

FILE

OCC EXHIBIT _____

**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 for Approval of Tariffs to)	Case No. 11-2401-GA-ALT
Modify and further Accelerate its Pipeline)	
Infrastructure Replacement Program and to)	
Recover the Associated Costs.)	

In the Matter of the Application of the East)	
Ohio Gas Company d/b/a Dominion East)	Case No. 08-169-GA-ALT
Ohio for Approval of Tariffs to Recover)	
Certain Costs Associated with a Pipeline)	
Infrastructure Replacement Program)	
Through an Automatic Adjustment Clause,)	
And for Certain Accounting Treatment.)	

**DIRECT TESTIMONY
OF
BRUCE M. HAYES**

**ON BEHALF OF
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**
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CERTIFICATE OF SERVICE

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Bruce M. Hayes. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Principal Regulatory Analyst.

Q2. WOULD YOU PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE?

A2. I graduated from the University of Kentucky in 1973 with a Bachelor of Science in Mechanical Engineering. I joined Aetna Life and Casualty in 1973 and held various positions related to Loss Control and Safety Engineering. In 1979, I joined Columbia Gas of Kentucky ("CKY") as an Industrial Sales Engineer. I transferred to Columbia Gas of Ohio ("COH") in 1986 and held a variety of positions in economic development, marketing and sales. During my time at the Columbia companies, I was actively involved in the development and implementation of the industrial and commercial gas transportation programs. In the early 1980's, I was involved in expanding CKY's transportation program from a single self help customer to over fifty industrial and large commercial customers by initially establishing special contract interstate transportation programs like the Fuel Oil Displacement and Special Marketing Programs.

*Direct Testimony of Bruce M. Hayes
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 11-2401-GA-ALT, et al.*

1 I was also involved in a customer issue regarding intrastate transportation and
2 valuation of gas. We modified our methodology so that valuation of gas occurred
3 on British Thermal units ("Btu") value rather than volume. This led to changes in
4 transportation policies and billing in all the states in the Columbia Gas
5 Distribution System.

6
7 In the 1990's I managed the COH rate flexing or rate discounting program for
8 industrial customers, arranged for long term capacity release to large customers
9 and arranged discounts on Columbia Gas Transmission interstate pipelines. I had
10 input to the transportation and gas supply departments on issues such as
11 transportation contracts, curtailment, enhanced banking arrangements and
12 electronic measurement for large volume customers.

13
14 In 2002, I joined OCC as a Senior Regulatory Analyst and was promoted to
15 Principal Regulatory Analyst in 2010. I represent OCC on the gas committee of
16 The National Association of State Utility Consumer Advocates and have served
17 as an Executive Committee member with the North American Energy Standards
18 Board. I have participated in various Ohio Gas Cost Recovery ("GCR") case
19 work and Management/Performance ("M/P") Audits beginning with my Senior
20 Staff Engineer position with Columbia Gas of Ohio and as an analyst for the
21 OCC. I have taken part in a number of rate cases and accelerated infrastructure
22 replacement and recovery cases associated with the four largest investor owned
23 gas companies in Ohio. I have also participated in number of external working

groups related to gas transportation programs and working groups related to gas distribution companies moving toward exiting the merchant function.

Q3. WHAT ARE YOUR RESPONSIBILITIES AS A PRINCIPAL REGULATORY ANALYST?

A3. My duties include research, investigation and analysis of gas filings at the state and federal levels, participation in special projects and assistance in policy development and implementation. I am also the assigned leader of the gas team since June 1, 2008 and coordinate the activities of the members of the agency's gas team.

Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THIS COMMISSION?

A4. Yes. I have testified in the following Public Utilities Commission of Ohio ("PUCO") cases:

1. *Dominion East Ohio Company*, Case No. 05-219-GA-GCR;
2. *Columbia Gas of Ohio, Inc.*, Case Nos. 04-221-GA-GCR and 05-221-GA-GCR; and
3. *Columbia Gas of Ohio, Inc.*, Case Nos. 07-478-GA-UNC and 07-237-GA-UNC.
4. I also filed written testimony in *Duke Energy Ohio, Inc.*, Case Nos. 07-589-GA-AIR, 07-590-GA-ALT and 07-591-GA-AAM.

1 **Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE ANY**
2 **OTHER STATE REGULATORY COMMISSION?**

3 **A5.** Yes. I submitted testimony on behalf of CKY, before the Kentucky Public
4 Service Commission in CKY, Inc. Rate Case No. 8281.¹ The testimony was
5 related to a long term decrease in the forecasted throughput for CKY.

