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 IV - 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 10:00 a.m. on Monday, August 25,
2008.

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Monday Morning Session,

August 25, 2008.

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EXAMINER FARKAS: Let's go back on the record. This is a continuation of the matter of the application of Dominion East Ohio in the case 07-829-GA-AIR, et al. Okay.

MR. SERIO: Thank you, your Honor. OCC got the testimony of Mr. Murphy, the fourth supplemental direct testimony, and the second supplemental testimony of Mr. Puican earlier this morning. We've had about an hour to review those two pieces of testimony and it appears from reading Mr. Murphy's testimony that his support of the stipulation under the three-prong test seems to be limited to the part of the stipulation that all the parties signed which is everything other than the rate design.

As I'm reading it, it appears that

section 3 of Mr. Murphy's testimony, Joint Exhibit 1-A to the stipulation, is the part of this testimony that addresses the rate design piece, and I don't see him going through the three-prong criteria there.

With Mr. Puican's testimony, on page 2 of his testimony he's indicated "The Stipulation represents a comprehensive compromise of the issues raised by the parties with diverse interests. All parties signed the Stipulation and adopted it as a reasonable resolution of all issues except the single rate design issue."

So he then lists benefits on question 9 and I don't see any of those benefits addressing the rate design.

So, again, I'm making the assumption that when he's talking about the three-prong test, he's only talking about the part of the stipulation that everybody signed. However, on page 4 of the testimony it says "Does the Stip violate any important regulatory principles?"

I guess to the extent that either pieces of testimony are applying the three-prong test to the rate design component, then -- and the parties that signed that rate design settlement are going to make that argument, then we would request that each of the parties that signed the rate design portion of the stipulation be required to put a witness on the stand including the Gas Association.

However, if the three-prong review of

Mr. Murphy and Mr. Puican are limited to only the stipulation that all the parties signed, then we would not ask that the Gas Association put a witness on.

So I guess not knowing with certainty unless we can get that clarified, that's the dilemma that we face with whether we would make an argument that the Gas Association has to put a witness on the stand supporting the stip.

MR. KUTIK: Your Honor, we would direct your attention to Joint Exhibit 1, the stipulation, particularly paragraph 3B on page 4. Does the Bench have that?

EXAMINER PIRIK: Yes, but the record doesn't have it yet.

EXAMINER FARKAS: It's not entered as an exhibit.

EXAMINER PIRIK: But it will be.

MR. KUTIK: It will be introduced with

Mr. Murphy. But do you have that before you?

EXAMINER FARKAS: Yeah.

MR. KUTIK: Okay. It says "The . . .
Parties expressly agree that the rate design issue
characterized as a fixed versus volumetric cost issue

and/or a sales coupling rider versus straight fixed variable issue is not resolved through this Stipulation, and will be decided by the Commission after the issue is fully litigated through an evidentiary hearing, and without any Signatory Party's reliance upon the settlement review criteria for the resolution of this issue."

Given that we agreed to that specific language, at least on behalf of the company, we felt compelled to put on independent testimony apart from the three-prong test that the Commission uses, and so I think the answer to Mr. Serio's question is we do not rely, as we agreed that we would not, on the three-prong test to look at stipulations.

EXAMINER FARKAS: Okay.

MR. SERIO: And I assume the company's speaking on behalf of Mr. Murphy's testimony. As long as we have the same understanding from staff, then I don't think that there's any requirement for

us to make the argument regarding the Gas
Association.
We just wanted to avoid a situation where
it was not clear and we didn't want to face a
potential situation on briefing where we're arguing

the three-prong criteria on the rate design issue when we weren't aware of it when we had the opportunity to conduct cross-examination.

EXAMINER FARKAS: Okay.

MS. HAMMERSTEIN: Staff would make that same representation. That's what we agreed to in the stipulation.

EXAMINER FARKAS: Thank you.

MR. SERIO: Thank you, your Honor.

EXAMINER FARKAS: So you're okay then?

MR. SERIO: With that understanding, then we would -- at this point we would not make any request that the Gas Association be required to put a witness on the stand because the three-prong test is not applying to the rate design portion of this proceeding.

EXAMINER FARKAS: Okay. Are you ready to go forward, then?

MR. KUTIK: Yes, we are, your Honor. As

our final witness the company calls Jeffrey A. Murphy.

(Witness sworn.)

EXAMINER FARKAS: You may be seated. One second.

You may proceed.

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JEFFREY A. MURPHY

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

DIRECT EXAMINATION

By Mr. Kutik:

Q. Could you introduce yourself, please?

A. My name is Jeffrey --

EXAMINER FARKAS: If you could turn your mic. on. The switch is on the bottom of the microphone.

EXAMINER PIRIK: On the back.

A. My name is Jeffrey A. Murphy. I'm the Director of Rates and Gas Supply for Dominion East Ohio.

Q. Mr. Murphy, do you have before you DEO Exhibits 1.0, 1.1, 1.2, 1.3, and 1.4?

A. Yes, I do.

Q. And could you identify each of those for
us, please?

A. Exhibit 1.0 is my direct testimony filed
in this proceeding. Exhibit 1.1 is my supplemental
direct testimony. Exhibit 1.2 is my second

supplemental direct testimony. Exhibit 1.3 is my third supplemental direct testimony. And Exhibit 1.4 is my fourth supplemental testimony.

Q. Do you also have before you DEO Exhibit 12.0?

A. No, I do not.

Q. Let me hand you that exhibit.

Could you identify that, please?

A. Yes, sir. This is a listing of various items that have been filed in this case. So as to preclude the need to file these documents as part of our exhibits separately we have just listed them here for convenience purposes.

MR. KUTIK: And as the Bench may recall, I think the parties agreed that in lieu of filing these specific documents, that we would just refer to them and incorporate those documents by reference here.

EXAMINER FARKAS: Yes.

Q. Do you also have before you Joint Exhibit
1?

A. Yes, I do.

Q. What is that?

A. That is the stipulation and

recommendation entered into by various parties in this proceeding.

Q. Mr. Murphy, do you have any corrections or additions to make to any of the exhibits before you?

A. No, I do not.

Q. If I asked you the questions that appear in DEO Exhibits 1.0 through 1.4, would your answers today be the same as appear in those exhibits?

A. Yes, they would.

MR. KUTIK: I have no further questions.

EXAMINER FARKAS: Okay. Do you have any questions?

MR. AIREY: No questions.

EXAMINER FARKAS: Mr. Serio.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Murphy.

A. Good morning, Mr. Serio.

Q. I've got some questions and I'll start with your fourth supplemental testimony and attempt to eliminate duplicative questions; that would be your Exhibit 1.4.

And I'm correct that in your testimony beginning on page 7, Roman numeral III, Joint Exhibit 1-A to the stipulation, from that point on in your fourth supplemental testimony is the part of your testimony that addresses the rate design component of the proceeding that was not settled by the stipulation in Joint Exhibit 1.

A. That is correct.

Q. And you indicate there that it's a proposed rate structure for the general sales service, or the GSS, class; that's correct?

A. Yes, sir.

Q. Now, you indicate there that the GSS class rate schedules were modified to limit eligibility to customers consuming less than 3,000 Mcf per year. Within the GSS class, less than 3,000 Mcf per year consumption would be residential as well as nonresidential customers, correct?

A. Yes, that is correct.

Q. And, in fact, that could include commercial or industrial customers as well as residential, correct?

A. That is correct.

Q. So as proposed under your Joint Exhibit 1-A, the rate design component, the company is proposing moving towards a straight fixed variable rate design for any customers that take less than 3,000 Mcf per year in the GSS customer class.

A. That is correct.

Q. Now, Mr. Puican on behalf of the staff submitted a second supplemental piece of testimony in this proceeding; have you had any opportunity to review that testimony at all?

A. I received it only earlier this morning and have spent limited time with it thus far.

Q. Could you turn to his Exhibit SEP-1A?

A. I don't have that testimony with me here at the stand.

MR. KUTIK: And I guess I would object to any questions on the testimony since it hasn't been admitted or authenticated.

EXAMINER FARKAS: He really hasn't had a

chance to review it yet.

MR. SERIO: With all due respect, your Honor, he's had as much opportunity as we've had. I just -- there's a breakdown of customer usage levels in Mr. Puican's testimony that I wanted to ask

Mr. Murphy about, and I'm assuming that he would be generally familiar with those customer usage levels, and at least having the exhibit in front of him he would at least have the opportunity then to look at the numbers.

And I understand that they may not -- he may not have the understanding that those are the exact numbers, but as the overall company policy witness I would assume that he's got some familiarity with customer usage levels.

EXAMINER FARKAS: I'll allow it. Just provide the witness with a copy.

Q. I'm handing you a copy of the second supplemental direct testimony of Stephen E. Puican, it hasn't been marked as an exhibit yet in the proceeding. I'd like you to turn to the last pages where he has some exhibits.

A. Thank you.

Q. You're generally familiar with customer usage levels on the Dominion system, correct?

A. Yes.

Q. For example, you could tell me what the average usage for a residential customer is on the system?

A. Yes, I could. For the test year that number was approximately 99.1 Mcf per year.

Q. So if I looked at Exhibit SEP-1A, I think that's the first of the charts in the testimony, and I looked under 12 Month Usage where it says "90.1 to 100," and then it lists total number of customers, do those numbers for number of customers using that level of usage look familiar to you?

A. Yes, it does.

Q. Okay.

EXAMINER FARKAS: Could I ask you a clarifying question? You had said 99.1 Mcf per year was average customer usage; is that residential and nonresidential?

THE WITNESS: The average number that I provided of 99.1 Mcf per year is the average residential customer usage.

EXAMINER FARKAS: Thank you.

THE WITNESS: The average nonresidential

customer usage is approximately four times that
amount or over 390 Mcf per year.

EXAMINER FARKAS: Thank you.

Q. (By Mr. Serio) And do you know what the
average usage for a PIPP customer, percentage of

income payment plan customer, is?

A. The average use for the percent income payment plan customers on our system is in excess of 130 Mcf per year.

Q. Would you accept, subject to check, that it's 131.42 Mcf for 2007?

A. Yes.

Q. Now, do you know what the average consumption for a low-income non-PIPP customer is?

A. No, I do not.

Q. And would you agree with me that not all low-income customers are PIPP customers?

A. Could you define what you mean by "low-income customers"?

Q. Low income based on I believe it's 150 percent of the United States poverty level.

A. Yes, it would be true that not all of the customers at or below that poverty level would necessarily be enrolled in our PIPP program.

Q. Now, as I understand it, the company's proposal at this point for rate design would increase the fixed charge and decrease the volumetric charge that make up the customer charge, correct?

A. Yes, that is correct, for this GSS class of customers served by the general sales service rate schedule and the energy transportation service rate schedule.

Q. Now, am I correct that for a residential customer that uses 100 Mcf, the average, the rate design as proposed by the company is such that that customer's increase to the fixed portion would be offset by the decrease to the volumetric portion?

A. Are you comparing the proposed rates to the current rates in effect?

Q. Yes.

A. The proposed rates for GSS class customers, the average usage level for residential would represent an increase over current rates.

Q. And if we remove the increase that comes from the revenue increase in this proceeding, if we just look at the customer charge, for the customer taking 100 Mcf of gas in a year is the rate designed so that the increase to the fixed portion is offset by the decrease to the volumetric portion?

A. Yes. I believe you can see that in the Exhibit SEP-1A. If you look under the column 12 Month Usage, look at the 100.1 to 110.0 usage level and then work your way over to the right, you'll see that the Percent Increase Over 5.70 Proposed Bill is a negligible difference of a dime.

Q. Okay. So that means in turn for customers in the GSS class that take less than a hundred Mcf, there would be some net increase as a result of the increase to the fixed component and decrease to the volumetric charge, correct?

