

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Application of the East Ohio Gas  
Company d/b/a Dominion East Ohio to  
Adjust its Pipeline Infrastructure  
Replacement Program Cost Recovery  
Charge and Related Matters.**

**Case No. 09-458-GA-UNC**

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**DIRECT TESTIMONY OF  
MIKE REED  
ON BEHALF OF  
DOMINION EAST OHIO**

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**I. INTRODUCTION**

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

A1. My name is Mike Reed. I am employed by The East Ohio Gas Company, d/b/a Dominion East Ohio ("DEO"), as Director of Design and Construction Operations. My business address is 320 Springside Drive; Akron, Ohio 44333.

**Q2. Please describe your educational background and work experience.**

A2. In 1982, I graduated from the Lawrence Institute of Technology with a Bachelor of Science degree in civil engineering. I have served in my current position, Director of Design and Construction Operations, since May 2008. Prior to that, I was Director of Field Service Operations for four years, overseeing our meter-reading, credit and collection, dispatch, leak repair and pipeline maintenance operations. Prior to that, I served as Director of Construction operations in Pennsylvania. Altogether, I have worked for DEO or its predecessors since 1982.

**Q3. What are your job responsibilities as Director of Design and Construction Operations?**

A3. I am responsible for the design and construction of pipeline facilities, including distribution, gathering and transmission facilities. I also have oversight for our land group for Right-of-Way management and our Lima operations (formerly the West Ohio Gas Company).

**Q4. Have you previously testified before the Commission?**

A4. No.

**Q5. Are you familiar with DEO's Application to adjust its Pipeline Infrastructure Replacement ("PIR") Cost Recovery Charge?**

1 A5. Yes.

2 **Q6. Are you familiar the incremental Operation and Maintenance (“O&M”) expenses**  
3 **DEO seeks to recover through the PIR Cost Recovery Charge?**

4 A6. Yes.

5 **Q7. How so?**

6 A7. I am involved on a daily basis with the management of DEO’s pipeline projects,  
7 including those encompassed by the PIR program, and with the closing of those projects  
8 for purposes of accounting. I also participate in DEO’s decisions regarding allocation of  
9 our internal resources on the PIR project.

10 **Q8. What is the purpose of your testimony in this proceeding?**

11 A8. The purpose of my testimony is to provide additional detail regarding the incremental  
12 O&M expenses DEO seeks to recover through the PIR Cost Recovery Charge. As I  
13 explain below, these expenses are critical to the successful implementation of the PIR  
14 program.

15 **II. DESCRIPTION OF INCREMENTAL O&M EXPENSES**

16 **Q9. What are the incremental O&M expenses DEO seeks to recover through the PIR**  
17 **Cost Recovery Charge?**

18 A9. DEO seeks recovery of expenses for project management and design, project  
19 prioritization and scoping, contractor management, project monitoring and reporting, and  
20 data preparation and map generation directly associated with DEO’s PIR program. But  
21 for the existence of the PIR program these costs would not be incurred by DEO.

22 **Q10. How did DEO determine whether to include a particular O&M expense in its**  
23 **Application?**

1 A10. In accordance with the parties' agreement and the Commission's approval of the PIR  
2 program, DEO seeks recovery of only those incremental O&M expenses that would not  
3 have been incurred but for the PIR program. Only PIR-related costs are charged to  
4 incremental O&M expense for this program. Labor costs for employees who have  
5 transferred within the Company to our new PIR-related positions are included only if  
6 those employees' former positions were deemed necessary for core activities and were  
7 backfilled. Specifically, of the 23 DEO employees included in incremental O&M  
8 expense, six were new hires, and the rest were backfilled internally. Simply put, if it  
9 weren't for the PIR program, the incremental O&M expenses included in the Application  
10 would not have been incurred.

11 **Q11. Is it necessary that DEO incur these expenses in administering the PIR program?**

12 A11. Yes.

13 **Q12. Why?**

14 A12. The sheer magnitude of the PIR program has required—and will continue to require—  
15 that DEO invest labor and other resources for O&M activities. Since DEO began  
16 implementing PIR, it effectively has doubled its capital budget, making the PIR program  
17 one of the most significant projects in the Company's history. For this investment to be  
18 successful and properly administered, however, it must be accompanied by appropriate  
19 incremental O&M expenditures.

20 **Q13. Has DEO specifically tracked these incremental O&M expenses?**

21 A13. Yes. DEO has assigned these expenses to specific WBS elements ("Work Breakdown  
22 Structure" elements, a term specific to DEO's SAP accounting system to designate  
23 projects) for purposes of tracking and reporting. Exhibit MR-1, which was provided to

1 the parties in discovery, reflects a summary of the incremental O&M expenses charged to  
2 these elements.

