

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the ) Case No. 07-589-GA-AIR  
Application of Duke Energy)  
Ohio, Inc. for an Increase)  
in Gas Rates. )

In the Matter of the ) Case No. 07-590-GA-ALT  
Application of Duke Energy)  
Ohio, Inc. for Approval of)  
an Alternative Rate Plan )  
for its Gas Distribution )  
Service. )

In the Matter of the ) Case No. 07-591-GA-AAM  
Application of Duke Energy)  
Ohio, Inc. for Approval to)  
Change Accounting Methods.)

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DEPOSITION OF WILSON GONZALEZ

THURSDAY, FEBRUARY 21, 2008

3:04 O'CLOCK P.M.

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1           Deposition of Wilson Gonzalez, a witness  
2 herein, called by Duke Energy Ohio, Inc. for  
3 cross-examination under the statute, taken before  
4 us, Deborah J. Holmberg, Registered Merit  
5 Reporter, Valerie J. Grubaugh, Registered Merit  
6 Reporter, Certified Realtime Reporter, and  
7 Notaries Public in and for the State of Ohio,  
8 pursuant to notice and stipulations of counsel  
9 hereinafter set forth, at the offices of The  
10 Office of The Ohio Consumers' Counsel, 10 West  
11 Broad Street, 18th Floor, Columbus, Ohio, on  
12 Thursday, February 21, 2008, beginning at 3:04  
13 o'clock p.m. and concluding on the same day.

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1 APPEARANCES:

2 ON BEHALF OF DUKE ENERGY OHIO, INC.:

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12  
13 ON BEHALF OF THE RESIDENTIAL CONSUMERS OF DUKE  
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1 APPEARANCES (continued):

2

3 ALSO PRESENT:

4 Steve Puican

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S T I P U L A T I O N S

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It is stipulated by and among counsel for the respective parties herein that the deposition of Wilson Gonzalez, a witness herein, called by Duke Energy Ohio, Inc. for cross-examination under the statute, may be taken at this time and reduced to writing in stenotype by the Notary, whose notes may thereafter be transcribed out of the presence of the witness; that proof of the official character and qualification of the Notaries is waived; that the witness may sign the transcript of his deposition before a Notary other than the Notaries taking his deposition; said deposition to have the same force and effect as though the witness had signed the transcript of his deposition before the Notaries taking it.

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WILSON GONZALEZ

of lawful age, being first duly placed under oath,  
as prescribed by law, was examined and testified  
as follows:

CROSS-EXAMINATION

BY MR. FINNIGAN:

Q. Good afternoon, Mr. Gonzalez.

A. Good afternoon, Mr. Finnigan.

Q. Sir, the first thing I want to ask you  
about is the Commission's Smart Metering Workshop  
proceedings. Are you familiar with that case? I  
believe it's Case No. 07-646-EL-UNC.

A. Yes, I am familiar with that.

Q. Have you followed that case in any way?

A. I've attended most of the workshops.

Q. And what is the information that was  
conveyed at those workshops?

A. Well, there's -- there's been a number of  
workshops and, you know, sometimes the vendors,  
they've had vendor workshops, where they've talked  
about their products. They've had -- Staff has  
given presentations. They've got people from the  
Modern Grid coming in to give presentations. So  
it basically has been a lot of information sharing  
on the particular topic of meters.

1 Q. Okay. And the general topic is Smart  
2 Metering and SmartGrid systems?

3 A. Yes. But I would point out that it is --  
4 you know, my interest in it, it's mainly been  
5 dedicated to the electric side.

6 Q. Right.

7 And Duke Energy Ohio is one of the  
8 participants?

9 A. That's correct.

10 Q. And Duke Energy Ohio made presentations  
11 regarding its plans for a SmartGrid system?

12 A. That's correct.

13 Q. And the person who made that presentation  
14 was Matt Smith?

15 A. Yes, I recall it's Mr. Smith.

16 Q. And these workshop meetings have been  
17 happening over several months during the summer  
18 and fall of this year?

19 A. That's correct.

20 Q. Actually, of 2007, I meant to say.

21 A. You did say last.... Yeah.

22 Q. Okay. Now, do you have any views on  
23 whether utilities should install a SmartGrid  
24 system?

25 A. Like I said earlier, you know, from --

1 we're very interested in this from the electric  
2 utility point of view. I think there's a lot  
3 of -- You know, it seems that there's  
4 possibilities to capture some of the operational  
5 savings, plus demand response and other societal  
6 savings.

7 So yes, we're, you know, very interested  
8 in the technology on the electric side. And  
9 that's basically what I've been following, you  
10 know, the Company's proposals and -- and the  
11 analysis being done on the electric side.

12 Q. Okay. So would you support deployment of  
13 a SmartGrid system for an electric utility as long  
14 as they did the proper cost-benefit analysis and  
15 showed that the utility costs and benefits, along  
16 with the societal benefits and customer benefits,  
17 justified such deployment?

18 A. I think on the electric side, you know,  
19 that's the process that we've just started in  
20 Ohio, and if we were looking at -- You know, the  
21 different cost benefits, some that are tangible  
22 costs, some that are maybe qualitative costs, I  
23 mean, we'd have to look at all that to make a  
24 determination whether we would support it.

25 Obviously, there's, you know, whatever



1 the bill is going to be for consumers. You know,  
2 we'd have to be convinced that the benefits,  
3 again, operational benefits, demand-side  
4 management type benefits, plus any other  
5 environmental qualitative type benefits, you know,  
6 would exceed the cost. So yeah.

7 I mean, in the 05-1500 case, you know,  
8 our comments were that we were interested in  
9 looking at Smart Metering as opposed to....

10 Q. Okay. Now, what about a combination  
11 utility like Duke Energy Ohio, we provide gas and  
12 electric service, would it be your recommendation  
13 that the Company should only install a SmartGrid  
14 system for its electric service provided that the  
15 benefits outweigh the cost?