A. Yes, that is correct. And it's attributable to the redesign of the rates that are intended to collect a greater portion of the company's fixed costs through the monthly service charge.

Q. And the flip side is for customers taking over 100 Mcf, they would see some net decrease from the increase in the fixed portion and decrease in the volumetric portion, correct?

A. That is correct. And, once again, as attributable to the different approach taken with regard to the rate design in this proceeding.

Q. And as you move away from that 100 Mcf a year break-even point, the further you move from it the larger the net increase or decrease, correct?

A. That is correct. And I would argue that that's primarily a mathematical result. You're comparing one set of rates to another. To draw any conclusions with regard to appropriateness, however, one has to again recognize that what we're moving to is a rate design that provides for a more appropriate recovery of the company's fixed costs through rates.

Q. Now, because of that mathematical equation customers that use the lowest amount of gas would see the largest net increase in the GSS class, correct?

A. Yes, that is what's shown on this table, and much of that is due to the fact that under the current or traditional rate design approach large customers subsidize smaller customers.

Now that we're looking at a more equitable distribution of those costs, we have an outcome where those customers at low usage levels do have a higher percent increase, but again, what we're in a sense doing is correcting for a deficiency in the current rate design approach.

Q. Now, for the average customer that uses a
hundred Mcf of gas, that customer uses natural gas
for heating purposes, correct? Among others.

A. That is certainly a possibility, although
given that we're looking at a general sales service

class of both residential and nonresidential, it's certainly conceivable that they might not use it for heating purposes.

Q. Okay. So if we're looking at just residential customers in the GSS class, would you agree that the hundred Mcf break-even point for residential customers probably means that the residential customer uses gas for heating purposes among any others?

A. In general I think that would be a good conclusion. It's also interesting to note that as we were reviewing the rate design alternatives in this case, we found that customers consuming below 50 Mcf per year and even customers consuming below 25 Mcf per year likewise demonstrated a usage pattern that indicated that they were using it for heating purposes as well.

Q. Now, to the extent that the lowest usage customers see the largest percentage in actual dollar increase as a result of the rate design, does the company think that there's a possibility that some part or all of those customers may decide that they no longer want to use natural gas as a result of the increase from the change in rate design?

MR. KUTIK: I'll object. I think the question assumes facts that Mr. Murphy has testified about the largest percentage increase, but not necessarily the largest dollar increase.

EXAMINER FARKAS: I'll allow him to answer it.

THE WITNESS: May I have the question reread, please?

(Record read.)

A. Certainly I think it's highly unlikely that all of those customers would decide to leave the system. I should also note that as you look at the last couple of years on our system, our residential customer base has decreased by 9,000 customers. We don't know what that decrease is attributable to; it could be foreclosures, it could be disconnections for nonpayment, it could even be of course customers leaving the system because of the current level of rates that they're asked to pay.

So we can't attribute any particular
motive, if you will, to customers leaving the system.

Q. Okay. Let's look at, for example, the
first line, the zero to 5 Mcf per year usage. For a
residential customer using 5 or less Mcf a year,

would you assume that that customer is using gas to heat their home?

A. We have not done any studies with regard to particular usage levels and the exact uses, which customers utilize natural gas.

Q. I understand that, but based on your experience in the gas industry do you think it's possible that a residential customer living in Cleveland, Ohio, could use natural gas to heat their home and use less than 5 Mcf a year?

A. I suppose it's always possible if you have a customer that's using a wood-burning fireplace or some alternative means of, say, electric heat or what have you. Again, we haven't done any studies that apportion the type of use for individual usage levels on this table.

Q. Would you agree with me that for customers using very low levels of gas, 5, 10, 15 Mcf a year, to the extent that they're using gas to heat

their home, then in all likelihood that gas is some
type of supplemental? It's supplemented by some
other heating source.
A. Again, that's possible. As I mentioned
earlier, as we looked at potential rate design

alternatives we found that customers consuming even less than 25 Mcf a year had a usage pattern that indicated that they were utilizing it for heating purposes to some degree or another. Again, we're not sure whether that was a situation where they had supplemental heat or were using natural gas for all of their heating purposes.

Q. When you say for customers using 25 Mcf you saw similar usage patterns, that means that in the winter months their usage was greater than in the nonwinter months?

A. That's correct. Oftentimes in the gas industry we use something called load factor to represent or reflect what the usage pattern is and that's simply the ratio of average use to peak-day use, and what we found is that in customers consuming below 50 Mcf, for example, that their load factor, again that's the percentage of average use divided by peak use, was approximately 23 percent.

That was the same for the other group of customers, so we see a very comparable usage pattern in customers using below 50 Mcf and above 50 Mcf and found a comparable usage pattern in those customers even consuming less than 25 Mcf per year.

Q. Have you done any analysis to determine what the load factor would be for a customer that uses natural gas only to heat a water tank?

A. No, we have not. We look at it in the aggregate across all the uses for those customers.

Q. So you haven't broken down load factor by individual use, for example for a stove to heat the home, heat water, or some other use, correct?

A. That's correct. Our billing information is of course for aggregate load only and does not apportion individual uses to an individual bill.

Q. Okay. So if we look at that customer using 5 Mcf or less per year and we go to the far right of the chart, that indicates that that customer's going to pay $81.55 more under the current proposal than they would under the current rate structure, correct?

A. Yes, that is correct. And what that does is reflect the fact that we're recovering a greater portion of our fixed cost. As I indicate in my testimony, the bulk of LDC distribution costs are fixed in nature, so what we're really doing, once again, is correcting for a deficiency in the current rate design; that mathematically happens to result in

the dollar increase that you spoke of.
Q. So the 81.55 would be an annual increase, correct, as you understand it?
A. Yes, based on my read of this exhibit that would be an amount attributable to an annual period of time.
Q. And if I look at that column, the actual dollar increase decreases as usage levels increase, correct?
A. Yes, it does. Once again, that's a by-product of the rate design we've pursued in Joint Exhibit 1-A.
Q. Did the company do any kind of analysis to determine the impact of the rate design on low-income non-PIPP customers at all?
A. No, we did not.
Q. Is it correct to say that the company used PIPP customers as a surrogate for low-income customers in designing these rates?

A. That is not correct.

Q. It's not correct.

What did you use as a representative -- as part of your analysis for low-income customers, how the rate design would impact them?

A. I believe I've previously stated that there was no such analysis performed. We looked at it on a cost-of-service basis regardless of income levels. We do note, of course, that as you're looking at a PIPP customer, their costs will actually decrease based upon the table that Mr. Puican's provided as Exhibit SEP-1A. However, we did not do any separate analysis for non-PIPP low-income customers.

Q. Now, if I look on SEP-1A under Total Customers, the third column, down near the bottom when you're getting into the usage levels of a thousand to 2,000 plus, the number of customers is much smaller. Based on your knowledge of the system would you agree that those are probably master metered situations, or are those individual residential homes, if you know?

A. Based on my knowledge of the system I would suggest that those would be master metered

accounts where you might have an apartment, for
example, with multiple suites.
Q. What's the largest annual usage that
you're familiar with for a residential customer in a
home on the Dominion system?

A. I haven't performed that analysis.

Q. Now, if I look at SEP-2A and contrast it with 1A, it looks to me like the difference is that SEP-1A is Usage Level - Residential, and SEP-2A is Usage Level - Total GSS and ECTS. Do you see that? Upper left-hand corner.

A. Yes.

Q. So to the extent that SEP-2A says "Total GSS/ECTS," that means that that would include the commercial and industrial GSS customers that fall in the GSS class that would have necessarily been excluded in SEP-1A because that's just residentials, correct?

A. Once again, I've not had a lot of time to peruse these exhibits, but based on the title I would agree with your characterization.

Q. So if that was the case and I look at the zero to 5 Mcf annual usage, for residential it was 24,835, and then under the total GSS/ECTS it lists

28,506. Based on that if I subtract the residential from the total, that would leave me with approximately 3,700 nonresidential customers that use 5 Mcf or less in a year. Do you see that?

THE WITNESS: May I have the question

reread, please?

Q. I'll just -- if you look at the total GSS/ECTS 28,500 on 2A.

A. Yes.

Q. And then you subtract the 24,835 of residential from 1A. The ensuing number is less than 4,000. That would mean that there's less than 4,000 GSS/ECTS customers that use 5 Mcf or less per year, correct?

MR. KUTIK: I'm going to object at this point. I mean, we're getting into detailed questions about the makeup of this data and I think those questions should be better directed to --

EXAMINER FARKAS: I'm going to sustain the objection.

Q. You're familiar with the commercial and industrial customers that are in the GSS customer class generally?

A. Yes, I am.

Q. If there's customers in the GSS customer
class, nonresidential, and their usage is listed at
less than 5 Mcf a year, what would be your
understanding of what they use natural gas for?

A. Just as with the residential class, I haven't done any studies to look at specific uses within the nonresidential sector. I should note, however, that as we have reviewed the residential class to small nonresidential customers, that their load profile or load factor is very similar. And I base that on several analyses that we've performed.

Prior to expanding our systemwide Energy Choice program we secured the services of a firm called RLW Analytics to provided load research for us; they concluded in their research that small nonresidential customers have a very similar load profile to residential customers. In our forecasting for Energy Choice we found the same result to be true as well.

So if you're comparing residential customers to small nonresidential customers, they look very similar to one another.

Q. What would you define a small nonresidential customer usage level as?

A. We would look at that as being something
that would be one, two, perhaps as many as three
times as large as the residential class.

Q. So as much as 300 Mcf a year for
nonresidential customers you'd find similar usage

patterns as residential customers.

A. That is correct. As we look at what we refer to as their load factor, as I mentioned earlier, those load factors for residential and small nonresidential are consistently in the 22 to 24 percent range meaning that the ratio of average consumption to peak-day consumption is very comparable.

Q. So to the extent that you indicated that it's only applicable for small nonresidential customers, to the extent that there's GSS customers that use over 300 Mcf, I assume that that means that those customers did not exhibit the same usage patterns as residential customers, correct?

A. That's correct. Generally speaking, as you look at our customer base, the larger the customer the better the load factor. And I use that term often primarily because it's an important determinant in the cost allocation on our system.

Using the average excess class cost-of-service model that we use, the better the load factor, the less on average the capacity cost allocated to an individual customer class.

And so as a result what we find is that

you have generally a subsidization going on from those larger GSS customers to smaller GSS customers; that is partially offset in the rate design that we've proposed, but I would note that in Joint Exhibit 1-A we have a breakdown. Customers consuming less than 50 Mcf in year one would have a usage rate of 62-1/2 cents, those consuming over 50 Mcf per month would pay a higher rate of a dollar 5.1, and that's an indication or a concession, if you will, to the gradualism that we're trying to embody in these rates.

Q. So the break of 50 Mcf, if I'm just looking for number of customers that's impacted by it and I look at SEP-1A, that would be the 45.1 to 50 usage, and you'd go to the cumulative percentage, right, would be the customers that would be eligible for that lower block?

A. That's correct. And in my fourth supplemental testimony I give some information

regarding the relative usage levels there. If you'll
give me a moment, I'll find that.
If you look on page 14 of my fourth
supplemental direct testimony, in lines 10 through 20
I provide some information on the relative usage

within these rate blocks. For example, on line 13 it indicates that we have a GSS class test year usage of approximately 143 billion cubic feet. Approximately 13 percent or nearly 19 Bcf of that falls into the over 50 Mcf per month block.

It's interesting as you look at that larger consumption level that the predominant amount of that is nonresidential. In fact, 84 percent of the usage in that higher block is comprised of the nonresidential class. If you were to look at the individual classes, that is residential and nonresidential, less than 3 percent of the residential consumption lies in that over 50 Mcf rate block whereas approximately half of the nonresidential class consumption lies within that above 50 Mcf per month rate block.

Q. When you're looking at that 50 Mcf per month block, is that 50 Mcf on average over a year or as long as I use more than 50 Mcf, one month during the year?

