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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)	Case No. 07-1285-GA-EXM

APPLICATION AND EXHIBITS

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December 21, 2007

Attorneys for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

APPLICATION

December 21, 2007

{C23831:}

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)	Case No. -GA-EXM

APPLICATION

Vectren Energy Delivery of Ohio, Inc. ("VEDO"), the applicant in this proceeding, is a natural gas company providing service to 320,000 customers in the state of Ohio, of which approximately 320,000 are expected to be affected by this application.

Applicant submits this application pursuant to Section 4929.04 of the Revised Code, for approval of an exemption from chapters and sections of the Revised Code specified in Section 4929.04, Revised Code, for the provision of all commodity sales services. This exemption will affect customers served by VEDO Rate Schedules 310 (Residential Sales Service), 315 (Residential Transportation Service), 320 (General Sales Service), 325 (General Transportation Service), 330 (Large General Sales Service), 340 (Interruptible Sales Service), 341 (Dual Fuel Sales Service), 345 (Large General Transportation Service), 380 (Pooling Service [Large General]), and 385 (Pooling Service [Residential and General]). Additionally, two new rate schedules applicable to suppliers (Rate 395 – SSO Supplier Service and Rate 396 – SCO Supplier Service) are proposed. Application Exhibits I through VII are attached to this application and are incorporated herein.

This Application is also submitted pursuant to Section 4929.11, Revised Code, for approval of the proposed Exit Transition Cost ("ETC") Rider, the purpose of which is to recover Merchant Function Exit transition costs from affected customers. This rider will recover incremental implementation costs and recover/pass back specified costs. This application is also made pursuant to Section 4905.13, Revised Code, for all applicable accounting authority necessary to implement the ETC Rider.

The Applicant requests the Commission to consider the facts and proposals set forth in this application and to approve the applicant's request for an exemption.

Respectfully submitted,

Jerrold L. Ulrey

Jerrold L. Ulrey
Vice President, Regulatory Affairs and Fuels

Robert L. Goocher

Robert L. Goocher
Vice President and Treasurer

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VERIFICATION

STATE OF INDIANA)
) SS
COUNTY OF ____________)

I, Jerrold L. Ulrey, Vice President, Regulatory Affairs and Fuels, and I, Robert L. Goocher, Vice President and Treasurer of the Vectren Corporation hereby verify that the information contained in this application is true and correct to the best of our knowledge.

Jerrold L. Ulrey
Vice President, Regulatory Affairs and Fuels

Robert L. Goocher
Vice President and Treasurer

Sworn and subscribed before me this 20th day of December, 2007.

Sharon R. Katterjohn
Notary Public

Sharon R. Katterjohn
Printed

Warrick
County

My term expires: 12-17-2008

(SEAL)

NOTARY PUBLIC SEAL INDIANA

{C23831:}

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Application and Exhibits* was served upon the following parties of record this 21st day of December 2007, *via* electronic transmission, hand-delivery or ordinary U.S. mail, postage prepaid.

Gretchen J. Hummel

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SUMMARY OF APPLICATION

TABLE OF CONTENTS

INTRODUCTION

This Application is the result of a development process engaged in by Vectren Energy Delivery of Ohio, Inc.'s ("VEDO") Merchant Function Working Group, which has been meeting regularly since October 2006. The Merchant Function Working Group included all of VEDO's Choice commodity suppliers, other interested commodity suppliers, the Ohio Farm Bureau Federation, the Ohio Office of Consumers' Counsel, Ohio Partners for Affordable Energy, and the Commission Staff. It is anticipated that continuing discussions of the Working Group will result in a consensus agreement based on the proposals in this Application with revisions to be submitted to the Commission for approval. In response to the requirements of Rule 4901:1-19-04, O.A.C., the following exhibits are submitted with the Application for approval:

Application Exhibit I ....Summary of Application
Application Exhibit II ....Testimony of Jerrold L. Ulrey
Application Exhibit III ....Testimony of Robert Lawson
Application Exhibit IV................................Testimony of Perry M. Pergola
Application Exhibit V................................Testimony of Scott A. Albertson
Application Exhibit VI................................Testimony of Michael Roeder
Application Exhibit VII................................Current and Proposed Tariffs And Supporting Rationale (E Schedules)

A Motion for Waivers ("Motion") of certain requirements of certain provisions of Rules 4901:1-19-06 and 4901:1-19-09, O.A.C. will be sought in light of the extensive discussions which preceded this filing, during which interested parties engaged in significant informal discovery and analysis of the proposals contained herein as they were being developed. This Motion will be filed at the same time as the filing of this Application.

OBJECTIVES

Since VEDO acquired its distribution system in November 2000, when all VEDO customers (except large transport customers) were limited to VEDO sales service subject to gas cost recovery ("GCR") requirements, VEDO has successfully initiated services pursuant to which every VEDO customer has an opportunity to choose an alternative supplier for commodity services. At this point, approximately 75,000 residential and commercial VEDO customers and nearly all of VEDO's large volume customers are served by a commodity supplier other than VEDO. The result is that almost half of VEDO's annual commodity load is already comprised of non-utility sales service.