16 MR. SAUER: I'm going to object at this  
17 point. This is outside the scope of his  
18 testimony.

19 You can answer if you know.

20 THE WITNESS: Like I mentioned earlier,  
21 looking at the electric side, you present a  
22 different issue because you're a combination  
23 company. So, you know, we would look -- have been  
24 looking at the electric side, per se, and I would  
25 think that -- I know we had a witness who dealt

1 with the gas side, who was looking at it. I don't  
2 think I could share more, you know, in terms  
3 of....

4 BY MR. FINNIGAN:

5 Q. Okay. Would you agree with me that just  
6 as a general concept if a combination utility like  
7 Duke Energy Ohio installed SmartGrid and it only  
8 applied to electric service, then it would cause  
9 gas service costs to go up because now you would  
10 still have to do meter reading manually or other  
11 than on the Smart Grid system, and you wouldn't be  
12 able to allocate the current metering costs  
13 between gas and electric service, they'd have to  
14 be allocated all to gas service?

15 MR. SAUER: Again, a continuing objection  
16 to this line of questioning.

17 You can answer if you know.

18 THE WITNESS: I haven't seen -- We've  
19 made some of the information available. I haven't  
20 gotten around to reviewing it. You know, it may  
21 be plausible. I haven't looked at the  
22 information.

23 BY MR. FINNIGAN:

24 Q. Okay. Let me change the topic now and I  
25 want to ask you about the proposals in this case

1 to modify the fixed customer charge and, in  
2 particular, the Company's proposal and the Staff's  
3 proposal.

4 You mention on Page 5, Line 9 of your  
5 testimony, that the Company's proposal is to  
6 increase the fixed customer charge from \$6 a month  
7 to \$15 a month; correct?

8 A. Yes.

9 Q. Now, are you aware of whether the Company  
10 is -- Well, strike that.

11 The \$6 that you cite, that's in the  
12 monthly customer charge for Rate RS, or  
13 residential service; correct?

14 A. Yes.

15 Q. Are you aware of whether the Company is  
16 recovering any fixed charge through its Rider AMRP  
17 program?

18 A. While I -- While I haven't been, you  
19 know, monitoring, or evaluating, or looking at the  
20 AMRP, I am aware of that.

21 Q. What is your understanding of how much  
22 the Company is currently collecting as a fixed  
23 monthly charge through the AMRP program?

24 A. Subject to check, \$6 range, \$5, that  
25 range.

1 Q. All right. So currently, as you  
2 understand it, the Company is collecting \$12 per  
3 month in fixed customer charges, whether through  
4 Rate RS or the AMRP rider; correct?

5 A. That's correct.

6 Q. What's your understanding of what would  
7 happen to the fixed customer charge collected  
8 through the AMRP as a result of this rate case?

9 A. My understanding is that it would be  
10 folded into base rates, so that it would be zero.

11 Q. Okay. So currently, customers pay \$12  
12 per month in fixed charges; right?

13 A. Total, currently they do, but post, I  
14 guess, when the rates go into effect, they  
15 wouldn't.

16 Q. Right. And I'm just talking about the  
17 Company's proposal at this point. I'll talk about  
18 the Staff's proposal in a minute.

19 But under the Company's proposal, the  
20 fixed monthly charges would go from \$12 per month,  
21 whether collected under RS or AMRP, to \$15 in  
22 Year 1; is that correct?

23 A. Again, like I said, per the proposal,  
24 that fixed charge for AMRP would be blended into  
25 the rate, so it wouldn't be a fixed charge

1 anymore, so I think that you would be going from  
2 zero to 15, not from 12 to 15 starting that new  
3 year.

4 Q. Well, no. I'm just asking you how much  
5 the customer currently pays in fixed charges now,  
6 before the rate case has been decided, and that's  
7 currently \$12, and what would happen if the  
8 Company's proposal were approved, that fixed  
9 charge would be \$15; right?

10 A. Yes. It would go from zero to 15.

11 Q. Okay. Well, not zero. I'm talking about  
12 what customers are paying today. They're not  
13 paying zero in fixed customer charges, are they?

14 A. No. Like we said, they're paying \$12  
15 fixed cost, but that -- that would become zero --

16 Q. Right.

17 A. -- if the Company's proposal were  
18 accepted, and then the \$15 fixed charge would be  
19 fully a customer fixed charge.

20 Q. Right. And we may be kind of talking  
21 past each other on this point, but what I'm trying  
22 to get at is that on Page 5, Line 9, you state  
23 that the amount of increase in the fixed customer  
24 charge from --

25 A. I'm sorry. I didn't want to interrupt

1 you, but I'm pretty clear that it's just the  
2 customer charge that I'm referring to on that  
3 line. I didn't say fixed charge.

4 Q. Okay. And your statement is that the  
5 customer charge increases from 6- to \$15, and I  
6 want to suggest to you that, in fact, the customer  
7 charge increases from 12- to \$15 under our  
8 proposal.

9 A. That's not a -- The AMRP is not a  
10 customer charge as defined in the tariff. It's a  
11 fixed charge, but it's not the customer service  
12 charge.

13 Q. Right.

14 But I want to talk about fixed charges  
15 that the customer pays. And if you look at the  
16 fixed charges that the customers pay, right now  
17 they're paying \$12 in fixed charges. Under our  
18 proposal, that would change to \$15 in fixed  
19 charges in Year 1 that our new rates would be in  
20 effect; correct?

21 A. The customer charge would be \$15 and they  
22 would --

23 Q. Right.

24 A. -- they would have been paying \$12, but  
25 at the beginning of the period they would have

1 been paying no AMRP fixed charge. So, you know, I  
2 still would contend that as a consumer I would be  
3 expecting, as per the Company's proposal, a zero  
4 charge. You're going from zero -- I'm sorry --  
5 from the 6 to the 15.

6 Q. Okay. I'm not focusing just on Rate RS,  
7 I'm focusing on total fixed charges that the  
8 customer pays on their bill. And I guess the way  
9 I'm looking at it is that today, when a customer  
10 gets a bill, on our system it has \$12 in fixed  
11 charges for Rate RS and the AMRP.