A. The way this schedule was constructed it looked at month-by-month consumption levels. So if, for example, in December there was a certain usage at a particular account that was above 50 Mcf, that usage would fall in here. It was not done on an average usage level basis.

Q. So it's conceivable that you could be above the 50 one month, below it the next, and you could see that pattern repeated throughout the year. And if that was the case, then the rate would apply to the block that you fell in in each specific month, correct?

A. Yes, that is correct.

Q. To the extent that you get a residential using 50 Mcf per month or more, are there -- to your knowledge, are there individual residential homes that ever get to that level of usage or would that residential usage be limited to those master metered type accounts?

A. Once again, I haven't done a study of that, but generally speaking when you're in very large usage levels, those would tend to be in apartments with multiple accounts being served off a particular apartment.

Q. So when you say less than 3 percent of
the residential volumes would be priced at that rate,
that 3 percent would probably be those master metered
type accounts, correct?

A. I would suggest that it certainly includes those master metered accounts, but it may not be limited to those accounts.

Q. Now, on page 8 of your fourth supplemental testimony you indicate in year one 71 percent of the annual base rate revenues would be provided by the 12.50 fixed monthly customer charge for a customer using 99.1 Mcf per year.

Why did you use 99.1 Mcf per year there?

A. That's simply the average residential usage for the GSS/ECTS group of customers. That equates to approximately 8.26 Mcf per month.

Q. Now, you indicated that in year two the percentage goes up to 84 percent with the 15.40 customer charge. Do you know what the percentage is today with the 5.70 customer charge?

A. No, I don't know offhand. I should point out that, once again, this rate design is intended to recover more fixed costs than that monthly service

charge. So to the degree that we're looking at a
comparison between current rates and proposed rates,
we're looking at some numbers in a sense that may be
mathematical in terms of percent recovery through
fixed charge versus volumetric charge, but the rate

design is expressly intended to really follow cost cause causation principles more closely.

Q. In an attempt to eliminate a lot of cross-examination, do you recall when I deposed you, we had a discussion regarding the company's intent initially to file asking for decoupling rather than straight fixed variable?

A. Yes, I do.

Q. And I believe that as part of that discussion you indicated to me that the company had put some information in the application regarding the straight fixed variable rate design. Do you recall that?

A. Yes. As a matter of fact, on page 8 of my testimony I have something that's very close to the description of that Alt. Reg. portion of our case dealing with the sales reconciliation rider which is our form of decoupling.

Q. If I was to look at page 42 of your

initial direct testimony, your Exhibit 1.0, is that
the only testimony that you provided regarding
straight fixed variable rate design in the original
application?

A. I believe that is the only testimony that accompanied the application regarding SFV rates. I should note that in my second supplemental direct testimony I address some of the objections to the Staff Report and there is a portion of that that addresses SFV rate design as well.

Q. You also identified DEO Exhibit 12.0 when you took the stand earlier today, correct?

A. Yes, I did.

Q. If I was to look at all the documents listed on Exhibit 12.0, there's 15 of them, other than page 42 in your testimony is there anything in any of those other documents that supported a straight fixed variable rate design for the company?

A. Yes, there are.

Q. And can you tell me what those are?

A. I think if -- there's several things that come to mind. Specifically, as you look, for example, at our filing Schedule C-2.1, that's a portion of the standard filing requirements and it identifies the various types of costs that the company incurs by FERC account.

If you were to review those costs, you would look at the description and find that the vast majority, in fact virtually every one, is a cost that does not vary with usage.

So I would suggest that portion of our standard filing requirements indicate that our costs, in fact, are fixed, which of course would in turn support a straight fixed variable rate design.

I would also note that as you look at the class cost of service, which is Schedule E-3.2, and as we identify costs by rate schedule, that too apportions costs in a way where you have an identification of cost types that are predominantly fixed in nature. That, once again, would support an SFV rate design.

So while it might not be stated in testimony, nonetheless there are schedules that were made in the filing that would support the development and implementation of SFV rates.

Q. Did the schedules that you just referenced as set forth in the application specifically indicate that they were there in support of a straight fixed variable type rate design?

A. No, they are simply part of the standard filing requirements. However, once again, they would by their very nature support the development and implementation of SFV rates.

Q. I believe in one of your pieces of testimony you indicated that you were also responsible for the legal notice in the proceeding; is that correct?

A. Yes, that's just part of my overall responsibilities in this case.

MR. SERIO: Could I approach, your Honor?

EXAMINER FARKAS: Yes.

MR. SERIO: I have two documents I'd like to mark for purposes of identification as OCC Exhibits 19 and 20. And the two documents are the legal notice the company had in this proceeding, I'd like to mark the three-page document that says Schedule S-3 as OCC Exhibit 19, and then the two-page document that has at the top Legal Notice as OCC Exhibit 20.

EXAMINER FARKAS: So marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

Q. Could you do that, Mr. Murphy, so we can keep them straight?

A. Yes; I did.

Q. To the best of your knowledge are these the two notices that the company submitted and filed in this proceeding?

A. To the best of my knowledge, they are.

Q. And if I look at OCC Exhibit No. 19, can you tell me where in the notice it indicates that the company was requesting a straight fixed variable rate design that would include a customer charge in excess of $5.70?

A. I don't see any specific reference to a straight fixed variable rate design. I would point out, however, that in the exhibit entitled Schedule S-3 that at the top of page 2, first full paragraph, it indicates that "Recommendations that differ from the application may be made by the Staff of the Commission or by intervening parties and may be adopted by the Commission."

As I consider the SFV rate design proposed in this case, my view is that that in part arises from a recommendation that differs from the application that was made by the Commission staff and subsequently may be adopted by the Commission.

So the language within this legal notice I believe specifically contemplates other approaches to the proposed increased rates that would perhaps differ from what the company originally requested.

Q. Is there anywhere in the language that you just cited that says that the company might adopt those different recommendations?

A. No, there isn't. What the company's done with this proposed rate increase, pardon me, this proposed Exhibit 1-A --

MR. SERIO: Your Honor, I'd like to strike anything further. I got the answer to the question. It was a pretty straightforward question.

MR. KUTIK: He's explaining his answer, I think he should be allowed to.

EXAMINER FARKAS: I'll allow him to explain.

A. The rates proposed in Joint Exhibit 1-A follow a recommendation that differs from the application that was made by staff and, hence, I would view it as being something addressed tangentially perhaps but addressed nonetheless within the exhibit indicated with Schedule S-3 at the top.

Q. If you could look at OCC Exhibit 20, can

you tell me if there's anything in OCC Exhibit 20
that would provide customers notice that the company
was contemplating a straight fixed variable rate
design?

A. This particular legal notice deals

predominantly with the proposed pipeline infrastructure replacement program. It's interesting to note that at the bottom of the second paragraph it indicates that "the proposed mechanism provides that all customers receiving service under the following rate schedules shall be assessed a monthly charge, regardless of gas consumed, to recover the revenue requirement," and then it goes on to list the rate schedules themselves.

So certainly the notion that a monthly charge regardless of gas consumed shown here, while it may not indicate a straight fixed variable rate design, certainly communicates that general approach to designing rates.

Q. You indicated that OCC Exhibit 20 was for the pipeline infrastructure program?

A. Yes. That is correct.

Q. And not for the general rate application itself, correct?

A. That is correct. I was merely responding
to your question as to whether or not there's an
indication of SFV type rates in here and the answer
is yes, there is.

Q. And that indication is only for the

pipeline infrastructure replacement charge and not for any other charges; is that correct?

A. Yes, it is with regard to the proposed mechanism in here.

Q. Now, on page 8 of your testimony you indicate there's five reasons why the company prefers SFV to a combination of traditional rate design and decoupling. Do you see that?

A. Yes, I do.

Q. And the first one is it would address the problem of declining usage per customer more effectively. Do you see that?

A. Yes.

Q. As proposed by the company initially, though, the sales reconciliation rider represented a means to address the problem of declining usage per customer, correct?

A. Yes, that is correct. This extract on page 8, however, indicates that the straight fixed

variable rate design would more effectively
accomplish that task.

Q. Yet on page 8 of your testimony you
indicate that the SRR does represent an acceptable
means to achieve that outcome, correct?

A. Yes. And specifically within the historical rate design approach utilized by the Commission, to the extent that the Commission selects or approves another rate design approach reflecting straight fixed variable, we would find that that approach would be a preferable outcome in this case.

Q. It's preferable, but the SRR would still achieve an acceptable or reasonable result, correct?

A. I believe I said that was correct, within the historical rate design approach utilized by the Commission.

Q. Okay. It's the second half of your answer there; if the Commission decides that the straight fixed variable type program is acceptable, in that context does an SRR still achieve an acceptable solution to the problem of declining usage per customer?

A. I believe I've already responded to that question, but in general terms what you're talking about are two different outcomes. Outcome one would be something that's consistent with the historical or traditional approach to rate design. Within that outcome universe the SRR mechanism would be an acceptable means to address that declining use per customer issue.

However, if the Commission, as it did in the Duke Energy gas case, approves something that is closer to the straight fixed variable rate design, we, for the reasons cited in my testimony, would prefer that approach.

Q. I understand you'd prefer it. My question was: Would it still -- would a decoupling mechanism similar to the SRR still produce an acceptable result?

MR. KUTIK: Objection; asked and answered now four times.

EXAMINER FARKAS: I believe he's answered that question.

Q. Now, your second item addresses the State's energy policy.

A. Yes.

Q. And it says as with the revenue decoupling proposed in the application, the proposed rate design also advances the state energy policy. So you're indicating there that both revenue decoupling or the SFV would address the state energy policy in your opinion, correct?

A. Yes, they would.

Q. Now, you indicate third that the rate design is supported by the cost-of-service study. Am I correct that the cost-of-service study would support both decoupling or a straight fixed variable rate design?

A. While it supports the overall revenue requirement, the cost-of-service study is more supportive of the straight fixed variable rate design approach because it indicates that the type of costs that the LDC incurs to provide distribution service are predominantly fixed in nature.

Q. You submitted the cost-of-service study at the same time as the company's proposal was for the SRR rider and not straight fixed variable rate design, correct?

A. Yes, that is correct. And one of the reasons that you provide those class cost-of-service studies is to identify the appropriate revenue requirement. If you'll look through those studies, however, you won't see a specific reference to rate design, what you see is basically the company's cost apportioned to individual rate schedules.

So once again, the class cost-of-service study doesn't deal with rate design as much as it does the type and allocation of system total costs.

Q. So to the extent that the proposed rate design is supported by the cost-of-service study, that's a very general statement that you're making there, correct?

A. Well, at the risk of having it both ways, it's both. It's specific in the sense that as we look at the types of costs that are there, those costs are predominantly fixed in nature. It's general in the sense that what it's doing is apportioning that revenue requirement from one class to the next.

Q. As you filed the cost-of-service study did it support the SRR?

MR. KUTIK: Objection; asked and answered.

EXAMINER FARKAS: I'll allow him to answer.

A. The class cost-of-service study primarily supported the proposed revenue allocation from one class to the next in the case. It did not deal expressly with the SRR mechanism proposed in the application.

Q. Would you turn to page 10 of your fourth supplemental testimony? On line 7 there you indicate it is explained by Mr. Andrews, and Mr. Andrews there was one of the witnesses in this proceeding?

A. Yes, he is. He's the company's witness that sponsored the class cost-of-service study.

Q. And it indicates here "during his August 1st, 2008, cross-examination . . . 'the cost-of-service study that Dominion submitted in its filing would support any rate design with the combination of charges that were included to produce the revenue requirement." Do you see that?

A. Yes, I do.

Q. So that means that the cost-of-service study would support a decoupling mechanism from Mr. Andrews' perspective, correct?

