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FILE

DEO EXHIBIT 1.0

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Automated Meter Reading Cost Recovery Charge and Related Matters	))))	**Case No. 09-1875-GA-RDR**

DIRECT TESTIMONY OF
VICKI H. FRISCIC
ON BEHALF OF DOMINION EAST OHIO

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Direct Testimony of

Vicki H. Friscic

I. INTRODUCTION

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

A1. My name is Vicki H. Friscic. I am employed by The East Ohio Gas Company, d/b/a Dominion East Ohio ("DEO"), as its Director, Regulatory & Pricing. My business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

Q2. Please describe your educational background and work experience.

A2. I graduated from Ohio University in 1980 with a Bachelor of Business Administration degree. In 1980 I joined the accounting firm Price Waterhouse as an auditor, became a licensed CPA in 1982, and was promoted to Audit Manager in 1986. From 1987 to 1989, I worked for Progressive Insurance and held managerial accounting positions with responsibility for accounts payable, billing, cash processing, and internal reporting for Progressive's Financial Services Group. In 1989, I was employed by Pepsi-Cola as Manager, Financial Services for its Northeast Ohio franchise with responsibility for accounts receivable and credit, route sales auditing, and computer operations. From 1993 to 1997, I worked as a CPA for a local firm providing accounting, business consulting, and tax services to small businesses. I was hired by DEO in December 1997 as Manager, Tax and Accounting Services. In 2001, I joined DEO's Pricing and Regulatory Affairs department. I am currently a member of the Ohio Society of CPAs.

Q3. What are your job responsibilities as Director, Regulatory & Pricing?

A3. My duties include oversight of DEO's regulatory affairs. In overseeing DEO's regulatory affairs, I am responsible for regulatory filings before the Public Utilities Commission of Ohio (the "Commission"). I also act as DEO's principle liaison with the Commission and with other regulatory process stakeholders. In order to represent DEO effectively in that role, I interact with all levels of management across a variety of functional areas to understand the commercial, operational and administrative issues facing the Company.

Q4. In your capacity as Director, Regulatory & Pricing, are you generally familiar with the Company's books and records?

A4. Yes. I am responsible to prepare and make a variety of financial filings with the regulatory agencies with which I interact. Those filings include financial information derived from DEO's financial records, including the general ledger, annual reports, income statements and balance sheets.

Q5. Are you familiar with DEO's Application to adjust its Automated Meter Reading Cost Recovery Charge ("AMR Charge") filed in this proceeding?

A5. Yes. I supervised and coordinated the collection of the data and assembly of the schedules supporting the AMR Charge, which were filed as part of DEO's pre-filing notice and Application.

Q6. What is the purpose of your testimony in this proceeding?

A6. My testimony supports the Application and schedules filed in this proceeding. I explain the purpose of the AMR program as well as prior Commission orders addressing the processes and procedures for annual adjustments to the AMR Charge. I also address comments filed in this proceeding by Commission Staff and the Office of the Ohio Consumers' Counsel ("OCC"). My testimony concludes that the Commission should approve an adjusted AMR Charge of $0.47.

II. AMR BACKGROUND

Q7. What is AMR?

A7. AMR refers to equipment associated with a gas meter that allows the meter to be read remotely through electronic means. DEO is currently installing encoder-receive transmitter ("ERT") devices, a type of AMR device, on all its customers' meters. These devices are read by DEO employees using specialized receivers, while on a meter reading route, or simply while driving past the customer's premises.

Q8. Does AMR benefit customers?

A8. Yes. DEO's customers will realize several benefits from AMR technology, including: (i) cost-effective meter reading as required under the minimum gas service standards; (ii) fewer estimated bills, which in turn will provide a better match between the amount billed and actual gas consumption; (iii) more frequent actual meter reads, which improves accuracy in transferring service, eliminates call volume associated with estimated meter reads, and provides a better basis for budget billing calculations; and (iv) less need for DEO to schedule appointments to read meters inside customers' premises, further enhancing convenience for customers. Commission Staff recognized many of these benefits in its Staff Report in DEO's last rate case, Case No. 07-829-GA-AIR, et al. (May 23, 2008 Staff Report, p. 42).

Q9. Why did DEO propose an AMR Charge?

