluded from test year expenses because Dominion uses the annual incentive plan as a key component of its overall compensation program which includes salaries and the annual incentive plan compensation.

Dominion obtains market data as to salary levels and uses that to ensure that between the salaries and the annual incentive plan payments, that Dominion's compensation to its employees are competitive with other companies in the market for which they might be competing for qualified employees.

MR. KUTIK: Your Honor, if I may approach the witness, and I'll have to pass around a document, I only have one copy with me.

EXAMINER FARKAS: Okay.

Q. Ms. Friscic, let me show you, I'm not going to mark this as an exhibit, we'll put it in later, a page identified as Schedule G-1.

A. Yes.

Q. Have you seen that before?

A. I have.

Q. And could you read the note on Schedule G-1, please?

A. The notes state that "DEO projects that with the alternative rate plan approved it will file for rate relief by 2010 for rates to be effective by 2011. As a result, the term of the proposed plan reflected in this schedule is assumed to be the period of 2008 to 2010. The above information is presented at proposed rates and generally uses data consistent with the rate setting process such as interest charges are based on jurisdictional rate base items times weighted average cost of debt."

Q. Thank you.

MR. KUTIK: No further questions.

EXAMINER FARKAS: Mr. Sauer?

MR. SAUER: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Sauer:

Q. Ms. Friscic, if you look at page 8 of what was marked OCC Exhibit 16 --

A. Which document was that?

Q. That was the 2007 annual incentive plan.

MR. KUTIK: Request for production 67.

A. Okay. Which page?

Q. Page 8.

A. Okay.

Q. Do you recall that you were just asked a series of questions about the chart that's at the top of the page regarding payout by various participants within the plan?

A. Yes.

Q. And do you have -- I believe you said that in 2007 test year zero dollars related to the CEO/CFO incentive plan; is that correct?

A. Well, I said that the annual incentive plan expense for Dominion East Ohio did not include any of the CEO/CFO compensation.

Q. And did it include expense for

compensation related to other officers?

A. Again, the annual incentive plan expense in Dominion East Ohio's test year did not include officers.

Q. And I believe you said that $800,000 of the expense was related to directors and managers; is that correct?

A. Correct.

Q. And do you know how much of that 800,000 was a result of accomplishing the goals under the operating group financials?

A. Well, in accordance with this schedule directors and managers have 50 percent of their payout related to operating group financials and 40 percent on operating and stewardship, but that's $800,000 total payout to directors and managers versus 4 million to all other employees.

Q. Yes, but my question is do you know how much of the 800,000 that was paid out was a result of the participants within that particular group, directors and managers, was because they had achieved operating group financial goals?

A. I don't know that dollar amount.

Q. You also said I believe $4 million was a result of payout to the All Others category.

A. Yes.

Q. Do you know how much of that $4 million payout was a result of those participants achieving their goals under the operating group financial category?

A. Not off the top of my head.

Q. But it's not just 25 percent of the 4 million, is it?

A. I'm sorry, would you ask that question again?

Q. You can't arrive at an answer to that by multiplying 25 percent times the $4 million number.

A. No, that would be too simplistic.

Q. Because it's possible that they achieved none of the goals under the operating and stewardship and achieved all their goals under the operating group financials, correct?

A. If they achieved none of their operating and stewardship goals, there wouldn't have been a payout of 103 percent.

Q. So they had to have achieved something under the operating and stewardship goals.

A. Yes.

Q. Is there a minimum level of achievement they would have had to have met?

A. You'd have to run through calculations to determine that.

Q. And you said that 3 percent earnings

kicker was because of accomplishing Six Sigma goals; is that correct?

A. Correct.

Q. Now, are the Six Sigma goals determined by 50 percent earnings and 50 percent other criteria?

A. I don't think so. I think for directors and managers the Six Sigma goals -- no. No. No. What I was about to say doesn't apply.

No, I don't know the breakdown of the Six Sigma weighting.

Q. And do you recall that you were asked some questions regarding the Schedule G-1?

A. Yes.

Q. Pertaining to the notes did DEO perform any analysis to determine that it would be seeking rate relief by 2010?

A. Based on what the note says DEO projects that it will file for rate relief by 2010 with the alternate rate plan if that is approved.

Q. And the alternative rate plan would
include the pipeline infrastructure replacement
program?

A. The alternate rate plan I believe refers
to the decoupling mechanism proposed by Dominion East

Ohio.

Q. So whether or not the PIR is approved wasn't contemplated under the note on Schedule G-1.

A. Correct. Schedule G-1 is among our original filing schedules which were filed in August of 2007. The pipeline infrastructure replacement program application was filed in February 2008, so it was not contemplated at that time.