A. In reviewing the transcript I believe Mr. Andrews was specifically referring to the allocation of revenue requirement. And what he stated was that any rate design that would generate that level of revenue by customer class would be supported by the class cost-of-service study.

So once again, I don't think it was necessarily addressing the sales and reconciliation rider issue as much as it was the apportionment of revenue allocation class by class.

Q. Now, the decoupling rider that the company initially proposed in this proceeding, that would have been done in conjunction with maintaining the 5.70 customer charge for the East Ohio part of the system and increasing the customer charge in the West Ohio portion of the system from the, I think it's 4.38 up to 5.70, correct?

A. Yes, that is correct.

Q. Now, do you know if prior to making the application the company did any outreach with consumers to determine how understandable or receptive customers might be to a decoupling type of mechanism?

A. No, we did not.

Q. Do you know if the company did any outreach with consumers to determine how understandable or receptive customers might be to a straight fixed variable type rate design?

A. No, we did not, primarily for the reason
that we didn't propose one. In addition, those kind
of issues of course would not be resolved until the
Commission issued its ruling in this case, so we did
not think that any such outreach or customer market

research was appropriate at the time.

Q. You're familiar with the budget billing that the company offers?

A. Yes, I am. I'm a budget billing customer myself.

Q. And to the extent that a customer is in good standing, they're eligible to sign up for budget billing, correct?

A. That is correct. We have had times in the past where we permitted customers who were not current in their bills to participate, but the standard participation requirements are that you are current on your bill.

Q. And the budget billing has the effect of levelizing a customer's bill over a 12-month period, correct?

A. It does. For some of our customers budgetary issues and otherwise make them prefer that particular type of billing arrangement. In other cases we have customers, of course, that don't participate and those customers may prefer to not be on budget billing for several reasons, they may not appreciate the trueups that one has at the end of a budget billing period, in addition they may prefer to be current on their bill at whatever point in time that bill is rendered so as a result they may not wish to be in the position of owing the customer money or having the company owe it money, they may prefer to just pay their bills in full outside of the budget billing program.

Q. So you agree with me that for some customers that choose not to have budget billing, they don't see levelizing their bill as a benefit, correct?

A. That is correct. And they may prefer other types of payment programs to budget billing for reasons that have nothing to do with the levelized billing that it offers.

Q. Do you know what percentage of Dominion's eligible residential customers are on budget billing?

A. I don't know that figure offhand.

Q. Do you know if it's more than 50 percent?

A. No, it is not.

Q. Do you know if it's more than 25 percent?

A. I don't know.

Q. Would you accept, subject to check, that in 2007 approximately 16.87 percent of Dominion's customers that were eligible subscribed to budget

billing?
A. I would accept that subject to check.
Q. Is there any limit on the usage that a customer can take and still be in the GSS customer class?
A. There's no limit on usage presently. Under the proposed rate schedule for GSS and ECTS service there is a limitation of 3,000 Mcf per year consumption.
Q. Now, the company in adopting the staff recommendation on the straight fixed variable rate design chose not to apply it to nonresidential customers, correct? I'm sorry, nonresidential customers unless they're in the GSS customer class using less than 3,000 Mcf a year.
THE WITNESS: May I have the question reread, please?
(Record read.)
A. Yes. To put it more simply, the straight

fixed variable rate design applies to the GSS class
of customers whether they're residential or not
residential, those specifically consuming less than
3,000 Mcf per year.

Q. Put another way, the only nonresidential

customers under SFV as proposed would be
nonresidential customers that are in the GSS class,
and under 3,000 Mcf a year.
A. Yes. Of course customers can change rate
schedules that they're on, and the same thing applies
to residential customers as well.
Q. Am I correct that the reason that the
company limited the straight fixed variable rate
design to the GSS customer class is because you
believe that customers in the GSS customer class are
more homogeneous than customers in the other rate
classes?
THE WITNESS: May I have the question
reread, please?
(Record read.)
A. Yes. I think it's important -- pardon
me. I think it's important to note we made that
determination with regard to residential and
nonresidential customers.

Q. And when you make that determination that the GSS class of customers are more homogeneous, is that based on their usage levels?

MR. KUTIK: I'm sorry, could you -- this is slow. Can you read the question?

(Record read.)

A. It's based both on their usage levels as well as their load factor.

Q. Now, if I was to look at the Alt. Reg. filing that the company made in this proceeding -- you're familiar with that filing, correct?

A. Yes, I am.

Q. Is there anything in the Alt. Reg. filing that shows the calculations of moving to a straight fixed variable rate design? And can you tell me what specifically you're looking at right now?

A. I'll let you know when I find it.

Q. Okay.

A. Section G of the company's application which was submitted as part of the Alt. Reg. requirements --

Q. Okay.

A. -- identifies projected data.

Q. Which volume is that in the filing; do you know?

A. I'm sorry, I don't know which volume.

Again, it's Section G.

MR. KUTIK: May I just see what he's
looking at? Can I approach so I can see what he's

looking at?

EXAMINER FARKAS: Yes.

MR. SERIO: Could I approach, your Honor, to see what Mr. Murphy's looking at?

EXAMINER FARKAS: Yes.

Q. Okay. Section G-1, page 1 of 2?

A. Yes.

Q. Okay. And what in particular there is supportive of the SFV?

THE WITNESS: May I have the initial question reread, please?

(Record read.)

A. Section G of the rate case is required under the Alt. Reg. provisions, and those provisions require us to identify projected income and balance sheet information under two scenarios, one without the Alt. Reg. provision approved and, two, one with the Alt. Reg. provision approved.

The Alt. Reg. provision incorporated into this is the sales and reconciliation rider. The outcome or calculations in this particular section are similar to those that you would have under straight fixed variable rate design because what you're doing is eliminating the impact on financial performance from declining use per customer. So while it doesn't reference straight fixed variable rate design, nonetheless the calculations here are comparable to those that you would have for projected financial performance under an SFV kind of rate design.

Q. Does the explanation that you just gave appear anywhere in Section G?

A. No, it is not. It was merely provided as part of the Alt. Reg. requirements in the case.

Q. And you'd agree with me that there's no calculation that demonstrates the effect of the straight fixed variable rate design in the Alt. Reg. filing, correct?

A. I believe I've just stated that the calculation contained in Section G is comparable to that of the straight fixed variable rate design outcome.

Q. Mr. Murphy, do you recall a deposition that we did on July 14th up in Cleveland?

A. Yes.

Q. And do you recall me asking you --

MR. KUTIK: Well, if the witness could be directed to a page of his deposition.

Q. Do you have a copy of the transcript handy?
A. Yes, I do.
Q. Could you turn to page 120.
MR. KUTIK: Does the Bench need a copy of the deposition?
EXAMINER FARKAS: Do you have a copy?
MR. KUTIK: I'm asking if OCC has a copy.
MR. SERIO: I have one copy that's got marks and my notes, and I don't know if you want to see a copy that has my marks and notes on it.
EXAMINER FARKAS: Why don't you go ahead and ask the question.
Q. (By Mr. Serio) Do you have page 120, Mr. Murphy?
A. Yes, I do.
Q. And my question there, if you look on line 6, "And so you're saying that the Alt. Reg. Exhibit B has calculations that demonstrate the

effect of the straight fixed variable rate design?"
Your answer is: "No."
A. That's correct. What I was speaking to previously here was that they are comparable. They are not exactly based on a straight fixed variable

rate design. So they're not identical to, but comparable to the outcome that you would have with SFV kind of rates.

Q. Okay. And there's no calculation or sample bill in the Alt. Reg. filing that would show the impact from straight fixed variable rate design, correct?

A. That is correct, because we did not propose it in the context of that Alt. Reg. filing.

Q. Thank you.

Now, under the decoupling mechanism that the company initially proposed, there would be a reconciliation mechanism included in that, correct?

A. Yes, that is correct. We would compare weather normalized actual usage per customer to test year usage and have a reconciliation mechanism designed to provide the appropriate adjustment to base rate revenues.

Q. And the adjustment could go in either

direction, correct? Under the normalization
mechanism.

A. Yes, it could. If weather normalized
consumption increased, then there would be a
potential reduction in base rate revenues, conversely

if that use per customer on a weather normalized basis had decreased, there would be an increase in those subsequent revenues.

Q. Is there any kind of similar reconciliation done with the straight fixed variable rate design?

A. No, there isn't. And under a pure straight fixed variable rate design there would be no reconciliation needed because what you've got is a more accurate reflection of the type of costs that the company incurs throughout the year and, therefore, you would not need the kind of reconciliation that a sales reconciliation rider would provide.

Q. Does a straight fixed variable rate design as proposed in this proceeding, if a winter is warmer than normal, as proposed, the SFV rate design would significantly mitigate the result of selling less gas than normalized volumes, correct?

A. It would certainly mitigate that result
and, again, largely because what it's intending to do
is track costs which are primarily fixed in nature.
Because costs are not variable, a revenue that
changes on a variable basis with weather doesn't

necessarily track costs well.

Q. Now, under the current proposal if the company were to have a colder-than-normal winter and sell more volumes than were projected under normalized weather, the company would benefit from those additional sales, correct?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. Pardon me, Joe. When you're talking about current proposal, are you talking about Joint Exhibit 1-A?

Q. Yes.

A. Yes, that's correct. We would receive a benefit from colder-than-normal weather, and we would receive an even greater benefit for colder-than-normal weather under the sales reconciliation rider mechanism.

Q. But under a -- under the SRR the benefits

that the company gets in a colder-than-normal winter
would be offset by the benefits that would flow --
would be offset -- strike that.
I think you indicated that the benefit to
the company would be greater in a colder-than-normal

winter under decoupling than it would under SFV; is
that correct?
A. Yes, that's correct.
Q. Could you explain to me how that works?
A. Sure. Keep in mind that revenue
decoupling is not weather normalization and,
therefore, what you do in comparing the weather
normalized volumes is you take out the effect of
colder or warmer than normal on consumption.
So if it's colder-than-normal weather, we
still receive a benefit, if you will, or under warmer
than normal we receive a detriment at the unit base
rate for the weather related portion of revenues.
Because under the decoupling mechanism
that volumetric rate is higher the benefit from
colder-than-normal weather is greater than you would
have under the SFV rate outcome. And the converse is
true if it were warmer-than-normal weather.
Q. You said that for the SFV the volumetric

portion is larger than under a decoupling mechanism?

THE WITNESS: May I have the entire Q and A read back in their entirety, please?

(Record read.)

A. I believe that misstates my prior

response.

Q. So in decoupling the volumetric portion is larger than it is under SFV, correct?

A. That's correct.

Q. So for every additional degree day we have we have a greater impact.

A. The trueup mechanism isn't intended to true up weather impacts, it's intended to true up weather normalized use per customer for test year.

Q. Mr. Murphy, in your testimony, your fourth supplemental, you indicate that you think that the straight fixed variable sends better price signals to customers regarding conservation?

A. I generally states that it sends better price signals. Conservation related decisions are a subset of those better price signals.

Q. Did you attend any of the local public hearings held in this proceeding?

A. Yes, I did.

Q. And at the local public hearings that you
attended did you hear residential customers voicing
their displeasure with the straight fixed variable
rate design because of how it would impact decisions
that they made to engage in conservation under the

current rate design?

A. Yes, I did. And regrettably a number of those customers were operating under incorrect assumptions regarding the effect of conservation on their decisions.

Q. To the extent that you're indicating it's incorrect assumptions, that's based on your evaluation, correct?

A. It's based on my evaluation but I can give you a very clear example of a particular customer who I believe was operating under such misinformed basis. Particularly one customer indicated that he believed that it didn't matter what he consumed, that he would pay the gas company the same amount of money in the bill when in fact, of course, that's not true.

The piece that was missing from many customers' discussions was the impact of conservation on commodity related costs. That was a portion of the discussion with regard to conservation that was missing, frankly, from many of the customers' presentations there. And it's regrettable that they did not understand that conservation helps significantly because the commodity cost itself is such a substantial portion of the customer's bill.