12 If our new proposal is accepted, in  
13 Year 1 they would get a bill that would have \$15  
14 in fixed charges, and that would consist of zero  
15 under AMRP and \$15 under Rate RS.

16 Do you understand what I'm saying?

17 A. I understand. But to me, it seems it's  
18 almost like if I have a tax break the beginning of  
19 the year, all of a sudden -- you know, I'm  
20 expecting some kind of a tax break, and all of a  
21 sudden it's taken away. And granted, I was paying  
22 taxes prior to that, but as a consumer I'm still  
23 having to pay or missing out on that -- on that  
24 particular tax break.

25 Q. The amount of fixed charges consumers pay

1 on our system are \$12 today under our current  
2 rates. The amount that they would pay in Year 1  
3 under our proposed rates is total fixed charges of  
4 \$15; right?

5 A. That's correct.

6 Q. What's the percent of increase from \$12  
7 to \$15? It's a lot less than the percent increase  
8 from \$6 to \$15, isn't it?

9 A. Yes. As I mentioned earlier, my  
10 reference was strictly to the customer charge.  
11 So, I mean, the statement is correct as it's on  
12 Line 9 because I wasn't addressing the fixed  
13 charge portion.

14 Q. Why would you not address the fixed  
15 charge portion that consumers pay under the Rider  
16 AMRP in evaluating what the customer charges are  
17 that are recovered through fixed versus volumetric  
18 rates?

19 MR. SAUER: I'm sorry. Could I have that  
20 question reread?

21 MR. FINNIGAN: I'll reask it.

22 BY MR. FINNIGAN:

23 Q. Why did you not consider the fixed  
24 charges that are recovered through Rider AMRP when  
25 you were trying to characterize how much the



1 increase in customer charges will be under our new  
2 rate proposal?

3 A. I didn't because, as I mentioned earlier,  
4 per the Company's proposal, that value was going  
5 to be zero, so that was my starting point.

6 Q. I'm just wondering when you were trying  
7 to look at the impact on the customer in total  
8 fixed charges you say it's an increase from 6 to  
9 15, I'm just wondering why you didn't consider the  
10 \$6 fixed charge recovered through the AMRP in your  
11 analysis.

12 A. I think if it would have been kept -- if  
13 it would have been -- if part of your proposal was  
14 to keep the \$6 in and move forward, then I would  
15 have taken it into account. To the extent that it  
16 was going to be zero, I mean, that's the real  
17 state as of that time, so that's why I didn't take  
18 it into account.

19 Q. Why did the fact that it changed from 6  
20 to zero not factor into your calculation of how  
21 much of an increase there is in customer charges?

22 A. Because that's -- the customer charge  
23 would go from 6 to 15. Do you mean fixed charges?

24 Q. Right.

25 A. I'm talking about the customer charge.

1 You mentioned customer charge.

2 Q. What's the difference? I mean, aren't we  
3 talking about charges to a customer that are  
4 either a fixed monthly amount versus a volumetric  
5 amount? I mean, what is the difference that we're  
6 talking about?

7 A. I think a customer charge has -- a  
8 customer charge has been on a customer's bill for  
9 as long as I can remember, so it's something that  
10 has a lot of history and its permanency, so on and  
11 so forth.

12 Another charge that may be a fixed  
13 charge, perfect example, the AMRP, was going to go  
14 to zero. So it wasn't going to disappear as a  
15 fixed charge.

16 So I think there's -- you can't really  
17 lump them together that way. At least in my mind,  
18 I can't -- I can't associate complementarity  
19 between customer charges and other fixed charges  
20 that the Company may -- may have.

21 Q. Can I direct your attention to Page 9 of  
22 your testimony, please? Do you see a chart there  
23 about "History of LDC Customer Charge in Ohio"?

24 A. Yes.

25 Q. You have the different companies shown

1 there and you have Duke's proposed charge going  
2 upward. Is that under the Staff's proposal or the  
3 Company's proposal that you're showing on this  
4 chart?

5 A. This is the Company's proposal. As you  
6 see, it stops at 15. So it's kind of like an  
7 outlier.

8 Q. And the other companies' proposals that  
9 you show --

10 A. Yeah. Columbia --

11 Q. -- or, strike that.

12 The other companies' customer charges  
13 that you show on this chart, are those their  
14 current customer charges or the amounts of  
15 customer charges they're proposing in pending rate  
16 cases?

17 A. I think that's correct.

18 Q. Which one? I asked you either/or.

19 A. I think the latter.

20 Q. Okay.

21 A. Because it goes through 2000- -- Hold on  
22 one second. Let me check something.

23 (Pause.)

24 I would change my answer. I think it was  
25 the former, not the latter, to your question.

1           What I'm looking at here, and I'm looking  
2 at, for example, Vectren is proposing on average  
3 13.37, and if I look at the Vectren line, there's  
4 nothing else that's in that ballpark. So this is  
5 actual -- Like it states, it's a history, so it's  
6 not looking forward. It's the history of LDC  
7 customer charges.

8           Q. But isn't it true that both Vectren and  
9 Dominion have pending rate cases before the  
10 Commission?

11          A. Yes.

12          Q. And in those pending rate cases they've  
13 proposed changes to their customer charge.

14          A. Well, what's interesting is that Vectren  
15 has proposed increases, but Dominion has actually  
16 maintained their customer service charge for one  
17 part of their service territory and brought the  
18 customer -- increased slightly the customer  
19 service charge for the other part to have a  
20 unified customer service charge. But like I said,  
21 it's only at the \$5.70 range.

22          Q. Okay. But by showing the other  
23 companies' existing proposals and comparing that  
24 about -- against Duke Energy's proposed customer  
25 charge, that's not an apples-to-apples comparison,

1 is it?

2 A. The purpose of this particular graph is  
3 to show what the history, the trajectory of  
4 customer charges are in Ohio historically. I'm  
5 just trying to make the point that if you compare  
6 Duke's proposed rate, which is very clearly  
7 marked, it seems to be an outlier based on the  
8 history of customer service charges in Ohio. So  
9 that's the only reason. Yeah, that's what the --  
10 the graph is demonstrating.