A9. DEO proposed an AMR Charge to secure the capital funds necessary to complete AMR installation on a five-year timetable. Absent this charge, DEO would have to fund the program through its normal capital budgeting process, which, in turn, would have meant that a system wide deployment would take fifteen to twenty years. With the AMR Charge, and the ability to deploy AMR technology throughout the Company's system in five years, DEO will achieve the "critical mass" of AMR installations that will yield AMR-related benefits and savings more quickly.

Q10. Did the Commission approve an AMR Charge?

A10. Yes. In the last rate case, the Commission approved a Stipulation and Recommendation ("Rate Case Stipulation") where the signatory parties, which included OCC, agreed to the implementation of an AMR Charge in accordance with Staff's recommendations as set forth in the rate case Staff Report. (Rate Case Opinion and Order, p.10.) Staff recommended, the parties agreed and the Commission approved an automatic adjustment mechanism or "rider" authorizing DEO to record as a regulatory asset the depreciation, incremental property tax expense and post-in-service carrying charges ("PISCC") associated with AMR assets over a five year period. DEO is authorized to record these costs during each calendar year of the AMR deployment period and file an application in February the following year supporting a fixed AMR Charge. In each succeeding year, this charge increases by the amount of accumulated AMR costs plus DEO's authorized return on rate base until DEO files another rate case and new base rates are approved and go into effect.

Additionally, in Case No. 09-38-GA-UNC, the Commission approved a Stipulation and Recommendation ("AMR Stipulation") where the signatory parties, which included OCC, agreed to the initial adjustment of the AMR Charge and the methodology for AMR Charge calculation. In comments filed in this proceeding on March 29, 2010, Staff noted that DEO's AMR Charge calculation is consistent with the AMR Stipulation adopted by the Commission in Case No. 09-38-GA-UNC. (Staff Comments, p. 4.)

Q11. Is the AMR regulatory asset reduced by call center and meter reading savings achieved through the installation of AMRs?

A11. Yes, it is. In the AMR application filed in Case No. 06-1453-GA-UNC, DEO proposed to compare its annual meter reading operating and maintenance ("O&M") expenses to a 2006 base year. Any savings relative to the base year would be used to reduce the regulatory asset, in order to provide customers with the benefit of any meter reading cost reductions achieved as the result of AMR deployment. (Application, p. 6.) The rate case Staff Report recommended a 2007 baseline year. (Rate Case Staff Report. p. 43.) Additionally, as part of the Rate Case Stipulation, DEO agreed to also reduce the regulatory asset by call center savings resulting from the deployment of AMR equipment. Both the Rate Case Stipulation and Opinion and Order adopted Staff's recommended 2007 baseline for meter reading and call center expenses. With regard to the calculation of the baseline amount, the Rate Case Stipulation and Opinion and Order required DEO, within three months of approval of the Stipulation, to work with Staff and OCC to "develop an appropriate baseline from which meter reading and call center savings will be determined and such quantifiable savings shall be credited to amounts that would otherwise be recovered through the AMR cost recovery charge." (Rate Case Opinion and Order, pp. 10, 13.)

Q12. Did DEO work with Staff and OCC to develop a 2007 baseline?

A12. Yes. DEO engaged Staff and OCC in discussions about calculation of the baseline, but the parties did not reach an agreement within three months.

Q13. Did DEO, Staff and OCC subsequently reach agreement on the calculation of the 2007 baseline?

A13. Yes. DEO filed its application for the first annual AMR Charge adjustment in Case No. 09-38-GA-UNC. In the AMR Stipulation approved in that proceeding, DEO, Staff and OCC agreed to a 2007 baseline level for determining meter reading and call center savings. The Commission approved the AMR Stipulation in an Opinion and Order dated May 6, 2009.

III. AMR APPLICATION

Q14. What is the current AMR Charge?

A14. The current charge is $0.30 per customer per month, as approved by the May 6, 2009 Opinion and Order in Case No. 09-38-GA-UNC.

Q15. What is the AMR Charge proposed in the Application?

A15. The Application proposes an AMR charge of $0.49 per customer per month. The supporting calculations for this charge are set forth in Schedules 1 through 11 accompanying the Application.

Q.16 Does DEO propose to modify the AMR Charge presented in the Application?