Q. Would you agree with me that under the straight fixed variable rate design proposed in this proceeding that the amount of costs that vary that a customer can control through conservation decreases than as is the case during -- under the current rate design?

THE WITNESS: May I have the question read back, please?

(Record read.)

A. I would certainly agree with that relative to the current rate design. As I look at the decoupling mechanism, however, we find that customers' rate certainty is less under decoupling than straight fixed variable rate design.

Furthermore, as you look at the commodity costs, that is the price per Mcf of the natural gas, that has been and is projected to continue to be a very volatile part of the natural gas bill.

So the biggest part of the bill is something, frankly, that customers have never had in their control, so as we look at that being 80 percent of the bill, I don't think any customer looking at that decision would necessarily expect those costs to remain the same if they're looking at their historical costs paid for natural gas.

Q. To the extent that the straight fixed variable rate design proposed in this proceeding increases fixed costs and decreases volumetric costs, would you not agree that it lessens a customer's ability to reduce their bill through conservation?

MR. KUTIK: Objection. There's been no testimony in this case that the SFV changes fixed costs at all. Fixed costs are fixed costs. So the question assumes facts not in evidence.

EXAMINER FARKAS: I'll allow him to answer.

THE WITNESS: Could you rephrase the question, please?

Q. Would you agree with me that the straight fixed variable rate design increases the fixed charges that a customer's going to get while decreasing the volumetric charges?

A. Yes, I would. Primarily because what it's intended to do is follow fixed cost causation principles more closely.

Q. To the extent, then, that there's more recovery through the fixed charge and less through

the volumetric charge, would you agree with me that
that reduces the customer's ability to control their
bill through conservation efforts?

A. Once again, it does decrease that ability
to control relative to current rates, however, if you
are comparing it to the alternative presented here
which is decoupling, you don't necessarily get that
same result.

For example, I can turn to page 11 in my
fourth supplemental testimony for an explanation of
that. If you'll look at line 12, "There is a more
equitable distribution of cost." And certainly
decoupling provides an opportunity to recover fixed
costs in the aggregate, however, what you have in
effect is a result where nonconservers subsidize new
conservers.

So if I'm conserving, someone might argue
under SFV that I have less control because I have a
lower volumetric rate. However, the same is true to

an even greater degree with decoupling because as I conserve, future decoupling, or decoupling rider rate adjustments to be more precise, are largely unknown; I can't control those either. If my neighbor consumes -- pardon me. If my neighbor conserves more than I do, I'll end up bearing the cost of that greater conservation.

So I wouldn't argue necessarily that SFV provides less control, it merely provides a lower volumetric rate to line up with the costs that we incur. Decoupling, in fact, provides a certain degree less control as a result of the adjustments to future decoupling rider rates.

Q. You had indicated in your testimony, and I think you also -- we had this discussion during your deposition, that the company was making increases to demand-side management but they were contingent on changes to the rate design. Do you recall that?

MR. KUTIK: If counsel's going to refer to the deposition, I wonder if he could refer to a page.

MR. SERIO: It's a general discussion in the deposition. I can find it if you need to. I'm trying to avoid numerous questions.

MR. KUTIK: Okay.

A. Yes. If you look at my direct testimony on page 31, Q and A No. 61, we indicate here that, in line 19, "The increased DSM funding and the possibility of expanding that funding in future years is contingent on DEO receiving approval for its proposed decoupling mechanism."

Q. Okay. Now, if you look at Joint Exhibit No. 1, the expanded demand-side management is part of the settlement that was agreed to by all the parties in this proceeding, correct?

A. Yes, that is correct.

Q. The rate design portion was cut out of the joint stipulation and reserved for litigation. My question to you is: As proposed in the stipulation, if the Commission were to decide that it did not want to implement the straight fixed variable in this proceeding and went with an alternative, would that impact the demand-side management portion that's in the stipulation?

A. No, it would not, primarily because we view the two primary alternatives here as either being SFV rates or traditional rate design coupled with a decoupling mechanism. Under both of those circumstances the company is insulated to some degree from the adverse impacts of conservation via expanded DSM programs.

Q. In your direct testimony on page 21 you acknowledge the difficult economic conditions in Cleveland and Cuyahoga County. Do you see that?

A. Yes, I do. This was part of our discussion regarding the company's collection lag included in the working capital calculation.

Q. Would you agree with me that the economic conditions in Cleveland and Cuyahoga County that you discuss on page 21 and 22 are conditions that apply to the company in general and are not just limited to the late-payment charge proposal?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. Yes.

Q. Would you turn to page 41 of your direct testimony?

A. I'm sorry, page 41?

Q. Forty-one. At the bottom of the page there you indicate that the average normalized use

per customer has declined at a rate of 1 to 2 percent
per year. Do you see that?

A. Yes.

Q. Has the company done any long-term
studies or analysis to determine at what point -- for

how long you think that that 1 to 2 percent decline in usage might continue?

A. Yes, we have. We've looked at it both on a short-term basis as reflected in the F and G schedules submitted in this case, we've also looked at it on a somewhat longer term basis in the past in order to comply with the long-term forecast report requirements.

Q. When you say "short-term," you mean the next year?

A. The F and G schedules are for a period of three years.

Q. Three years. And when you say "long-term," what period of time are you referring to?

A. I believe the long-term forecast report projection horizon is approximately ten years.

Q. And when was the last time that you did an LTFR with a ten-year projection?

A. 2007.

Q. And as part of that long-term forecast report are you continuing to project the 1 to 2 percent reduction out through the next ten-year period?

A. Yes, we are.

Q. Have you done any analysis to determine at what point -- strike that.

If customers were to continue to conserve at 1 to 2 percent per year, is it conceivable at some point that consumption levels get down to less than 10 Mcf a year?

A. I suppose mathematically if you ran the numbers long enough you'd have a point at which they would reach that low level, however, I wouldn't expect that certainly over the time horizon that we've evaluated.

Q. Have you done any kind of analysis to determine realistically at what level average usage per customer is going to level off?

A. No, we haven't. It's driven by several factors: Number one, you have appliance replacement decisions being made. As people's furnace or water heater dies, they'll have to replace that presumably with a more efficient furnace or water heater.

In addition you also have price-induced conservation which, as prices rise given the laws of supply and demand, would indicate that we would have a reduction in use per customer at given price levels. But we have not done anything as far as evaluating at what point those two effects no longer have any meaningful impact.

MR. SERIO: Give me just a minute, your Honor. I'm trying to coordinate about six different documents here.

EXAMINER FARKAS: Yes.

Q. You indicated previously that the company had proposed as part of your Joint 1-A to your fourth supplemental testimony that there was a limit of 3,000 Mcf per year usage.

A. That's correct. That's what's referenced on the Joint Exhibit 1-A.

Q. Can you explain to me why you put that 3,000 Mcf a year cap -- why you put that cap in place?

A. Yes. There were two reasons that we included that cap in the rate design. The first reason is that we wanted to avoid customers served under the large volume general sales service or large volume energy choice transportation rate schedules from migrating to this GSS class rate schedule. That would result in a significant erosion of revenues as those larger customers migrate to a rate that, frankly, is designed for lower use customers.

The second reason, much less significant, was because we wanted to have some degree of greater homogeneity among the GSS class so we removed the largest of the large customers as it were so as to provide an increase in the similarity from one customer to the other in the GSS class.

Q. You're trying to keep industrial customers from going from the LGSS class to the GSS class.

A. Yes. To be more precise, prevent them from moving from the large volume general sales service or conceivably general transportation service rate schedules to a much lower cost rate schedule that was designed expressly with lower usage customers in mind.

Q. The company initially filed for, I think it was a $72.5 million rate increase. Do you recall that?

A. Yes, that was our requested rate increase on a net basis.

Q. Do you know how much of that initial increase proposal was to address the issue of decline in usage for customers?

A. No, because we don't perform those kind of calculations. The revenue increase is driven by the shortfall in operating income relative to an appropriate return on rate base. We don't apportion, in this case the 72-1/2 million, to specific reasons. It's simply a result of the total aggregate situation faced by the company, not any particular reason.

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

Thank you, Mr. Murphy.

THE WITNESS: You're welcome.

EXAMINER FARKAS: Staff.

MS. HAMMERSTEIN: No questions, your Honor.

EXAMINER FARKAS: I have a few questions for you.

THE WITNESS: Yes, sir.

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EXAMINATION

By Examiner Farkas:

Q. In your Exhibit 1.4 and also the stipulation there's a discussion about automatic meter reading.

MR. KUTIK: I'm sorry, your Honor. I can

barely hear you.

EXAMINER FARKAS: I'll speak louder.

MR. KUTIK: That's all I need.

Q. Okay. In your testimony 1.4, Exhibit 1.4, and also in the stipulation there's a discussion of automatic meter reading, and were you aware that the Commission has an open proceeding currently involving the deployment of smart metering and that there had been technical conferences held with regard to electric utilities and their deployment of smart metering in restructuring?

A. Yes, I'm generally aware of that.

Q. And did the company do any evaluation of options of perhaps a partnering with electric companies or purchasing communication devices from electric companies that may have their service territory overlapping Dominion's service territory in lieu of advanced metering?

A. We did not do that evaluation. We're an affiliate of an electric company in Richmond and they have gone through extensive evaluations of smart metering technology. The largest portion of the cost of deployment is associated with the encoder-receiver-transmitter devices. The cost of the capability to receive those radio transmissions is a fairly small portion of the overall cost.

In addition, when we're looking at smart metering technology, some of that on the electric side is contemplated to be a two-way type of communication.

In the review of our AMR technology selection the personnel on the electric side that assisted with that evaluation did not see that as a potential for the gas side with one exception, and that is Itron, who is the vendor that we have, is now embarking on a pilot whereby they would have automatic meter reading devices that potentially would allow the company to remotely disconnect customers. And that is a technology that's down the road a bit, but we are looking to pilot that potentially with Itron for some small initial installations on our service territory.

Q. Thank you.

With respect to the stipulation itself, on page 3 of the stipulation under provision 1 the second sentence says "The Signatory Parties hereby enter in the Stipulation and Recommendation notwithstanding any Objections filed on June

23rd and June 25th, 2008, respectively." And I guess my question is, the city of Cleveland's objections were filed on June 20th, 2008. Was it the intent of the parties also to include city of Cleveland's objections?

A. I cannot speak to the other parties' intent. I can tell you that the company's intent certainly was to consider those objections alongside these others. I believe we just selected that date primarily because it was the date on which they were to be filed, but we certainly contemplate those objections being resolved by the stipulation as well.

Q. Okay.

MR. SERIO: Your Honor, if I might, would it be helpful if we got a clarification from the city of Cleveland on that for you?

EXAMINER FARKAS: Yes. Yes.

MR. SERIO: We will try to do that.

MR. KUTIK: City of Cleveland is a

signatory to the document.

EXAMINER FARKAS: I understand that. I just need, for clarification purposes, the way the document is written --

MR. KUTIK: I understand.

EXAMINER FARKAS: -- it doesn't account for that.

MR. KUTIK: We'll work for the other parties to make sure the city clarifies that.

EXAMINER FARKAS: Thank you.

MR. KUTIK: And in terms of a clarification, a letter from the city docketed would be sufficient?

EXAMINER FARKAS: Yes. That would be perfect.

That's all the questions I had. Was there any redirect?

MR. KUTIK: Your Honor, perhaps it would be appropriate to break for lunch, and if we have any redirect, it probably will be very short after lunch.

EXAMINER FARKAS: Okay. Why don't we break until 2 o'clock.

(At 1:01 p.m. a lunch recess was taken until 2:00 p.m.)

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Monday Afternoon Session,
August 25, 2008.