3 **Q14. Please explain the purpose of project management activities and how they relate to**  
4 **the PIR project.**

5 A14. Because of the magnitude and scope of the PIR project, project management-related labor  
6 and other costs comprise the bulk of incremental O&M expense. The role of the project  
7 management employees is to oversee the entire construction process, from planning  
8 through design and construction, including all restoration issues. Project Managers  
9 communicate with the municipalities and customers affected by the actual excavations  
10 and construction projects, a large task given the number of communities involved and  
11 upfront communication is the key to this process. These activities of the Project  
12 Managers are critical to the success of the PIR program. Project management expenses  
13 are separated into multiple WBS elements. Specifically, "PIR.2.IRP" refers to labor and  
14 related vehicle costs associated with project management for work on long duration, or  
15 "major" projects, which together involved \$36.6 million or approximately 41% of DEO's  
16 recent filing. "PIR.2.LIMA" includes similar O&M expenses associated with Lima-area  
17 "major projects." Project management expenses are also included in "PIR.2.DESIGN"  
18 and "PIR.2.STAFF," which also includes expenses related to the design, permitting and  
19 the monitoring of construction processes and procedures. These activities are critical to  
20 maintain the appropriate implementation of what will ultimately be a multi-billion dollar  
21 project.

22 **Q15. Please explain the purpose of prioritizing and scoping O&M expenses and how they**  
23 **relate to the PIR project.**

1 A15. The four DEO employees in the Project Prioritization Team (“PPT”) are responsible for  
2 prioritizing pipeline projects, to ensure that the right projects are constructed at the right  
3 time. The PPT group works with the DEO Operations Design and Construction areas to  
4 develop proactive project plans to ensure that DEO is appropriately prioritizing the worst  
5 pipeline problems. Given the number of PIR projects and affected communities, this task  
6 requires a great deal of planning to anticipate contingencies and conflicts, such as  
7 roadwork, relocations or other third-party construction that might impact PIR-related  
8 work. DEO uses the OPTIMAIN software to help with project identification and  
9 prioritization, and the Envista Web-based product for communication with municipalities  
10 and other authorities regarding future construction and maintenance projects. Labor and  
11 vehicle costs associated with these expenses are charged to “PIR.1.PPT.” Envista-related  
12 subscription and training costs are charged to a separate WBS element.

13 **Q16. Please explain the purpose of contractor management activities and how they relate**  
14 **to the PIR project.**

15 A16. These labor charges, which are reflected in the “PIR.2.CONSERV” WBS element, relate  
16 to the DEO employees who manage every aspect of our PIR program contractor  
17 relationships, from beginning to end. Given the magnitude of the PIR program, this  
18 group worked at establishing a large contractor pool to provide competitive pricing and  
19 the necessary skill set, mainly qualified operators, for natural gas pipeline projects. In  
20 addition, they are responsible for coordination of our bidding process: scoping bid  
21 documentation, assembling and forwarding bid information to prospective contractors;  
22 answering questions regarding bid information; and detailed evaluation of bids. Once  
23 contractors are selected, these employees ensure that contractors have the necessary

1 qualifications and background checks to complete the work. As a project progresses,  
2 these employees also reconcile invoices from contractors to verify that those costs are  
3 properly paid in an effort to minimize any “cost plus” issues.

4 This group is also responsible for our post construction issues including damages and  
5 restoration that may arise between DEO’s contractors, and other third parties.

6 **Q17. Please explain the purpose of monitoring and reporting activities and how they**  
7 **relate to the PIR project.**

8 A17. These expenses relate to the O&M charges associated with compiling, monitoring and  
9 reporting data related to PIR projects; this group focuses on the internal monitoring of the  
10 projects, updating DEO’s forecasts for recovery costs and recovery period. We must  
11 keep in mind that the PIR recovery period differs from the DEO capital spend period,  
12 necessitating a new set of reports and tracking mechanisms. Much of this work involves  
13 processing and responding to a wide variety of inquiries by the Commission and the OCC  
14 regarding PIR. These costs are charged to “PIR.1.CIM.”

15 **Q18. Please explain the purpose of data preparation O&M expenses and how they relate**  
16 **to the PIR project.**

17 A18. These expenses include the vendor costs associated with contractors who prepare detailed  
18 maps and data prior to construction to assist Project Managers and designers in designing  
19 projects. Once construction is complete, this group then updates DEO’s GIS mapping  
20 system, and compliance systems to reflect the new pipe information. Although  
21 approximately 30 contractors work in this area, costs for only approximately four of the  
22 30 contractors have been included in the PIR incremental O&M expense, reflecting the  
23 increase due to the existence of the PIR program. These costs are captured in



1           “OHADMT.PIR.” But for the PIR program the incremental O&M expenses would not  
2           be incurred. The activities supported by the O&M expenses are critical to ensure DEO  
3           properly implements this important program.

4   **Q19. Does this conclude your testimony?**

5   A19. Yes.

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was sent by electronic mail to the following parties on this 9th day of October, 2009.

/s Grant W. Garber

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