A16. Yes. In comments filed on March 29, 2010, Staff noted that DEO utilized an estimated tax rate to annualize the property tax expense component of the AMR Charge. (Staff Comments, p. 8.) Staff recommends that the latest known tax rate be utilized in the calculation of property tax expense. DEO agrees with Staff's recommendation. The calculation of the AMR Charge based on the latest known tax rate is $0.47 per customer per month. DEO also agrees with Staff's recommendation that the adjusted AMR Charge be implemented in the first billing cycle of the month following the Commission's decision in this case.

Q17. Does the Application filed in this proceeding utilize the same baseline for meter reading and call center savings that was used in Case No. 09-38-GA-UNC?

A17. Yes, it does. As shown in Schedule 11 to the Application, the 2007 baseline for meter reading costs is $8,684,136.64. The 2007 baseline for call center costs is $19,031,482.22. These are the same baselines that appear in Schedule 12 of the Application in Case No. 09-38-GA-UNC.

Q18. Subject to the adjustment you discussed regarding property tax expense, do Schedules 1 through 11 of the Application accurately calculate the AMR Charge in accordance with the procedures established in the Opinions and Orders in DEO's last rate case and previous AMR adjustment proceeding?

A18. Yes.

IV. RESPONSE TO OCC'S COMMENTS.

Q19. Have you reviewed the comments OCC filed in this proceeding on March 29, 2010?

A19. Yes, I have.

Q20. Please summarize OCC's position, as reflected in its comments.

A20. OCC does not challenge the 2007 baseline for meter reading or call center savings. Rather, OCC argues that the AMR Charge proposed by DEO should be recalculated to: (1) disregard actual meter reading savings achieved in 2009 and recalculate meter reading savings based on estimates provided in DEO's last rate case; (2) impute call center savings in the AMR Charge calculation, despite the fact that call center costs increased in 2009; and (3) reduce the AMR Charge by treating all unapplied for stimulus dollars as a reduction to O&M expense.

Q21. Please address OCC's comments regarding meter reading savings.

A21. DEO's Application identifies approximately $681,000 in meter reading savings as compared to the 2007 baseline. OCC claims that this figure should be disregarded because "it falls woefully shy of the Company's savings estimates that were made at the time of Dominion's rate case." (OCC Comments, p. 5.) OCC theorizes that because AMR deployment is approximately 60% complete, 60% of the total cost savings estimated at the time of DEO's last rate case ($6 million upon full deployment in 2012) should be imputed as meter reading savings for purposes of this proceeding. (Id.) OCC's calculation would increase meter reading savings to $3.6 million. (Id.) OCC also presents an alternative proposal whereby the actual meter reading savings of $681,000 would be disregarded in favor of $900,000 in savings that DEO estimated, during its last rate case, would be achieved in 2009. (Id.)

The Commission must reject both OCC proposals. The Rate Case Stipulation and Opinion and Order make clear that meter reading savings credited to the AMR Charge shall be based on "quantifiable" savings. (Rate Case Stipulation, p. 10; Rate Case Opinion and Order, p. 13.) Quantifiable means actual savings, not estimated or hypothetical savings. Had the parties wished to incorporate projected cost savings in AMR Charge adjustment proceedings, the parties would have so provided in the Rate Case Stipulation and the subsequent AMR Stipulation. OCC's proposed use of contrived savings figures based on estimates provided in the rate case is forbidden under the Stipulations that OCC signed and the Commission approved. The Commission should not change the rules for how the AMR Charge should be calculated half way through the AMR program.

The cost savings estimates that DEO provided in its last rate case were just that -- estimates. And the estimates that OCC cites were based on full deployment of AMR in 2012, with savings estimated from a 2006 baseline rather than the 2007 baseline ordered by the Commission. (OCC Comments, pp. 5-6, citing Case No. 07-829-GA-AIR; Dominion Responses to Staff Data Requests 02-12 & 06-11.) The estimates provided in discovery during the rate case were never represented as certain. DEO has always maintained that estimated savings likely will not and cannot be achieved until a "critical mass" is reached by full AMR installation. The response to Data Request 02-12 (OCC Comments, Attachment 1) specifically states: "The Company does not expect to realize material savings until a sufficient quantity of complete routes are automated for mobile reading." Further, the estimates were "based on potential meter reading headcount reductions in the future." Thus, OCC's contention that the lack of immediate savings acceptable to them somehow creates an imbalance, or signals that savings will ultimately not be realized, is baseless and disingenuous. Full installation is necessary to comprehensively re-configure and restructure all meter reading schedules and routes to maximize meter reading savings. Without the complete reconfiguration of meter reading schedules through full AMR installation, the full extent of structural and staffing changes required to achieve maximum call center expense reduction cannot occur.