11 Q. Why wouldn't you include Vectren's  
12 proposed increase in the customer charge in this  
13 graph?

14 A. Because this is the -- this is the -- If  
15 I were to submit testimony in the Vectren case,  
16 then I would think that perhaps I may have a  
17 similar table in Vectren.

18 Q. Okay. But it's not really an  
19 apples-to-apples comparison where you're comparing  
20 all the data available to us now, whether it's  
21 historical or proposed changes in customer  
22 charges, you just selected out past data for the  
23 other Ohio utilities in terms of their customer  
24 charge information in this table and compared it  
25 against Duke Energy's proposed customer charge.

1 A. Well, I looked at -- I did a little more,  
2 because I did look at Duke's historical rate also,  
3 and then I did compare the proposed rate.

4 On the other hand, I'll direct you to  
5 Page 6 where I do have all the proposed rates.  
6 It's not something that is not evident in my  
7 testimony. It's very clear on Page 6. I have the  
8 Vectren proposed charges and the Dominion proposed  
9 charges.

10 So this table has -- You know, it's --  
11 The only -- The purpose of this particular table  
12 is to show how Duke's proposed charge compares  
13 with the historical trend in Ohio.

14 Q. Do you know the last time that these  
15 other companies have been in for a rate case?

16 A. Yes. I know -- For example, I know  
17 Vectren, they were in for a rate case 2004, 2005.  
18 So it was very recent.

19 Q. What about Dominion and Columbia?

20 A. I know they haven't come in for some  
21 time.

22 Q. Sometime meaning -- What's your estimate?

23 A. I would Columbia -- I used to work for  
24 Columbia, and I still think I'm in their books,  
25 and I left in 1996. So I think it's been quite a

1 long time.

2 Q. Sometime before '96?

3 A. I would think so.

4 Q. Have there been any changes in market  
5 conditions in the natural gas industry over the  
6 last few years that may have caused companies to  
7 seek higher customer charges?

8 A. I think there's been quite a bit of  
9 discussion given the volatility and increases in  
10 commodity charges.

11 Q. Isn't it true that the commodity charge  
12 has increased from about \$2 to \$10 over the past  
13 few years?

14 A. That type of movement has taken place,  
15 yes.

16 Q. Have you studied whether there's been any  
17 trend of declining customer usage or declining  
18 usage per customer that gas utilities are  
19 experiencing perhaps as a result of the increased  
20 commodity charges?

21 A. Yes, I'm familiar with some of the  
22 information.

23 Q. Okay. And what does that information  
24 reveal that you're familiar with?

25 A. If there's declining usage per customer?

1 General statement, if there's declining usage for  
2 customers, and if the Company doesn't come in for  
3 a rate case more frequently, they could -- you  
4 know, without taking into account weather, you  
5 know, they could have some revenue erosion.

6 Q. Okay. Now, do you have any opinion as to  
7 whether it's appropriate for a gas utility to  
8 recover its fixed costs through a fixed customer  
9 charge?

10 A. The basis of my testimony, I would say  
11 is, that my testimony was critical of moving to a  
12 straight-fixed variable rate design. As I state  
13 in my testimony, there are other ways for the  
14 Company to mitigate the erosion, and as the  
15 Company proposed in its original filing, a  
16 decoupling, for example, a per customer decoupling  
17 mechanism.

18 Q. Okay. So you support the idea of a  
19 company addressing declining customer usage or  
20 revenue erosion through a decoupling mechanism as  
21 long as it has the appropriate safeguards you  
22 identified, but you do not support the idea of a  
23 company recovering its fixed costs through a fixed  
24 charge?

25 A. And the reason is -- As I state in my



1 testimony, I give numerous reasons. If you have  
2 two design mechanisms and both of them work and we  
3 remove the disincentive for the utility to promote  
4 energy efficiency, yet one -- one is a -- gives  
5 the correct pricing so that you get conservation  
6 on the customer side of the meter and one doesn't,  
7 I would go with the one -- my recommendation is to  
8 go with the decoupling with safeguards that  
9 maintains -- that removes the disincentive for  
10 energy efficiency from the Company, but at the  
11 same time doesn't remove the incentive for the  
12 customer to be more -- use the energy more  
13 efficiently, the pricing.

14 Q. As between sales decoupling and a  
15 straight-fixed variable charge, which one of those  
16 two sends a more accurate price signal to the  
17 consumer?

18 A. I would argue, and I've argued in my  
19 testimony, and I've shown exhibits that a  
20 decoupling mechanism would maintain the price  
21 signal to the customer in a clearer way than a  
22 straight-fixed variable.

23 Q. Let's assume that all of the customers on  
24 the Company's system were Choice customers and  
25 were served by marketers, which perhaps could

1 happen if the Company did some kind of wholesale  
2 auction process.

3 If that were true and the Company was  
4 only providing pure distribution service, what  
5 would provide a more accurate price signal to  
6 consumers for the Company's distribution service,  
7 straight-fixed variable or decoupling?

8 A. I think either.

9 Q. Either one would provide an equally  
10 accurate price signal?

11 A. Well, I would argue that, again, the  
12 decoupling mechanism would maintain from the  
13 customer perspective a truer price signal on the  
14 cost of natural gas.

15 Q. No, I'm not asking you about from the  
16 customer's perspective on the price signal for  
17 natural gas, I'm asking you on the Company's gas  
18 distribution service, what would provide a more  
19 accurate signal for the Company's natural gas  
20 distribution service?

21 A. I would argue that a straight-fixed  
22 variable really translates into a decreasing --  
23 It's really a decreasing block rate if you look  
24 at -- based on usage. The more somebody uses, the  
25 less their effective rate is.

1           So I think that unless your marginal  
2 costs on the fixed side or on the distribution  
3 Company side is decreasing, I think it's an  
4 incorrect price signal.