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EXAMINER FARKAS: Why don't we go back on the record. Before asking about redirect, the Bench does have a couple more questions for the witness.

Specifically with regard to the Joint Exhibit 1-A, where did the numbers come from for this exhibit?

THE WITNESS: The combination of the 12.50 per month service charge and the volumetric rates there for year one and then the 15.40 service charge for year two and those accompanying volumetric rates, in total those produce the revenue requirement for the GSS class that the parties agreed to.

As far as the specific rates, staff had made an initial proposal with regard to service charge and volumetric charge levels. We remained with those service charge levels that had been

proposed of 12.50 and 15.40 and then followed the
relative levels of the over 50 per Mcf volumetric
rate and under 50 per Mcf volumetric rate that staff
had originally proposed.

EXAMINER FARKAS: And there are year one,

year two. Why two years and not three years or four
years? Why two years?

THE WITNESS: For several reasons. First of all, in the spirit of compromise we wanted to get to a result closer to SFV type rates sooner rather than later. The longer the period, the greater the exposure to the company from decreasing use per customer. And so as a result we wanted to get to a level of recovery consistent with SFV rates sooner rather than later but phased in over two years in order to provide some gradualism in the settlement.

EXAMINER FARKAS: Okay. Thank you.

Is there any redirect?

MR. KUTIK: Yes, there is, your Honor.

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REDIRECT EXAMINATION

By Mr. Kutik:

Q. Mr. Murphy, during Mr. Serio's cross-examination of you he referred you to page 8 of your most recent supplemental testimony, DEO Exhibit 1.4, and referred you to specific percentages of fixed costs that would be recovered under the SFV proposal. Do you recall that?

A. Yes, I do.

Q. And he also asked you about the percentage of fixed costs that are currently covered or recovered under the current customer charge and you said that you couldn't give a figure. Do you recall that?

A. Yes, I do.

Q. Is the percentage of fixed cost that would be recovered under the SFV proposal greater or less than the percentage of fixed cost recovered under the current customer charge?

A. It's greater than what would be recovered under the current rate structure that we have, and again, that follows cost causation principles in that we're trying to recover what are essentially fixed costs in a more fixed manner.

Q. Mr. Serio also asked you some questions about budget billing and Dominion's customers' participation in budget billing. Do you recall those questions?

A. Yes, I do.

Q. Do you think it's appropriate to compare budget billing and the SFV proposal?

A. No, I don't. One is basically a payment plan, some customers have availed themselves of that opportunity, another is a rate design dealing with the appropriate recovery of the company's costs.

Q. And what do those differences -- why do those differences mean to you that it's inappropriate to compare those two?

A. The primary reason is that budget billing is something that includes both the distribution cost as well as the commodity cost, so it is a bundled bill, if you will, in terms of the amount per month that the customer pays.

The SFV rate design by contrast really deals with a fairly small portion of the bill at average usage levels. That means that we're dealing with on one hand a rate design issue dealing with a small portion of the bill, on the other hand dealing with a payment plan on the entire portion of the bill which includes commodity cost.

Q. Mr. Serio also asked you some questions about legal notices. Did he show you all of the legal notices that apply to this case?

A. No. I was only shown those notices that were issued prior to the release of the respective staff reports in these cases.

MR. KUTIK: May I approach, your Honor?

EXAMINER FARKAS: Yes.

Q. Mr. Murphy, let me show you a document that is an entry from the Commission in this case dated June 27th, 2008. Do you have that before you?

A. Yes, I do.

Q. And does this document indicate anything about the legal notices applicable to these cases?

A. Yes, it does. This entry was issued after the Staff Report had been issued in the 07-829 case, and in the legal notice cited in this particular entry there is an indication that the notice should include, and I quote, "as an issue rate design including consideration of decoupling and straight fixed variable mechanisms," unquote.

Q. You also recall that Mr. Serio referred you to a portion of your deposition. Do you remember that?

A. Yes.

Q. And he referred you to page 120 at line
10. Do you remember that?

A. Yes.

Q. And I'd like to read to you the portion
that he read to you and then the portion that he

didn't read to you. Starting at line 6. This is the portion he read: "Question: Okay. And so you're saying that the Alt. Reg. Exhibit B has calculations that demonstrate the effect of the straight fixed variable rate design?

"Answer: No."

That's what he read to you, correct?

A. Correct, and that's a true statement.

Q. Now what he didn't read to you is the next question and answer starting on line 10: "Question: What would I find in Exhibit B of the Alt. Reg. filing?

"Answer: You would find a similar statement, that straight fixed variable design would address the declining UPC more effectively than the proposed sales reconciliation rider."

Did you also give that answer to that question in your deposition?

A. Yes, I did.

Q. Now, Mr. Serio also asked you a series of questions regarding conservation and the SFV proposal. Do you remember those questions?

A. Yes.

Q. Are customers, in your view,

appropriately incentivized to engage in conservation under the SFV proposal?

A. Absolutely. The customer's bill that he or she receives from East Ohio is comprised of approximately 75 to 80 percent commodity cost, that is the cost of natural gas itself. The base rate portion of the bill is not even making up the remaining 20 to 25 percent. There are riders and other components of the bill that are a portion of 20 to 25 percent.

The customer has significant incentive to conserve in that when the customer doesn't use an Mcf, he or she reduces their bill by 80 percent for the variable portion of the bill. So there is significant incentive to conserve under SFV rate design.

Q. Going back to the June 27th entry and the legal notice. Did the company, in fact, publish the notices as ordered by the Commission in that

entry?
A. Yes, we did. These notices were published prior to the public hearings, both the initial ones and subsequent ones held throughout our service territory.

MR. KUTIK: No further questions.
EXAMINER FARKAS: Do you have any questions?
MR. RUSSELL: No questions.
EXAMINER FARKAS: Mr. Serio.
MR. SERIO: Thank you, your Honor.

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RECROSS-EXAMINATION

By Mr. Serio:

Q. Mr. Murphy, first a question -- your discussion with the examiner about the smart meters, do you recall that?
A. Yes, I do.
MR. KUTIK: Your Honor, that's beyond the scope of redirect.
EXAMINER FARKAS: You're correct.
MR. SERIO: I'm not permitted to ask a question as follow-up to yours, your Honor?
EXAMINER FARKAS: No.

Q. Okay. Mr. Murphy, you'd indicated that in response to redirect from counsel at page 8 of your fourth supplemental testimony, the percentages, the 71 and 84 percent, I understand you don't know the percentage of what it is today but to the extent that the 5.70 current customer charge is less than half the 12.50, the current percentage would be considerably less than 71 percent then, correct?

A. Yes, it is. Although I can't recall the precise order of magnitude, it would be approximately 30 percent recovery through the fixed charge that is the 5.70 and 70 percent volumetrically. And again, the change in the proposal contained in Joint Exhibit 1-A is to recognize the fixed nature of our costs in the appropriate manner in which those costs should be recovered.

Q. Did you say approximately 30 percent?

A. Approximately 30 percent. And again, that is just a general order of magnitude figure.

Q. Counsel handed you the June 27th entry; do you have that?

A. Yes, I do.

Q. And to the extent that you indicated language regarding rate design, that is what appears on page 6, paragraph D, correct?

A. Yes, sir.

Q. Was there anything in that notice that indicated the potential level of what the straight fixed variable mechanism might do to rates?

A. No, there is not.

Q. Is it your understanding that the notice that was published is everything that appears on page 4 under Legal Notice through page 6 up to paragraph 12?

A. Yes, it is.

Q. Now, you also indicated that even under the proposal 75 to 80 percent of customers' bills, the commodity piece, that that provides customers sufficient incentive for conservation efforts, correct?

A. I believe so, and I believe I indicated that was for an average customer usage level.

Q. Would you agree with me that the larger the percentage of the bill that falls under a commodity or volumetric portion, the greater the incentive a customer has to conserve?

A. In general terms, yes. I would, however, point out that under for example decoupling, if I conserve and I reduce of course not only my commodity cost but my base rate cost as well, that a portion of that base rate cost will be billed to me at a later point in time under the decoupling mechanism.

So while there may be a temporary

perception of greater benefit, in reality the longer term consequence may, in fact, be that I don't save all the money that I think I'm going to save under decoupling.

Q. Okay. In that last series of questions, your testimony, your direct testimony at page 42, lines 6 through 9, you have in there a quote regarding the Alt. Reg. Exhibit B and straight fixed variable rate design. Do you recall that?

A. Yes.

Q. And if I look through the over thousand-page application that the company filed, all I'm going to find with regards to straight fixed variable is that same three-line statement that's in your direct testimony, correct?

A. I see a few more than three lines addressing straight fixed variable in that quote, but nonetheless I think that is in general the entirety of what you would see either in Alt. Reg. Exhibit B or in my prefiled direct testimony.

Q. So when you say "more," it's page 42, lines 6 through 13, not just 6 through 9.

A. Yes, sir.

Q. Okay.

MR. SERIO: That's all I have, your
Honor. Thank you.
Thank you, Mr. Murphy.
THE WITNESS: Thank you.
EXAMINER FARKAS: Ms. Hammerstein, any
questions?
MS. HAMMERSTEIN: No questions, thank
you, your Honor.
MR. KUTIK: Your Honor, at this time the
company moves for the admission of DEO Exhibits 1.0,
1.1, 1.2, 1.3, 1.4, 12, and Joint Exhibit 1.
EXAMINER FARKAS: Is it your intent also
that Joint Exhibit 1 includes 1-A and 1-B?
MR. KUTIK: Yes.
EXAMINER FARKAS: Okay. Any objection to
the admission of these exhibits?
MR. SERIO: No, your Honor.
EXAMINER FARKAS: They will be admitted.
(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. SERIO: OCC would move for admission
of OCC Exhibit 19 and OCC Exhibit 20.

MR. KUTIK: No objection.

MS. HAMMERSTEIN: No objection, your
Honor.

EXAMINER FARKAS: Then they'll be admitted also.

(EXHIBITS ADMITTED INTO EVIDENCE.)

EXAMINER FARKAS: There was a matter of Mr. Roycroft's testimony I think.

MR. CAMPBELL: Your Honors had requested that I provide the Bench with proposed redactions of Roycroft Attachment TRR-8, and I prepared those.

EXAMINER FARKAS: Okay.

MR. CAMPBELL: So with permission I'll give them to you.

EXAMINER FARKAS: Yes. And this has been provided to the other parties in advance of this morning or this afternoon? They've all seen this before?

MR. CAMPBELL: I know OCC has. I don't remember whether I provided one to staff; they have a copy right now.

EXAMINER FARKAS: Okay.

MS. HAMMERSTEIN: We hadn't seen it before today, but it looks consistent with what we discussed previously.

EXAMINER FARKAS: Okay.

EXAMINER PIRIK: Off the record.

(Discussion off the record.)

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

I believe that we're going to call your next witness?

MS. HAMMERSTEIN: Yes, your Honor.

EXAMINER FARKAS: Okay.

MS. HAMMERSTEIN: Staff calls Stephen E. Puican to the stand.

(Witness sworn.)

EXAMINER FARKAS: Be seated.

You may proceed.

MS. HAMMERSTEIN: Thank you, your Honor.

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STEPHEN E. PUICAN

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

DIRECT EXAMINATION

By Ms. Hammerstein:

Q. Mr. Puican, would you please state your
name and spell it for the record?
A. Stephen E. Puican, first name is
S-t-e-p-h-e-n, last name P-u-i-c-a-n.
Q. And what is your -- who is your employer

and what is your business address?

A. 180 East Broad Street, Columbus, Ohio, I'm employed by the Public Utilities Commission of Ohio.

Q. And do you have before you --

MS. HAMMERSTEIN: Your Honor, what I would like to have marked as Staff Exhibit 3, which is the testimony of Stephen E. Puican filed with the Commission's docketing department on July 31st, 2008; what I would like to have marked as Staff Exhibit 3A, which is the supplemental testimony of Stephen E. Puican that was docketed on August 5th of 2008; and what I would request be marked as Staff Exhibit 3B, that being the second supplemental testimony of Stephen E. Puican filed on August 25th of 2008.