6
7 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF**
8 **YOUR TESTIMONY?**

9 **A6.** I have reviewed Dominion East Ohio's ("Dominion" or "the Company")
10 Application with attached exhibits and responses to OCC and Staff discovery. I
11 have also reviewed related documents and Opinion and Orders from other
12 proceedings, including the Company's two previous annual pipeline infrastructure
13 replacement ("PIR") filings.

14
15 **II. PURPOSE OF TESTIMONY**

16
17 **Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
18 **PROCEEDING?**

19 **A7.** The purpose of my testimony is to show that Dominion is premature in filing its
20 Application to accelerate and modify its PIR program. I do not believe that
21 Dominion has demonstrated a need for the modification, or a need for the PUCO
22 to modify the current five-year PIR program agreement from the 2007 Dominion

¹ *In the Matter of An Adjustment of Rates of Columbia Gas of Kentucky, Inc.*, Case No. 8281, Order (December 30, 1981).

rate case. Dominion has failed to make these showings in part because through the first three years of the PIR program, the Company is not yet even investing at the projected levels. I believe it is premature to ask for an increase in the spending limit, when the Company has not yet reached the limits from the original agreement. Finally, the Company has failed to demonstrate that there are additional customer benefits in the extension and expansion of the PIR program to justify the additional costs for residential customers. As a result, I recommend the Commission reject the Application and instead direct Dominion to continue with the original 5-year PIR program. After the five year term is completed with the accompanying PIR study, then the Commission can better evaluate if and in what form the PIR program should be continued or expanded.

**III. DOMINION IS PREMATURE IN THE FILING OF ITS APPLICATION
TO ACCERATE ITS EXISTING PIPELINE INFRASTRUCTURE
PROGRAM.**

***Q8. HAS DOMINION COMPLETED THE INITIAL FIVE-YEAR PIR
IMPROVEMENT PROGRAM TERM AS AGREED TO BY PARTIES IN THE
SETTLEMENT OF CASE NOS. 08-169-GA-ALT; 07-829-GA-AIR AND
APPROVED BY THE PUCO COMMISSION IN ITS ORDER DATED
OCTOBER 15, 2008?***

A8. No. Dominion's Application presented in this case clearly demonstrates that the Company has not completed the initial five-year period as agreed to in the

1 Stipulation that was approved by the Commission in these cases. Rather, the
2 record shows that Dominion has only nearly completed the first three years of the
3 PIR program.

4
5 ***Q9. HAS DOMINION DEMONSTRATED ITS NEED TO MODIFY OR***
6 ***FURTHER ACCELERATE THE PIR PROGRAM?***

7 ***A9.*** No. Dominion has presented no evidence or test result that demonstrates that the
8 alleged 1,454 miles of coated steel is indeed ineffectively coated or presents any
9 immediate danger to the public. The declaration of pipe being ineffectively
10 coated appears to be a result of concern of such pipe after the rupture of high
11 pressure transmission pipeline and resulting fire in San Bruno, California and the
12 two recent incidents in Pennsylvania that involved older cast iron distribution
13 lines.

14
15 Although any pipeline incident or rupture is of concern, the incidents cited by
16 Dominion in its Application are different enough from the 1,454 miles of
17 ineffectively coated pipe that Dominion is requesting to be included in the
18 accelerated PIR program in this case, that they are insufficient basis to justify the
19 changes proposed. For example, Dominion's 1,454 miles of ineffectively coated
20 pipeline operates at much lower pressures than those of the San Bruno's pipeline
21 incident.² In addition, the two Pennsylvania incidents are still under investigation,

² Dominion is operating the 1,454 miles of ineffectively coated pipe at pressures of between 149 psig and less than 1 psig, while the San Bruno high pressure transmission pipe was operated at a pressure of 386 psig.

1 but they involved cast iron pipe and Dominion is already authorized by the
2 Commission to replace similar cast iron distribution piping. Finally, the
3 Youngstown incident is a single isolated event and there is no evidence to support
4 such a far-reaching widespread response as proposed with the PIR expansion.
5

6 ***Q10. HAS DOMINION BEEN MAXIMIZING ITS INVESTMENTS IN THE***
7 ***EXISTING PIR?***

8 ***A10.*** No. Under the existing PIR, the Commission approved caps which are limits to
9 the annual level of recovery that Dominion can receive from its customers.
10 During the first two years of the PIR,³ Dominion has failed to invest the necessary
11 dollars in its PIR program to necessitate recovery from customers up to the
12 approved cap levels. Dominion's PIR Cost Recovery Charge for GSS-R and
13 ECTS-R residential rates at the end of year two of the program were \$1.58⁴ per
14 month or 25% below the cap of \$2.12 per month.⁵ In year 3, Dominion has filed
15 for the PIR Cost Recovery Charge to go from \$1.58 to \$2.29 per month or 27%
16 below the approved cap level of \$3.12 per month.⁶ Dominion has failed to
17 demonstrate that it can spend up to the existing cap levels and maximize benefits
18 under the current PIR; therefore, it would be unreasonable to approve an
19 expansion of the PIR program, and approve higher cap levels until the Company
20 has demonstrated a need to do so.