5           If cement is -- You know, the cement, the  
6 asphalt, all of that, all the costs of running a  
7 business is decreasing, then you might have an  
8 argument, but if it's -- if you're not dealing  
9 with a decrease in marginal costs and you're  
10 pricing that decrease in marginal costs  
11 effectively because of a straight-fixed variable,  
12 I think it's incorrect pricing.

13         Q.   Well, to the extent that we're in the  
14 distribution business and, you know, continuously  
15 adding new customers, wouldn't you expect a  
16 monopoly business like a natural gas distribution  
17 utility to have declining marginal costs over  
18 time?

19         A.   I think given the state now in terms of  
20 this materials cost and costs of -- You're  
21 comparison is versus -- monopoly versus a  
22 competitive -- or, I'm sorry, other companies  
23 serving as distribution providers.

24           I'm just talking about what actual costs  
25 are you facing when you go out there. Is cement

1 getting cheaper? Is asphalt getting cheaper? Is  
2 labor getting cheaper? You know, to run your  
3 business, is your business getting cheaper?

4 You may be able to operate because of  
5 your natural monopoly cheaper than another firm,  
6 but that's not the question. The question is  
7 whether your firm is experiencing high or low  
8 costs.

9 Q. Isn't it generally accepted that  
10 companies that are regulated monopolies, like a  
11 natural gas distribution company, have declining  
12 marginal costs?

13 A. I would say in a theoretical model,  
14 and -- and the whole development of -- of  
15 regulation, you know, if you looked at an economic  
16 textbook, you know, for that. The point again  
17 being that it's a natural monopoly, it could  
18 experience decreasing marginal costs, and,  
19 therefore, you need regulation so that -- to  
20 substitute a competitive and protect customers  
21 from a monopolistic price discrimination type....

22 Q. Okay. Now, on Page 11, Line 1 -- let me  
23 direct your attention to that part of your  
24 testimony -- you state you object to decoupling  
25 because it's a form of single issue ratemaking.

1 Now, is there anything wrong with single  
2 issue ratemaking by itself?

3 A. I believe that in a regulatory compact,  
4 where you come in for a rate case, and at that  
5 particular point you open your books and we look  
6 at what costs went up, what costs went down, and  
7 the Commission then makes the determination.

8 Q. Well, let me ask --

9 A. So I think for consumer advocates, that's  
10 a very strong taboo, single issue ratemaking.

11 Q. I'm sorry. That was a poorly worded  
12 question.

13 Wouldn't you agree that what you call  
14 single issue ratemaking is simply taking one area  
15 of the Company's revenues or expenses for, you  
16 know, periodic adjustment through a rider? That's  
17 what the Rider SD is, isn't it?

18 A. The Rider SD. Sales decoupling, yes.

19 Q. Aren't there many other examples where  
20 the Commission has approved taking one area of a  
21 company's expenses or revenues and adjusting them  
22 periodically through a rider?

23 A. I believe that's true, but we've  
24 objected. I wouldn't be surprised if we haven't  
25 objected every time.

1 Q. What are the other rate case components  
2 that could impact the decoupling effect that you  
3 mention here?

4 A. Generally, all the accounts. I mean, you  
5 would look at everything. Labor. You would look  
6 at the cost of materials. The full -- The full --  
7 You know, any cost that you could be losing --  
8 having revenue erosion because the sales are  
9 declining -- declining use per customer, but at  
10 the same time, you could have costs that are  
11 decreasing by more than that revenue erosion and,  
12 therefore, your revenues may actually be going,  
13 you know, higher on net. So it's just to be able  
14 to look at all the accounts that the Company has  
15 and the rate case gives you the opportunity to do  
16 that.

17 Q. Okay. So what you're objecting to is  
18 just the principle of focusing solely on the  
19 Company's sales and making an adjustment to the  
20 test year level of sales through this decoupling  
21 rider without considering other areas of the  
22 Company's revenues or expenses that might change  
23 from the time of the last rate case.

24 A. Correct.

25 Q. Okay. Now, you make a statement in your

1 testimony that decoupling is more guaranteed cost  
2 recovery. Do you recall that?

3 A. No, I don't. Can you point to it in my  
4 testimony?

5 Q. Page 11, Line 4.

6 A. Yes. I agree with my statement on  
7 Page 4 -- or, on Line 4, Page 11.

8 Q. Okay. How is the Company's cost recovery  
9 guaranteed with a decoupling proposal?

10 A. I'm saying -- I didn't say guaranteed. I  
11 said more. There's less risk, you know, from a  
12 revenue perspective. Everything else being equal,  
13 if you can recover lost revenues, then there's  
14 less risk.

15 Q. Now, if we have situation where a natural  
16 gas utility is facing steadily declining usage per  
17 customer, and the utility could address that  
18 either of two ways, one would be to come in for  
19 frequent rate case filings, or to have a  
20 decoupling proposal or a decoupling rider, with  
21 all else equal, what would your recommendation be  
22 in terms of how to best address that? Would it be  
23 through the frequent rate case filings or through  
24 decoupling?

25 A. I believe I would be indifferent between

1 both.

2 Q. Okay.

3 A. As long as -- Every time we talk about  
4 decoupling, I would add that, you know, as long as  
5 the decoupling mechanism had consumer safeguards  
6 as I stated. That's a condition I would hold  
7 throughout.

8 Q. Okay. Now, at the bottom of Page 11, you  
9 talk about the states where decoupling has been  
10 approved, or rejected, or proposals are pending.

11 Is that the most recent data you're  
12 available -- or, you're aware of?

13 A. I think at the time of my filing, it was  
14 the information that I had.

15 Q. Are you aware of any more recent data?

16 A. I was scouring for it and I haven't -- I  
17 haven't gone back to update anything else that  
18 has -- that has come about.

19 Q. I guess the conclusion you would draw  
20 from your statement is that decoupling has not  
21 either been widely accepted or widely rejected,  
22 that it's in balance, it's an equal balance. Half  
23 the states that have ruled on it have approved and  
24 half the states have rejected the proposals.