EXAMINER FARKAS: So marked.

(EXHIBITS MARKED FOR IDENTIFICATION.)

MS. HAMMERSTEIN: Thank you, your Honor.

MR. KUTIK: Just as a point of

clarification, at least my copy of what's been marked
for identification as 3A shows it was docketed on
August 1st.

MS. HAMMERSTEIN: I was going to get into
this with Mr. Puican, but we also docketed the

identical testimony except for the addition of line numbers for ease of use and that additional or that testimony was docketed on August 5th, so I'm not introducing the earlier version of that.

MR. KUTIK: Okay.

MS. HAMMERSTEIN: And I would also like to have marked as Staff Exhibit 1 the Staff Report of Investigation that was filed on May 23rd of 2008.

EXAMINER FARKAS: So marked.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Ms. Hammerstein) Mr. Puican, do you have copies of all of those identified exhibits in front of you?

A. I have 3, 3A, and 3B. I neglected to bring a copy of the Staff Report.

MS. HAMMERSTEIN: Your Honor, may I approach the witness?

EXAMINER FARKAS: Yes.

Q. And, Mr. Puican, could you identify the document I just handed to you?

A. This is the Staff Report of Investigation filed in this proceeding.

Q. And how are you familiar with that document?

A. I prepared parts of it and I supervised the preparation of other parts of it.

Q. Okay. And is that the staff's -- documenting the staff's investigation in each of the cases in this proceeding?

A. Correct.

Q. And if I were to ask you today -- or, excuse me. You have Staff Exhibits 3, 3A, and 3B in front of you.

A. Yes, I do.

Q. And do you have any changes to make to those documents at this time, any modifications?

A. I want to make a clarification on the second supplemental testimony. The attachments SEP-1A, 1B, 2A, and 2B, I just want to clarify that all of those numbers are distribution costs only and do not include gas costs. I think it's a little bit confusing because on SEP-3 there are some -- there's a gas cost component there, but those numbers were not used in the calculations of the four spreadsheets.

Q. And subject to that explanation if you were asked the questions contained in Exhibits 3, 3A, and 3B today, would your answers be the same?

A. Yes, they would.

MS. HAMMERSTEIN: Your Honor, the witness is available for cross-examination.

EXAMINER FARKAS: What is the, Ms. Hammerstein, what's the status of the Staff Report in the PIR case? Is that also going to be an exhibit in this?

MS. HAMMERSTEIN: Well, your Honor -- I'm sorry, yes. That's correct. I should have marked that too.

EXAMINER FARKAS: Do you want to mark it?

MS. HAMMERSTEIN: Yes, that would be Staff Exhibit 4.

EXAMINER FARKAS: Okay.

(EXHIBIT MARKED FOR IDENTIFICATION.)

Q. (By Ms. Hammerstein) Mr. Puican, do you have a copy of the Staff Report in the PIR case?

A. I do not have that in front of me.

Q. Mr. Puican, can you identify the document

I just handed to you?

A. This is the Staff Report on the pipeline infrastructure replacement program filed by the company, this is the staff's report on that application.

Q. And can you tell me how you're familiar with Staff Exhibit 4?

A. I prepared certain sections and supervised certain sections of its preparation.

Q. And that is a true copy of the staff's investigation report in the PIR case?

A. Yes.

MS. HAMMERSTEIN: Your Honor, with that, I tender the witness for cross-examination.

EXAMINER FARKAS: Okay. Does the company have any questions?

MR. KUTIK: No questions, your Honor.

EXAMINER FARKAS: Okay.

MR. RUSSELL: No questions.

EXAMINER FARKAS: OCC.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good afternoon, Mr. Puican.

A. Good afternoon.

Q. I'd like to look at the charts attached to your -- strike that.

Before we go any further, am I correct

that your supplemental testimony marked 3A, that was entirely -- that testimony involved the pipeline infrastructure program entirely, correct?

A. Correct.

Q. There's nothing in 3A regarding rate design?

A. No.

Q. So to the extent that your testimony addresses rate design, it would be in your prefiled direct testimony and in your second supplemental direct testimony only, correct?

A. That's correct.

Q. Okay. If you could turn to your Exhibit SEP-1A, can you tell me where you got this data?

A. The left-hand side, the customers and the percentages associated with various usage levels came from the company. The rates that are on SEP-3 generally came from the company or the Staff Report. And I calculated the other columns on that spreadsheet.

Q. Okay. So looking at SEP-1A, under 12 Month Usage, so we have it clear on the record, the zero to 5 indicates customers that use 5 Mcf a year or less, correct?

A. Correct.

Q. And Total Customers, that means that under the residential there's 24,835 residential customers that use 5 Mcf or less.

A. Correct.

Q. And that means that it's 2.15 percent of the total residential customer base, correct?

A. Correct.

Q. And then your cumulative number would be, for example if I go to the next line there's 11,575 total customers that use 5.1 to 10 Mcf so the cumulative number would be adding zero to 5 plus the 5.1 to 10.0.

A. That's right.

Q. And the difference in the numbers there is just a matter of rounding, correct?

A. Correct.

Q. Now, sticking with line 1, the Current Bill, the 81.35, can you tell me what that represents?

A. That is 12 months of the $5.70 customer charge plus the associated variable and rider costs that are shown on SEP-3 under Current. So that would be 2.5895 times 5 Mcf, plus 5.70 times 12.

Q. Okay. So then under Proposed Bill at 5.70, the difference between the current bill and that proposed bill at 5.70 fixed charges, tell me what that is.

A. That represents the fixed and variable rates that would go into effect with the new revenue requirement generated in this case. So basically it's holding the fixed charge constant and generating the additional revenues in the revenue requirement through an adjustment to the volumetric rates.

Q. So if I look at the column that's marked Dollar Increase, for the zero to 5 customers it's 4.35, that's how much that customer would see as an increase on an annual basis as a result of this rate case and the resulting rate design proposed by the company and staff, correct?

A. Correct to the extent that the volumetric rates under this 5.70 were in fact what was proposed by the company; I'm not sure if they were ever adjusted along the way. In fact, I'm sure they must have been because the revenue requirement was adjusted.

Q. So the 4.35 is based on the actual revenue requirement in the stipulation, Joint Exhibit

1, correct?
A. Correct.
Q. Okay. Now, if I look at Proposed Bill at 12.50 Fixed Charge --
A. Yes.
Q. -- is that the 2.5895 times 5 and then taking the 12.50 customer charge by 12 and adding those two together?
A. It's the customer charge times 12 plus 2.0576 times the 5 Mcf.
Q. I'm sorry, what was that number you used, the second number?
A. 2.0576 in the third column on SEP-3 at the bottom.
Q. Block 1 Proposed Year 1 rate.
A. Yes. Right.
Q. Okay. So the next column, the Dollar Increase, the 85.90, that would be the increase that a customer using zero to 5 Mcf would experience as a

result of the revenue requirement increase in rate
design in this proposal, correct?
A. I'm sorry, 85.90?
Q. Yes.
A. I'm not seeing 85.90.

Q. First line under Dollar Increase, it's after the proposed bill of 12.50.

A. I'm sorry, I'm looking at the wrong sheet.

Q. Yeah, I'm on SEP-1A.

A. Yes, that's correct.

Q. I'm sorry, the 85.90 is the increase that that customer experienced from this rate increase, correct?

A. Correct.

Q. Okay. And then the percentages, that's a 105 percent increase?

A. Correct.

Q. And then the Dollar Increase Over 5.70, the 81.55, what does that represent?

A. That's the difference between rates set with a 12.50 customer charge and a $5.70 customer charge.

Q. So the 81.55 is solely the impact from the change in rate design.

A. That's right.

Q. So everything under that column would be
solely the rate design impact.

A. That's right.

Q. Okay. And it is your understanding that the average residential customer uses -- falls in the 90.1 to 100 12-month usage category?

A. Yes.

Q. And your understanding with the PIPP customers is that they use approximately 131 Mcf a year?

A. That's what I heard earlier today, yes.

Q. Now, if I took SEP Exhibit 2A, that says its Usage Level - Total GSS customers, whereas SEP-1A is residential.

A. Correct.

Q. So if I took the first line in each, the zero to 5 usage, and I took the 28,506 under total GSS and subtracted the 24,835 residential, your understanding is that that means there's a difference of a little less than 4,000 is the number of nonresidential customers in the GSS class that use zero to 5 Mcf a year.

A. That would be my interpretation. I've not had that independently verified, but that would be my interpretation, yes.

Q. To the extent that that's a nonresidential customer using less than 5 Mcf a year, did you have any understanding of what those customers are using natural gas for?

A. I do not.

Q. I could do the same comparison as we just did for each of those usage levels to get the number of nonresidential customers in the GSS class for that particular usage level, correct?

A. Again, that would be my interpretation of the differences between those two sheets.

Q. And then is it also your understanding that for the residential customers the largest usage levels, 350 Mcf and larger, that those were for master metered situations and not necessarily individual residential customers?

A. I understand that was Mr. Murphy's testimony from this morning.

Q. You have no reason --

A. I have no reason to contradict that.

Q. Now, in your testimony, your original

prefiled testimony, on page 7 you talk about PIPP
customers and their usage levels, and I believe you
indicate that PIPP customer usage was the best
readily available proxy for all low income customer
usage. Do you see that?

A. Yes.

Q. If there was a better proxy available, would you recommend using the better data?

A. I'd have to see how applicable it was to the demonstration that we're trying to make here.

Q. Is it your understanding that all low income customer usage is similar to PIPP customer usage?

A. I don't know that. I'm simply indicating that PIPP was the best available proxy that we have.

Q. When you use the term "low income" in your testimony, what percentage against the poverty level were you using?

A. Generically low income is referred to as 150 percent of the U.S. poverty level.

Q. And do you know how PIPP customer income levels compared to that 150 percent poverty level rate?

A. I'm not sure I understand what you're asking.

Q. Are PIPP customers -- in order to be a PIPP customer do you have to be at that 150 percent of poverty rate level or greater?

A. I believe that's correct, yes.

Q. There's other factors that a customer has to meet in order to qualify for PIPP, correct?

A. I'm generally familiar with PIPP, but I don't believe I can answer specific questions on it.

Q. Now, you indicate in your testimony that low-income customers are more likely than not to reside in older, less energy efficient homes and more likely to rent rather than owning their own homes, correct?

A. I say that, yes.

Q. So if you had data that reflected low income customer homeownership levels, low income customer income levels, would that data be better than the proxy of using PIPP customers for all low-income customers?

MS. HAMMERSTEIN: Objection; speculative.

EXAMINER FARKAS: I'll allow it.

A. Again, without -- I would not accept that without being able to look at specific data and making the determination as to whether that's better data than what we're using.

Q. Did the staff make any efforts to do any analysis to determine if there was better data out there than using PIPP customers?

A. No, we did not.
Q. Do you know if the company made any efforts to do that?
A. I don't know.
Q. Now, in your testimony on page 7, to the extent that you talk about low-income customers, all the statements that you make there are based on the assumption that all -- based on the assumption that PIPP customers are a good proxy for all low-income customers, correct?
A. When you say "all" the things that I say here --
Q. For example, if you look at your last sentence in your carryover paragraph beginning on line 11 --
A. Yes.
Q. -- where it says "low-income customers are more likely to be high-use customers," you're basing that conclusion on the fact that PIPP

customers use more than the average residential
customer, correct?
A. Correct.
Q. So to the extent that low income non-PIPP
customers used less, this statement would not apply

then, correct?
A. It does not apply to low-use customers regardless of income.
Q. Now, would you agree with me under the company and the staff proposed rate design that a larger proportion of the customer bill will be in the fixed part of their bill and a smaller portion in the volumetric part of their bill?
A. Because -- all else equal, forgetting about the riders and whether they're fixed or variable, I would agree with that.
Q. Then the amount would differ, but generally speaking the greater the portion of the bill that is variable, the greater the portion of the bill that a customer has some control over, correct?
A. By definition if the volumetric is a function of usage, the customer has some control over that.
Q. On page 5 of your prefiled testimony you

talk about overinvestment in conservation. Is it your opinion that we've experienced overinvestment in conservation in the Dominion service territory?