Q. So looking back at OCC Exhibit No. 17 which Mr. Murphy [sic] was asked about, in the event the PIR was approved, what would the anticipated rate relief needs be over the next 25 years, is that -- does that response make it more likely to you that there would be rate relief required by 2010 or less likely?

A. Could you rephrase the question, please?

Q. In the event that PIR is approved, do you believe it's more likely or less likely that rate relief will be necessary by 2010?

A. I have not looked at anything that would
enable me to determine what rate relief might be
needed with the PIR program if that were approved.

MR. SAUER: I have no further questions.

EXAMINER FARKAS: Mr. Rinebolt.

MR. RINEBOLT: No questions, your Honor.

EXAMINER FARKAS: Ms. Hammerstein.

MS. HAMMERSTEIN: No questions, your Honor.

MR. KUTIK: Your Honor, at this time we move for the admission of DEO Exhibit 2.0 and 2.1.

EXAMINER FARKAS: Is there any objection to these exhibits?

MR. SAUER: No objection.

MS. HAMMERSTEIN: No objection.

EXAMINER FARKAS: Then they will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. SAUER: OCC will move for the admission of OCC Exhibits 15, 16, and 17.

EXAMINER FARKAS: Any objection?

MR. KUTIK: No.

EXAMINER FARKAS: No objection?

MS. HAMMERSTEIN: No objection.

EXAMINER FARKAS: They'll be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. KUTIK: Your Honor, at this time I believe that we are ready to address the Bench's questions about certain exhibits that were attached to Mr. Roycroft's testimony. We can handle that now or we can handle that at whatever time you see fit. And we can handle it on or off the record, whichever you prefer.

EXAMINER FARKAS: Why don't we go off the record.

(Discussion off the record.)

EXAMINER FARKAS: Let's go back on the record. Okay.

MR. CAMPBELL: Your Honors, there's really two issues, one -- two issues that you raised, one is what precisely in a particular exhibit should be redacted, and we prepared a document that shows the precise information that we're suggesting should be kept confidential and seeking treatment that way.

The other issue is this document which is confidential was produced as an attachment to Mr. Roycroft's testimony so we need to determine the appropriate treatment for that, whether we need to

have that withdrawn and resubmitted or whether we can
redact what's been submitted.

EXAMINER PIRIK: Mr. Campbell, our
questions really have to do with the fact that
Mr. Roycroft's testimony has already been filed and

you can't pull something out of the docket once it's already there. It's there in the open docket. I mean, we can consider what motions you have and we can take that back and we can discuss it, but that was the difficulty, that it's already part of his filed testimony in the open docket.

MR. CAMPBELL: I understand. We would, I think our approach would be to move for protection of what's been filed at this time, it was inadvertent disclosure of the information, so . . .

EXAMINER PIRIK: And then would it only be with regard to those certain pages that were designated, not the whole thing as was inferred in one of the documents?

MR. CAMPBELL: That's correct.

EXAMINER PIRIK: Okay.

MR. CAMPBELL: This was indicated during Ms. Friscic's testimony, but we're waiving the claim about the AIP documents which I think you had asked about. Regarding this document which relates to the AMR, the AMR business case, if you go through that document, there are a number of pages where the redactions are indicated. They're not complete redactions. Basically, two types of information is confidential, one is internal cost of capital figures, the other has to do with potential impacts on employee numbers.

MS. HAMMERSTEIN: What was the second category? I'm sorry.

MR. CAMPBELL: The second category are projected impacts on employee numbers of the AMR program which could be sensitive in negotiations, just other issues with employees.

EXAMINER FARKAS: Has this been publicly docketed also?

MR. CAMPBELL: This was Attachment 10 to Mr. Roycroft's testimony.

EXAMINER FARKAS: I'm sorry. Yeah, it is.

EXAMINER PIRIK: Just so I know, because Examiner Farkas and I will have to take this back because, like I said, we don't have Mr. Roycroft or the Armstrong, we don't have anything else in front of us.

MR. CAMPBELL: Sure.

EXAMINER PIRIK: So this document that you're sharing with us now is what your proposed redaction would be and so you've gone through the document and you've refined it --

MR. CAMPBELL: Exactly.

EXAMINER PIRIK: -- to this request.

MR. CAMPBELL: Right. That's correct. This is what the -- the information that's been redacted is what we're requesting confidential treatment of and only that information.

And we've shared this with OCC; I believe they have no objection to it.

MR. SERIO: No. No. I just wanted to clarify, there's nothing in the actual text of the testimony that's a problem, correct? This is just the exhibits.