25 A. That's what my -- the information that I



1 had. And again, I footnote Frederick Butler for  
2 the information that I came across.

3 Q. And this Frederick Butler article was in  
4 what publication?

5 A. It was a NARUC presentation, I believe.

6 Q. Do you have that available to you?

7 A. I don't have it here, no. But I have it  
8 somewhere in my -- in my files.

9 Q. Now, please turn to Page 12, Line 7 of  
10 your testimony. You talk about decoupling as  
11 being an opportunity to shift risk from  
12 shareholders to customers.

13 Now, if you consider that the declining  
14 usage per customer is a relatively new phenomenon,  
15 why is it that shareholders should bear that risk  
16 as opposed to customers?

17 A. As I mentioned earlier, the regulatory  
18 compact, that was one of the risks that the  
19 utilities would -- was fostered on the utility,  
20 was the sales -- the sales risk.

21 Q. If --

22 MR. SERIO: Excuse me. John, due to the  
23 time, Mr. Sauer needs to leave to get to the local  
24 public hearing. I'll be taking over for him, as  
25 long as that's all right with you, so that we can

1 finish Mr. Gonzalez's deposition.

2 MR. FINNIGAN: Sure. That's fine. Thank  
3 you.

4 BY MR. FINNIGAN:

5 Q. If the declining customer usage is a new  
6 phenomenon and if it's not addressed through a  
7 straight-fixed variable charge or a decoupling  
8 rider, should the Company receive a higher return  
9 on equity to account for the fact that this is a  
10 new risk that's developed in the past few years  
11 that shareholders face?

12 A. Are you talking generally, or are you --

13 Q. Yes.

14 A. -- talking specifically.

15 Q. Generally.

16 A. So for a Company -- When you look at a  
17 Company and you're assessing the risk -- And  
18 again, I'm not the cost-of-service witness in this  
19 particular case. Like I state in my testimony,  
20 I'm referring to Witness Adams to deal with the  
21 risk.

22 But as a general statement, you would  
23 have to assess all the -- you couldn't just look  
24 at and reduce that particular risk, you have to  
25 look at all the risks for the Company and make a

1 determination, and I haven't done that for the  
2 Company.

3 Q. I'm simply asking you, if this phenomenon  
4 of declining usage per customer is a new  
5 phenomenon that is occurring in the industry,  
6 wouldn't you expect state commissions to take this  
7 into account when evaluating a utility's return on  
8 equity and consider that as one factor that should  
9 lead to a higher return on equity in consideration  
10 with all the other factors?

11 A. Again, like I mentioned, you know, I  
12 didn't look at the cost of capital or risk. I'm  
13 not the OCC witness. So I -- I would feel  
14 uncomfortable making a statement. You could -- We  
15 had a witness with that testimony regarding the  
16 Company's risks, return on equity recommendations,  
17 and so on. I would defer to that witness.

18 Q. Let me change the subject a bit here, and  
19 I want to talk now about the consumer safeguards  
20 that you recommend for decoupling.

21 Are you familiar with the Vectren  
22 decoupling rider?

23 A. Yes.

24 Q. Which of the consumer safeguards that you  
25 recommend for Duke Energy Ohio are present in the

1 Vectren decoupling rider?

2 A. My understanding is that based on PUCO's  
3 decision, none of the cap safeguards. Although,  
4 in my testimony in that case, I did recommend -- I  
5 did recommend the caps in the consumer safeguards.  
6 I was consistent in that sense.

7 Q. But those were rejected by the Commission  
8 ultimately?

9 A. Well, the way it transpired and it was --  
10 you know, the case had a lot of history and went  
11 to a lot of -- there was a lot of paper generated,  
12 but my understanding is that we now have a rate  
13 case where we're going to actually look at it  
14 again in the recovery and all that.

15 So it kind of merged into this rate case  
16 where it's going to be handled in the rate case.  
17 That's my understanding. So the Commission, you  
18 know, based on its decision, says, "Let's look at  
19 it in the rate case".

20 Q. But at the time it was originally  
21 approved, the Commission rejected your  
22 recommendation to adopt any of the safeguards that  
23 you're recommending here for Duke Energy Ohio;  
24 isn't that correct?

25 A. Yes, I believe that's the case.

1 Q. And of the 11 states you cited earlier  
2 that have adopted decoupling proposals, which of  
3 these consumer safeguards have been adopted in any  
4 of those decoupling proposals?

5 A. I think my understanding would be that  
6 the decoupled revenues would be recovered at less  
7 than 100 percent. So I believe, for example,  
8 Vectren in Indiana is at lower than 100 percent.

9 Q. What percent of its revenues does Vectren  
10 collect through its decoupling proposal there?

11 A. I don't recall the exact number, but it's  
12 less than 100 percent. I know in Washington  
13 State, I guess, Northwest Natural Gas also had a  
14 less than 100 percent recovery when it was first  
15 implemented.

16 Q. Is that still the case now?

17 A. I'm not clear on their latest filing.

18 Q. And are you aware of any other consumer  
19 safeguards that you've identified in your  
20 testimony here that have been adopted in any other  
21 states where decoupling has been approved besides  
22 those two you just mentioned?

23 A. I just don't recall. I've read  
24 information, but I just don't have it on the top  
25 of my -- Those are the two that I still remember,

1 but there could have been more.

2 Q. Okay. Now, let me direct your attention  
3 to the testimony -- Well, strike that.

4 Let me direct your attention to  
5 Recommendation No. 2 of your consumer safeguards  
6 on Page 13.

7 One of the recommendations you mentioned  
8 would be a -- a cap, either a dollar cap on  
9 decoupled revenues, or a cap on the percentage  
10 increase for the rider.

11 If the rider is intended to compare  
12 actual sales to test year sales during every  
13 annual adjustment, how would that dollar cap on  
14 decoupled revenues operate?

15 A. It would simply -- When, I guess, year to  
16 year adjustments are made, if the adjustments  
17 would increase beyond the recommendations of the  
18 cap, whatever the cap is, then that's what the --  
19 that's what the Company would be able to recover  
20 as part of its decoupling mechanism. The cap idea  
21 there is more as a rate shock type avoidance.