³ *In re PIR Application*, Case No. 08-169-GA-ALT, Staff Report at 4 (June 12, 2008).

⁴ *In re Dominion 2010 PIR Case*, Case No. 10-733-GA-RDR, Opinion and Order at 4 (November 3, 2010).

⁵ *In re PIR Application*, Case No. 08-169-GA-ALT, Staff Report at 4 (June 12, 2008).

⁶ *In re Dominion 2011 PIR Application*, Case No. 11-3238-GA-RDR, Pre-Filing Notice at PFN-3 (March 31, 2011)

Q11. HAS THERE BEEN ANY STUDY DONE ASSESSING THE IMPACT OF THE PIR PROGRAM ON SAFETY AND RELIABILITY, COSTS AND BENEFITS RESULTING FROM ACCELERATION OF THE PIPELINE REPLACEMENT ACTIVITY, AND DOMINION'S ABILITY TO EFFECTIVELY MANAGE, OVERSEE AND INSPECT THE PIR PROGRAM?

A11. No, not yet. Dominion agreed to complete such a study by August 2012. The Company agreed, in the Stipulation, to conduct a study to assess the impact of the accelerated program. Without the study it is premature to consider extension and expansion of the PIR program. It makes far more sense to wait until we have the necessary information in hand that such a study can provide prior to making a decision precipitously.

Q12. IS IT YOUR OPINION THAT DOMINION SHOULD NOT REPLACE ANY OF THE 1,454 MILES OF INEFFECTIVELY COATED PIPE?

A12. No. I am not taking a position on the necessity of replacing any of the 1,454 miles of ineffectively coated pipe. Keeping in mind, that Dominion, as a public utility providing gas distribution service, has an obligation to provide safe and reliable service. That obligation requires the Company to operate its system safely and reliably. It is up to the Company to determine what pipe needs to be replaced and when to replace them. My position strictly relates to the availability of accelerated cost recovery for pipe that Dominion replaces. The 1,454 miles should be excluded from accelerated cost recovery under the existing PIR

1 Program, and to the extent portions of that pipe need to be replaced, the Company
2 can rely on traditional ratemaking for any recovery of those investments.⁷

3
4 ***Q13. IN YOUR OPINION WOULD IT BE APPROPRIATE TO FURTHER***
5 ***ACCELERATE THE PIR PROGRAM WITHOUT FIRST REVIEWING***
6 ***SUCH A STUDY THAT WAS AGREED TO IN THE STIPULATION?***

7 ***A13.*** No. In my opinion it would be inappropriate to commit to the accelerated
8 recovery of up to another one hundred million dollars a year in spending for
9 pipeline upgrades without such a study.

10
11 **IV. CONCLUSION**

12
13 ***Q14. WHAT IS YOUR RECOMMENDATION?***

14 ***A14.*** I believe the Application is premature and should be rejected by the Commission
15 at this time. Dominion has not been spending to the current levels of the cap and
16 is fourteen months from completing the agreed upon study of the costs and
17 benefits of the existing PIR program. Moreover, the Company has failed to
18 demonstrate any additional benefits for residential customers to justify the
19 additional costs fro the extension and expansion of the PIR program. The
20 Commission should not approve an acceleration and/or expansion of the PIR
21 program until such time interested parties have had time to assess the current PIR

⁷ For the six years prior to the approval of the existing PIR Program, Dominion was replacing, on average, 40 miles of its pipeline system per year (See Direct Testimony of Timothy McNutt, Case No. 07-829-GA-AIR, et al. at 9 (May 30, 2008)). At 40 miles per year, Dominion could replace all 1,454 miles of the ineffectively coated pipe in approximately 36 years.

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1 program. Further there is no evidence presented in the application that all 1454
2 miles of coated pipe is in need of replacement on an accelerated basis.

3

4 ***Q15. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

5 ***A15.*** Yes it does. However I reserve the right to incorporate new information that may
6 subsequently become available.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing *Direct Testimony of Bruce M.*

Hayes, on Behalf of the Office of the Ohio Consumers' Counsel have been served via electronic transmission, this 15th day of July, 2011.



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