OCC also ignores the positive current benefits to customers achieved to date by AMR deployment. As confirmed by Staff, DEO is on pace to complete its AMR installation project on schedule by 2012. Without the AMR adjustment mechanism, the installation process would have taken three or four times as long. In this interim period, AMR installation is providing immediate benefits to customers. OCC's use of estimated <u>2012</u> meter reading cost reductions as the basis for passing judgment on reductions that actually occurred in <u>2009</u>, as well as OCC's refusal to recognize the immediate and long-term benefits of AMR installation made possible only through the AMR automatic adjustment mechanism, are both short-sighted and unfair.

Q22. How did DEO achieve meter reading savings in 2009?

A22. The $681,000 in savings was achieved primarily as a result of more efficient meter reading routes, made possible by route adjustments as particular service areas were converted to AMR devices. As AMR devices are installed, routes in areas where installation has already occurred are combined and reconfigured, using RouteSmart technology, to allow more meters to be read during a given route. Rerouting led to significant savings in 2009 compared to the 2007 baseline, particularly in the areas of labor expense, payroll and tax expense, and materials and supplies. Thus, even though AMR deployment has yet to reach a "critical mass," AMR installation is increasing meter reading efficiency.

Q23. What level of meter reading costs savings has DEO achieved to date from the deployment of AMR?

A23. In Case No. 09-38-GA-UNC, the parties stipulated that DEO achieved approximately $276,000 in meter reading savings in 2008. (AMR Stipulation, Attachment 1.) Schedule 11 of the Application shows that, in 2009, the cost savings was approximately $681,000. Total meter reading cost savings to date therefore total approximately $957,000. To date DEO has, in fact, exceeded the initial year's savings of $900,000 estimated during the rate case.

Q24. Please address OCC's comments regarding call center savings.

A24. OCC's position with regard to call center savings is similar to its position regarding meter reading costs. In DEO's last rate case, the Company estimated that total call center savings would be $765,000 in 2012 after full deployment. (OCC Comments, p. 6.) OCC reckons that because deployment is 60% complete, 60% of $765,000 -- or $471,000 -- should be recognized as call center savings for 2009. In the alternative, OCC proposes to use DEO's cost savings estimate of $194,000 for 2009, which DEO provided in the last rate case. (OCC Comments, p. 7.)

The Rate Case and AMR Stipulations do not allow the Commission to impute call center savings where no savings exists. As with meter reading costs, savings in call center costs must be actual and quantifiable. It is undisputed that DEO's call center costs are increasing. OCC concedes that call center costs for 2009 exceed the 2007 baseline by nearly $2 million. No quantifiable savings are available to pass along through the AMR Charge.

Q25. Why have DEO's call center costs increased?

A25. The increase in call center expenses in 2009 was primarily due to compliance with regulatory requirements and initiatives to increase customer service. In particular, DEO introduced new technology to support interactive voice-response (IVR) call handling through the use of natural language technology. DEO also hired 34 additional call center representatives to provide bilingual services and to meet the required 90-second average speed of answer (ASA) required by the Minimum Gas Service Standards. DEO also reorganized its call center operations so that calls to DEO are handled out of call centers in Akron and Cleveland, rather than out of Virginia through Dominion Resources. In addition, overtime was used to shave peak Monday call volumes and to manage the six-percent increase in call volumes since 2007 to achieve the 90-second ASA. Also, between 2007 and 2009, DEO moved to a new telephone platform with West Corporation, including an 800 service number and third-party call handling. Due to increased call handle times and call volumes, in order to meet the ASA for the MGSS, it was necessary to route more calls, including some AMR appointment calls, to the third-party vendor, which resulted in higher contractor costs. Although costs increased overall, in 2009 there was reduced usage of translator services due to the hiring of bilingual agents, as well as impacts from enhancements to IVR routing, which improved call routing accuracy. Support staff expenses increased as a result of staffing increases for new hire testing (drug screening, etc.) and for training of new hires and third-party call center agents.