22 So from a customer perspective, you don't  
23 want customers angry and seeing large -- you know,  
24 angry at volatile rates, you know. So that's why  
25 a cap on decoupling, a percentage cap would be

1 something, I think, would help sell the program  
2 and make it more viable within customer  
3 acceptance, total customer acceptance is what I  
4 mean.

5 Q. What type of dollar cap would you propose  
6 for such a cap on decoupled revenues?

7 A. I have no recommendation in this  
8 particular case. I've said in the past a  
9 decoupling -- Yeah, I have no recommendation in  
10 this case.

11 Q. What would be an appropriate method for  
12 determining how much the cap should be on  
13 decoupled revenues?

14 A. You'd have to look at what -- you know,  
15 what would be interpreted as an increase in rates  
16 that would be problematic for the consumer, and so  
17 it would be -- I would say it's more art.

18 Q. Now, let me direct your attention to Item  
19 No. 4 of your consumer safeguards for decoupling.

20 You recommend there a downward adjustment  
21 in the Company's return on equity if decoupling  
22 adopted; is that correct?

23 A. That's what I state on 4, and I defer or  
24 yield to -- I know our return on equity witness,  
25 Aster, addressed this issue in his testimony.

1 Q. Okay. Now, let's assume that some of the  
2 companies that Mr. Adams uses for his discounted  
3 cash flow and capital asset pricing model analysis  
4 already have decoupling mechanisms, so in  
5 determining the cost of equity, he's comparing  
6 Duke Energy to companies, some of which already  
7 have decoupling.

8 Now, if that -- if decoupling has already  
9 been determined or factored in in arriving at that  
10 initial determination of what's the appropriate  
11 cost of equity, why should there be a second or  
12 double factoring of decoupling into the equation?

13 A. Again, I haven't looked at that closely.  
14 I would -- I would defer to Mr. Adams. I don't  
15 know what companies he compared.

16 Q. Now, let me direct your attention to your  
17 testimony regarding the straight-fixed variable  
18 rate design that the Staff proposed, and this  
19 begins at Page 14 of your testimony.

20 Under the Staff's proposal, do you know  
21 how much of the -- of the customer's total bill  
22 for an average customer would be recovered through  
23 fixed charges versus volumetric charges?

24 A. I'm just searching for it. I think I've  
25 made some statement in that regard. I know it's a



1 preponderance of the collection. I can't put my  
2 finger on it, but I believe it's a preponderance  
3 of the cost.

4 Q. Are recovered through what?

5 A. Through a fixed charge.

6 Q. Okay. The total bill cost?

7 A. The total distribution bill cost, yes.

8 Q. Okay. Including commodity charges?

9 A. No; that's why I said distribution bill  
10 cost.

11 Q. Let me ask about total bill, including  
12 commodity charges.

13 Under the Staff's proposal, what is your  
14 understanding of what would be the proportion of  
15 costs recovered through a fixed charge as opposed  
16 to a volumetric charge for an average customer?

17 A. I think that's what I was trying to get  
18 to with my Exhibit No. 2, that the Staff's  
19 proposal would lead to a very high distribution  
20 dollar per CCF when compared to a \$6 fixed charge  
21 or even the Company's \$15 customer charge  
22 proposal.

23 Q. Let me direct your attention to Page 16,  
24 Line 11 of your testimony, where you state that  
25 the straight-fixed variable rate design is

1 regressive on low usage customers.

2 Do you know whether the straight-fixed  
3 variable rate design is regressive on low income  
4 customers on the whole?

5 A. That's been a question in this particular  
6 case based on the information that the Company  
7 provided.

8 The Company solely provided PIPP  
9 information based on the PIPP information that --  
10 I was very careful the way I stated this, but if  
11 you look at -- I think the PIPP customers have an  
12 upward bias of usage, and if you look at, there  
13 was -- there were only, I guess in the data  
14 request to the Staff, there were about 10,000 --  
15 roughly 10,000 PIPP accounts, and if you look at  
16 census data, you know that there's -- at  
17 least just in Hamilton County, there's at least  
18 66,000 low income households, at least 149 percent  
19 of the poverty level, because that's the data.

20 So I would think that low income  
21 customers, if you believe that they are the PIPP  
22 customers, would have a bias for high usage, I  
23 would think that low income customers would be --  
24 would not be served well with the straight-fixed  
25 variable rate design.

1 Q. Well, aren't higher usage customers going  
2 to benefit from straight-fixed variable rate  
3 design?

4 A. Yes.

5 Q. Okay. And do you have an understanding  
6 or a belief as to whether low income customers on  
7 the whole tend to be higher usage or lower usage  
8 customers?

9 A. What I just stated was that based on your  
10 information on PIPP customers, it seems like it  
11 was a 50/50 -- you know, 50 would be better off,  
12 50 would be worse off.

13 But the PIPP customers only accounted for  
14 either 10 to -- 10 percent to 20 percent of your  
15 low income customers. So there's something  
16 missing there.

17 We have been trying to get the  
18 information to make a determination, but if you --  
19 if -- my hypothesis would be that low income  
20 customers, nonPIPP low income customers are  
21 probably, on average, using less than PIPP low  
22 income customers.

23 Q. And what is the basis for your belief?

24 A. Because if you have high uses, that's  
25 where you're going to have PIPP, more -- more

1 trouble paying your bill and, therefore, going to  
2 avail yourself to a PIPP type of program. But if  
3 you're a low -- if you're low income, but you're  
4 low usage, you can pay the bill.

5 Q. Okay. But what is it by virtue of the  
6 fact that a customer is low income? What is it  
7 about that characteristic would lead you to  
8 believe that, on the whole, low income customers  
9 tend to be lower users as opposed to high users?

10 A. I was just basing my observations on --  
11 based on the exhibit you provided and some of the  
12 census data that I looked at.