MR. CAMPBELL: Yeah; I don't believe so.

MR. SERIO: I didn't think so either.

EXAMINER PIRIK: So what you're saying with regard to page TI, I mean that was in Roycroft's testimony, that was asked, which is just the title of the document, which, are you withdrawing that request?

MR. CAMPBELL: Yeah, any request that pertained to information that's not redacted here we would withdraw.

EXAMINER PIRIK: Okay. Well --

EXAMINER FARKAS: The only thing I was going to say, what's the argument for making something that's already been publicly filed now confidential? What's the basis for that?

MR. CAMPBELL: Well, the basis is it was an inadvertent disclosure, I agree if this information was kept public intentionally, I don't think we'd have much of an argument for keeping it confidential. This was an inadvertent disclosure. It's still sensitive information. It wasn't intentionally put into the public record. So that would be our response to that.

And this was not a document that we filed, and we did assert confidentiality of it. If you look at the first page of Attachment 10, it is a document that was labeled Confidential Document. So it was just an inadvertent disclosure on another party's part.

EXAMINER PIRIK: I think what we -- well, what we will do is we will go back and since we will have the morning tomorrow we will compare the documents, actually look at the figures that you've marked in this actually unmarked document, so the record isn't going to be clear on that, but we will clarify that when we actually rule on the motion. We will go back and we will look. We are still going to be looking for further explanation of the actual figures in here. We don't need to do that right now because we're not actually ruling on the motion. But I think you've clarified exactly what your request is.

Let us understand also what you meant was you're withdrawing -- there was an original request for protection of certain portions of Hines testimony and Tanner testimony, you are withdrawing that motion.

MR. CAMPBELL: That's correct, your Honor.

EXAMINER PIRIK: So now we are only dealing with Roycroft and the Armstrong deposition, potentially.

MR. CAMPBELL: That's correct, and I believe it's the same document.

EXAMINER PIRIK: It's the same document.

MR. SERIO: Just so I'm clear, there is now nothing in Mr. Hines' or Ms. Tanner's testimony that's remaining confidential.

MR. CAMPBELL: That is correct.

MR. SERIO: Would the Bench like us to withdraw one of the two then, since they're identical, or how would you prefer we handle the fact that there's a public and a confidential piece and now the confidential piece is no longer confidential but that's the only one that's complete?

EXAMINER PIRIK: I believe you will need to re -- you will need to file the open, the one that was filed redacted in the open record with an explanation that based upon the record today it is no longer considered confidential.

MR. SERIO: Do we need to file the entire document or just the pages?

EXAMINER PIRIK: You can just file the pages because then when you actually bring it to the court reporter in here, you will actually give us the document. But the docket card --

MR. SERIO: Yes.

EXAMINER PIRIK: -- needs to be clear.

MR. SERIO: Yes, we have no problem doing that.

EXAMINER PIRIK: I think it's sufficient just to file the pages that were initially redacted so you don't have to make all of the numerous copies.

MR. SERIO: And then for the court reporter, as long as we bring what was originally a confidential version that's now open, that one copy in and of itself will be sufficient.

EXAMINER PIRIK: Yes, when they're presented as a witness.

MR. SERIO: Okay. Thank you.

EXAMINER PIRIK: Yeah.

MR. CAMPBELL: Just so I'm clear, I want to make sure, are you going to expect a little more explanation of why the figures are confidential?

EXAMINER PIRIK: Right.

MR. CAMPBELL: Just to make sure.

EXAMINER PIRIK: That's what I think we're going to need further, I mean I don't think it's a good idea for us to go through them today since we haven't had a chance to look at this document. You gave us enough of an explanation that we'll be able to go back and really focus on what your request is.

MR. CAMPBELL: Okay.

EXAMINER PIRIK: I think it's sufficient for today, but we may ask for additional information.

MR. CAMPBELL: Appreciate that. That's

all we have on this, your Honor.

EXAMINER FARKAS: Is there anything else?

MR. SERIO: Not that I'm aware of, your Honor.

MS. HAMMERSTEIN: No, actually, there is. Off the record.

EXAMINER FARKAS: Well, we'll -- do you want to go off the record?

MS. HAMMERSTEIN: Off the record.

EXAMINER FARKAS: We'll stand in recess until 1 o'clock tomorrow.

(Thereupon, the hearing was adjourned at 4:47 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Wednesday, August 6, 2008, and carefully compared with my original stenographic notes.

____
Maria DiPaolo Jones, Registered
Diplomate Reporter and CRR and
Notary Public in and for the
State of Ohio.

My commission expires June 19, 2011.

(MDJ-3230)

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