A. No, that is not my opinion.

Q. Are you aware of any instances -- strike that.

At the top of page 4 of your direct testimony you state "Customers will always achieve the full value of the gas cost savings regardless of the distribution rate." Do you see that?

A. Yes.

Q. Then if you go to page 5 of your testimony, you indicate, line 14, "Staff is proposing a rate design that eliminates this disincentive. The relatively small potential disincentive." Do you see that?

A. Yes.

Q. Would you agree with me to the extent that you say "full value" on page 4, to the extent that there's a change between fixed and volumetric, the customer would get slightly more cost savings if the distribution rate has a greater emphasis on the volumetric rather than the fixed portion?

A. Just to be sure I'm clear, when I say "full value," I'm not talking about full value of all the variable costs. I'm talking about the full value of the gas cost component only.

Q.   Oh, okay.

Page 5 of your testimony you indicate

that the SFV rate design achieves a better result than a proposed reconciliation rider.

A. Yes.

Q. To the extent that a company preferred a reconciliation rider -- strike that.

You have the Staff Report with you?

A. Yes.

Q. Could you turn to page 34? Am I correct that you're more directly familiar with the rate design portion of the Staff Report?

A. Yes.

Q. The fourth paragraph down, second sentence says "The biggest negative impact being the change from a primarily volume-based rate to a primarily fixed charge rate offers larger price increases to low use customers."

A. Yes, I see that.

Q. If I was to look at SEP-1A, and look at the Dollar Increase column after Proposed Bill 12.50,

that column reflects the concern that you point out
in the Staff Report, correct?

A. Yes, it does.

Q. And just so I'm clear, on your SEP
Exhibit 3, the middle block, the Gas Cost, those four

lines, you did not use that data in the calculations that you did on SEP-1A and 2A, correct?

A. That's correct.

Q. I guess one last question. To the extent that you talk about the three-prong test, you're simply referring to the parts of the stipulation that were signed by all the parties, correct?

A. That's correct.

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

Thank you, Mr. Puican.

THE WITNESS: Sure.

EXAMINER PIRIK: Mr. Puican, I just have a couple questions with regard to Joint Exhibit 1-A.

THE WITNESS: Okay.

EXAMINER PIRIK: Could you just explain to us, similar to what Mr. Murphy had referred to, exactly how you came about with the 12.50 and the 15.40 and how those numbers were arrived at?

THE WITNESS: They were generated by the staff to kind of incorporate the concept of gradualism into the concept of moving to a straight fixed variable rate design. There was reluctance to go to a zero volumetric, there was also, it was felt, desirable to phase it in over two years and so the folks that generate those numbers kind of within those parameters generated a fixed charge that they felt met those criteria.

EXAMINER PIRIK: And why specifically was it desirable to phase it in over the two-year period versus some other period of time?

THE WITNESS: We went with two years, we thought some phase-in was appropriate, but to do longer than two years, then you're getting into issues of revenue erosion for the company and we felt the longer you extend that time, the more pressure there is to want to adopt some type of decoupling mechanism as an interim recovery mechanism until you get to a level of straight fixed variable where that was no longer necessary.

EXAMINER FARKAS: Any redirect?

MS. HAMMERSTEIN: No, your Honor.

EXAMINER FARKAS: Okay. Is there any

objection to the admission of Staff Exhibit's 3, 3A,
3B, 1, and 4?

MR. KUTIK: No, your Honor.

MR. SERIO: No objection, your Honor.

EXAMINER FARKAS: Is that it?

MS. HAMMERSTEIN: That's it.

EXAMINER FARKAS: All right.

MS. HAMMERSTEIN: Thank your Honor.

EXAMINER FARKAS: They will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. KUTIK: Your Honor, may we go off the record?

EXAMINER FARKAS: Yeah, let's go off the record.

(Discussion off the record.)

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

That concludes OCC's witnesses?

MS. HAMMERSTEIN: That concludes staff's witnesses, yes, your Honor.

EXAMINER FARKAS: Staff's witnesses, I'm sorry, thank you.

And the company has no further witnesses on direct; is that correct?

MR. KUTIK: That's correct.

EXAMINER FARKAS: Okay. Mr. Serio.

MR. SERIO: Your Honor, OCC Witness Radigan, our rate-design witness, is scheduled to testify tomorrow, however, OCC would like to have the opportunity to call a rebuttal witness that would specifically rebut Mr. Puican's testimony that at this point PIPP customers are the best available surrogate for low-income customers. We believe that there is sufficient data out there that shows that low-income customers are a very separate group from PIPP customers and that that data needs to be put on the record, and we have a witness that would specifically rebut that statement by staff.

EXAMINER FARKAS: Okay. Do you have any objection to the --

MR. KUTIK: Yes, we do, your Honor. We don't believe that's appropriate for rebuttal at all. If OCC had a witness that they wanted to put on, they could have put that witness on or -- as part of their other prefiled testimony. It's a little late in the day to come up with rebuttal testimony that was clearly evident if they wanted to rebut that point before now.

MR. SERIO: Your Honor, Mr. Puican's direct testimony was submitted after OCC filed all of our direct testimony, so we couldn't rebut something in direct testimony that was filed after our direct case had been filed.

EXAMINER FARKAS: Ms. Hammerstein.

MS. HAMMERSTEIN: The testimony that counsel for OCC refers to was docketed on July 31st and OCC had an opportunity after that to file anything in rebuttal; long before now.

MR. KUTIK: In addition, your Honor, for example Mr. Murphy's deposition, these subjects were discussed, so if they had contemplated testimony on this, they could have done it before now.

MR. SERIO: Your Honor, in my 25 years of proceedings at the PUCO I'm not aware that rebuttal testimony has to be filed prior to the other side putting their witness on the stand and putting that direct testimony on the record.

Mr. Puican put his direct testimony on the record today. As a result of questions -- as a result of information in his testimony and follow-up cross-examination we would like to rebut that claim. I think that's absolutely appropriate rebuttal

testimony. And we could not within the filing
deadline for our direct testimony have addressed it
previous to this.

EXAMINER FARKAS: Yes.

MR. KUTIK: Your Honor, it's been no

secret that SFV has been part of this case for a long time. Certainly prior to the filing of any testimony other than the initial testimony filed with the application.

It is certainly no secret that OCC has been on the bandwagon publicly about how SFV affects negatively, in their view, low-income customers. If they wanted to fully develop the record and fairly develop the record on this point, they were duty-bound to file their best case at the time and not to attempt a last-minute move to prevent full exploration in discovery of this allegedly rebuttal witness. So it is unfair; it is improper for them to try it at this time.

EXAMINER FARKAS: Okay. We're going to allow the rebuttal testimony on the condition that it would be filed by Thursday and the witness would be here on Friday.

MR. SERIO: We may be able to do a little better than Thursday. It's possible we could have the testimony filed Wednesday and the witness could be available Thursday.

EXAMINER FARKAS: Okay.

MR. SERIO: I need to check the office,

but I think we can do that.

MR. KUTIK: Will we have an opportunity to take discovery of this witness, your Honor?

EXAMINER FARKAS: We'll allow that. My thought was that you would rather go on an expedited time frame, but if you want to --

MR. KUTIK: Well, certainly.

EXAMINER FARKAS: -- question the witness --

MR. KUTIK: What I would like, obviously, is have an opportunity to have a witness file his testimony tomorrow, be able to take his deposition either tomorrow or the next day, and then put him on as soon as we can thereafter.

EXAMINER FARKAS: Okay. Is this witness a witness from --

MR. SERIO: It's not an internal witness, your Honor. It's somebody that I've got to make some scheduling arrangements with and I was pretty sure

that the witness would be available in town on
Thursday.

MR. KUTIK: Well, this points to the
additional unfairness of doing this. Friday is the
one-year anniversary of the filing of the application

in this case, and this is just further attempts to delay these proceedings, your Honor. It's unfair to the company, it's unfair to the staff for OCC to come in at this point in time without the opportunity to fully explore this new witness.

MR. SERIO: Your Honor, I'd like to put on the record --

EXAMINER PIRIK: Mr. Serio.

EXAMINER FARKAS: No. Just a second.

I think the ruling stands. If you want to depose the witness before he goes on the stand, then I would expect Mr. Serio to provide the witness to you on an expedited basis and his testimony filed at least by Thursday, if not before, and then you would have the opportunity to depose that person if you so choose as soon thereafter as possible.

And then we would go on and put that witness on either Friday or Monday, if not sooner. I mean, the nature of his testimony I can't -- I wouldn't believe would be that extensive, would it?

MR. SERIO: His testimony would address the argument that --

EXAMINER FARKAS: This is not the best surrogate of your plan.

MR. SERIO: Yes.

EXAMINER FARKAS: That's a pretty defined scope of testimony. So when can you advise the parties as to when this witness would be available?

MR. SERIO: I know the witness is going to be in town this week.

EXAMINER FARKAS: Okay.

MR. SERIO: Obviously I have to get the testimony filed first. I'll do my best to get it filed by Wednesday. If I get it filed Wednesday, the witness will probably be available Wednesday or Thursday and then we can go from there.

EXAMINER FARKAS: Okay. Yes.

MS. HAMMERSTEIN: Since it appears that Mr. Serio knows who this witness is going to be, can we find out who that is?

EXAMINER FARKAS: Yes.

MR. SERIO: His name is Roger Colton.

EXAMINER FARKAS: Okay. Can you spell

his last name?

MR. SERIO: C-o-l-t-o-n.

EXAMINER FARKAS: Okay.

MR. SERIO: Your Honor, Mr. Colton filed testimony in the Vectren rate proceedings where there were different time lines. The testimony would be somewhat similar to the testimony he filed in the Vectren proceeding so if the parties want to take the opportunity to go to the Vectren proceeding, his testimony is a matter of public record.

EXAMINER FARKAS: The Vectren proceeding is which case?

MR. SERIO: The 1080 rate case that is currently ongoing at this time.

EXAMINER FARKAS: Okay.

MR. KUTIK: Your Honor, at this point in time can we have a ruling from the Bench, we would move for Mr. Colton's testimony to be filed by no later than close of business on Wednesday and then for us to be able to have the option of either cross-examining him or taking his deposition on Thursday and perhaps going forward with the hearing on Thursday.

EXAMINER FARKAS: Is that a problem?

MR. SERIO: Your Honor, I know I can meet
the Thursday deadline. I think I can do faster, I
just have to verify internally that the review that
needs to be done is completed. If that's the case, I
can probably get it filed early Wednesday. So if you

give me the deadline that you initially indicated, probably tomorrow I can send an e-mail out advising the parties just how quick I can get the testimony filed.

MR. KUTIK: Well, if his testimony is just like or similar to the Vectren testimony, we should be able to get that thing filed by Wednesday and we again would move for the Bench to set that deadline.

EXAMINER FARKAS: Yes. I think that's reasonable.

MR. SERIO: If that's the Bench's ruling, it's absolutely acceptable, your Honor.

EXAMINER FARKAS: Thank you. So we will resume -- we'll stand adjourned today and then resume tomorrow at 10 o'clock.

MR. SAUER: 10 o'clock is good.

EXAMINER FARKAS: 10 o'clock, okay.

(The hearing adjourned at 3:04 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 Monday, August 25, 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-3244)

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