13 Q. Well, the census data you looked at  
14 doesn't have any statistics on usage of energy,  
15 does it?

16 A. I think it was simply households, low  
17 income households. Number of low income  
18 households in the company's service territory.  
19 This is information we have tried to -- obviously  
20 requested from the Company.

21 Q. We don't have that information on  
22 household statistics. I mean, you don't tell your  
23 gas company how much you make a year, do you?

24 A. Are you asking me whether I --

25 Q. I know I don't. And what I'm suggesting

1 to you is that the Company doesn't have income  
2 data for its customers other than PIPP customers.

3 A. I understand that. But I'm saying there  
4 may be other ways to capture in that type of  
5 information, if the Company thought that  
6 information was useful.

7 Q. And what would those ways be?

8 A. I think census data, there's useful --  
9 sensitive data by usage. It would require some  
10 work, but you're a pretty condensed service  
11 territory, so....

12 Q. Now, on Page 18 of your testimony, you  
13 mention on Line 3 that straight-fixed variable  
14 rates penalize customers who have undertaken  
15 energy efficiency investments because, as I  
16 understand it, you're saying they don't get the  
17 same payback as they would have gotten if the same  
18 rate design would have remained in effect at the  
19 time of their purchase.

20 A. Yes.

21 Q. Now --

22 A. Not just payback. Payback is one of  
23 them. You know, just savings. They would be able  
24 to save more because they can -- they can -- you  
25 know, they can defer -- they have more choice in

1 terms of what part of the bill they have to pay as  
2 opposed to having it, you know, do a  
3 straight-fixed variable, just being hit with a  
4 large fixed charge that they -- whatever they do,  
5 they can't get around.

6 Q. But I mean, if you follow that logic,  
7 wouldn't you say that it's unfair for a company to  
8 propose new energy efficiency programs, or it's  
9 unfair for a company to ever increase its rates if  
10 the increase involved an increase in the customer  
11 charge, because that would also penalize investors  
12 in energy efficiency appliances?

13 A. I don't think so. If you increase your  
14 rates and somebody made an efficiency investment,  
15 their return is higher because your rate was  
16 higher, they are saving. So it actually works to  
17 favor their investment.

18 Q. No, I'm saying if in a rate case you  
19 increase the customer charge by any amount, you're  
20 saying that's an unfair penalty on energy  
21 efficiency investors. Isn't that what you're  
22 saying?

23 A. This is all in terms of -- I'm trying to  
24 balance this. Increasing the customer charge  
25 by \$1 in a rate case and what kind of impact that

1 will have, versus going 150 percent increase as  
2 the Duke case. You know, that's a different  
3 magnitude and it will have a bigger impact.

4 Q. Didn't energy efficiency investors  
5 pay \$12 in fixed costs before the current proposal  
6 that's on the table?

7 A. It depends on when they implemented their  
8 program. I don't know the history of the AMRP and  
9 when -- I'm sure it wasn't \$6 at all times, it  
10 probably increased over time.

11 Q. Is straight-fixed variable design -- rate  
12 design consistent with any generally accepted  
13 principles of utility rate design?

14 A. I would think at least two; one would be  
15 revenue stability, and another one would be ease  
16 of administration, perhaps.

17 But I think, as my testimony points out,  
18 you are trading that off for a lot of other  
19 problems that we believe pose problems for  
20 customers.

21 MR. FINNIGAN: That's all the questions I  
22 have. Thank you, Mr. Gonzalez.

23 MR. SERIO: Is there anyone on the phone  
24 from Staff?

25 MR. PUICAN: We're still here.

1 MR. SERIO: Do you guys have any  
2 questions?

3 MR. PUICAN: No, we don't.

4 MR. FINNIGAN: Okay. Well, thank you  
5 very much.

6 (Signature not waived.)

7 - - -

8 (Thereupon, the deposition was concluded  
9 at 4:06 o'clock p.m. on Thursday,  
10 February 21, 2008.)

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STATE OF \_\_\_\_\_, )

) SS:

COUNTY OF \_\_\_\_\_, )

Wilson Gonzalez, having been duly placed under oath, deposes and says that:

I have read the transcript of my deposition taken on Thursday, February 21, 2008, and made all necessary changes and/or corrections as noted on the attached correction sheet, if any.

\_\_\_\_\_

Wilson Gonzalez

Placed under oath before me and subscribed in my presence this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_

Notary Public

My Commission Expires: \_\_\_\_\_.

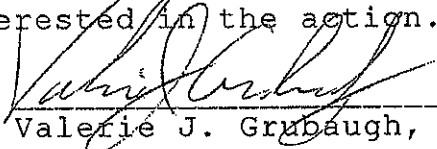
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C E R T I F I C A T E

State of Ohio, )  
)  
) SS:  
County of Fairfield,

I, Valerie J. Grubaugh, Registered Merit Reporter, Certified Realtime Reporter and Notary Public in and for the State of Ohio, hereby certify that the foregoing is a true and accurate transcript of the deposition testimony, taken under oath on the date hereinbefore set forth, of Wilson Gonzalez.

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action in which the deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in the action.



Valerie J. Grubaugh,  
Registered Merit Reporter,  
Certified Realtime Reporter and  
Notary Public in and for the  
State of Ohio.

My Commission Expires: August 10, 2011.

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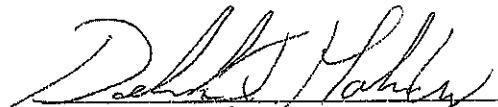
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State of Ohio,                          )  
  ) SS:  
County of Delaware                      )  
  - - -

I, Deborah J. Holmberg, Registered Merit Reporter and Notary Public in and for the State of Ohio, hereby certify that the foregoing is a true and accurate transcript of the deposition testimony, taken under oath on the date hereinbefore set forth, of Wilson Gonzalez.

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action in which the deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in the action.

  
\_\_\_\_\_  
Deborah J. Holmberg,  
Registered Merit Reporter  
and Notary Public in and  
for the State of Ohio

My Commission Expires: October 7, 2011.

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