Q26. Have these call center initiatives provided benefits to customers?

A26. Yes. The hiring of additional bilingual personnel allows DEO to provide better service to its Spanish-speaking customers while also reducing the cost of translator services. The new IVR platform is easier for customers to use through natural language technology, providing a better customer service experience. The overall increase in call center personnel has helped to ensure that calls are answered within the required 90 second ASA. And the hiring of additional call center personnel in Cleveland and Akron, as well as home-based call center agents, has benefited the economy in Northeastern Ohio.

Q27. OCC cites a passage from the Entry on Rehearing on DEO's most recent pipeline infrastructure replacement case, Case No. 09-458-GA-RDR. In the proceeding that OCC cites, did the Commission authorize an adjustment to DEO's PIR rider based on imputed or hypothetical cost savings?

A27. Absolutely not. The disputed issue in the Entry on Rehearing that OCC cites was whether the Commission correctly interpreted and applied the terms of the PIR Staff Report and Rate Case Stipulation. While DEO disagreed with the Commission's interpretation in that case, all parties, including OCC, agreed with the overarching principle that the Commission must honor Commission-approved stipulations. In this proceeding, OCC seeks to disregard the provisions of the Rate Case and AMR Stipulations that govern calculation of the AMR Charge.

Q28. Does OCC contest the accuracy of any of the calculations in the schedules supporting DEO's Application?

A28. No. OCC does not in any way challenge the accuracy of any of DEO's calculations.

Q29. Please address OCC's comments regarding stimulus funding.

A29. OCC claims that the Commission "should require Dominion to document its efforts to obtain stimulus funding," and that "[a]ny failure on the part of Dominion to apply for stimulus funding for which the Company qualifies should result in a reduction to the AMR Rider rate . . . ." (OCC Comments, p. 8.) As with its other attempts to re-write the Rate Case and AMR Stipulations, OCC's attempt to impose a requirement that is not in the Stipulations should be rejected. Nothing in the Stipulations requires DEO to apply for any government funds or subsidies, whether through the American Recovery and Reinvestment Act (ARRA) or any other federal government statute, regulation, or program. In addition, OCC fails to establish how the Commission could possibly calculate what ARRA funds DEO could "potentially" have been eligible to apply for or "potentially" receive.

Q30. Is there anything else you would like to say about OCC's participation in this case?

A30. Yes. There are two aspects of OCC's participation in this case that the Company finds very troubling. The first is that OCC clearly seeks to disavow the Rate Case and AMR Stipulations. There is a risk in any stipulation or settlement that events may unfold in a way that the parties did not predict. The fact that costs savings have not materialized at the pace OCC would like to see is not a basis for concluding that those costs savings will not eventually be realized with full AMR deployment. In any event, regardless of what cost savings are eventually achieved, hindsight is not a basis for disavowing a stipulation. If parties are not held to their word, stipulations are meaningless. OCC agreed to the AMR mechanism and the process for automatic adjustments. It agreed to the 2007 baseline for measuring meter reading and call center savings. And it agreed that annual adjustments should be based on actual, quantifiable data.

The second thing that is troubling about OCC's participation in this case is its lackadaisical approach to evaluating DEO's Application. DEO filed its prefiling notice in this case on November 30, 2009. The Application was filed on March 1, 2010. The March 5, 2010 Entry set the schedule for intervention, discovery and hearing. The schedule called for parties to file comments by March 29, 2010. OCC did not serve <u>any</u> discovery until March 23, which meant that under the seven day deadline for responses, OCC did not receive responses until March 30, the day after Comments were due. OCC also served a second set of discovery on March 30 -- the day <u>after</u> Comments were due -- and those responses aren't due until April 6 -- the day <u>after</u> testimony is to be filed. OCC's scattershot approach to discovery and hearing preparation suggests that it has little interest in a meaningful review of the merits of DEO's Application in accordance with the prior Stipulations.

Q31. Does this conclude your testimony?

A31. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Vicki H. Friscic on behalf of Dominion East Ohio was served by electronic mail to the following persons on this 5th day of April, 2010:

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