This Application seeks approval for two phases which are intended to serve as a sequential process pursuant to which VEDO will transition from the provision of commodity service to an environment in which VEDO exits the merchant function and all VEDO customers are receiving commodity from non-utility commodity suppliers. The exit will acknowledge VEDO's business role as a distribution service provider by appropriately relieving it from the sales function from which it, by law, can earn no profit and by providing a measured transition by which the sales function can ultimately be served by non-utility suppliers in a competitive market. There are two primary objectives of Phase I, SSO Service: (1) to encourage a competitive market in which customers can make informed choices among expanded reliable commodity service product alternatives offered by multiple suppliers, and, (2) to initiate a process by which the orderly exemption from VEDO's obligation to provide commodity sales service can ultimately be accomplished. The auction provided for in Phase I will result in SSO

Service and is intended to provide a first step toward the transfer of the remainder of commodity service by VEDO to competitive retail natural gas suppliers ("CRNGS") as outlined in Phase 1.5. The auction provided for in Phase 1.5 will result in SCO Service and is intended to achieve an identifiable tariff-based relationship between eligible customers and CRNGS suppliers through a Choice service offered on PUCO-regulated standard terms and conditions, including a standard price developed at auction. (Based on VEDO consultations with Federal Energy Regulatory Commission staff, VEDO anticipates that prior to any auction, VEDO will have either received further clarifications from the Federal Energy Regulatory Commission concerning capacity release consistent with FERC's recent Notice of Proposed Rulemaking on capacity release, or, in the alternative, that VEDO will have filed a request to the FERC for a waiver of certain of FERC's capacity release provisions.) The final step, not addressed in this application, would be Phase 2, or a "Full Choice", paradigm which would involve a direct retail relationship between all customers and CRNGS suppliers, with customers making service choices from a menu of products offered by suppliers in a competitive market environment.

RATIONALE

Phase I will begin to address and eliminate issues that have challenged the development of a fully competitive market since the inception of VEDO's customer choice program in 2003. Implementation of Phase I will eliminate the confusion and inaccuracies that the constantly-reconciling nature of the gas cost recovery ("GCR") calculation injects into the evaluation customers make about the competitive choices available. Customer education efforts during Phase 1 will begin to inform VEDO customers of the transition from the provision of commodity service by VEDO to alternative suppliers. This transition phase is expected to generate significant, vibrant supplier effort to compete in VEDO's market and to provide a greater variety of products to address customer needs.

Phase 1.5, from a customer perspective, will look very much like Phase 1. The only noticeable difference will be that the customer bill will indicate the CRNGS supplier responsible for providing the customer's commodity. All customers will be billed an auction-determined standard choice price. Customer education will be undertaken so that customers understand the changes to their service. From an operations perspective, many of the IT and mechanical changes required to support SCO Service are those required to support a full merchant function exit in a future Phase 2 environment. Phase 1.5, therefore, provides a low risk opportunity to test and evaluate operational performance levels necessary in order to make a full merchant function exit successful.

TARIFFS AFFECTED

The following is a list of the tariffs affected by SSO Service and SCO Service:

SSO Service

Tariff Sheet No.	Description
2	Tariff Sheet Index
10	Rate 310 Residential Sales Service
11	Rate 315 Residential Transportation Service
12	Rate 320 General Sales Service
13	Rate 325 General Transportation Service
14	Rate 330 Large General Sales Service
15	Rate 340 Interruptible Sales Service
16	Rate 341 Dual Fuel Sales Service

17	Rate 345 Large General Transportation Service
21	Rate 385 Pooling Service (Residential and General)
22	Rate 395 SSO Supplier Service
31	Gas Cost Recovery Rider (suspended)
33	Back up Sales Service Rider (deleted)
35	Migration Cost Rider (suspended)
36	Balancing Cost Rider (suspended)
38	Standard Sales Offer Rider
41	Exit Transition Cost Rider
50	Transportation Terms and Conditions (Large General)
51	Nomination and Balancing Provisions (Large General and Pool Operator)
52	Pooling Service Terms and Conditions (Residential and General)
53	Supplier Pooling Agreement (deleted)
54	Unaccounted for Gas Percentage
55	SSO Supplier Terms and Conditions
59	General Terms and Conditions (T & C) Applicable to Gas Service – Definitions
70	General T & C Applicable to Gas Service – Curtailment Procedures
71	General T & C Applicable to Gas Service – Operational Flow Orders
72	General T & C Applicable to Affiliate Code of Conduct
79	General T & C Applicable to Gas Service – Amendments

SCO Service

Tariff Sheet No.	**Description**
2	Tariff Sheet Index
10	Rate 310 Residential Sales Service
11	Rate 315 Residential Transportation Service
12	Rate 320 General Sales Service
13	Rate 325 General Transportation Service
14	Rate 330 Large General Sales Service
15	Rate 340 Interruptible Sales Service
16	Rate 341 Dual Fuel Sales Service
22	Rate 395 SSO Supplier Service (deleted)
23	Rate 396 SCO Supplier Service
38	Standard Sales Offer Rider (deleted)
41	Exit Transition Cost Rider
44	Standard Choice Offer Rider
50	Transportation Terms and Conditions (Large General)
52	Pooling Service Terms and Conditions (Residential and General)
54	Unaccounted for Gas Percentage
55	SSO Supplier Terms and Conditions (deleted)
56	SCO Supplier Terms and Conditions
59	General Terms and Conditions (T & C) Applicable to Gas Service – Definitions

70	General T & C Applicable to Gas Service – Curtailment Procedures
71	General T & C Applicable to Gas Service – Operational Flow Orders

APPROACH AND TIMELINE

VEDO understands that customers and other stakeholders may not be prepared to flash cut to a full retail environment in which all eligible commodity customers have a direct retail relationship with a CRNGS supplier and VEDO provides no commodity service. Accordingly, while VEDO remains committed to full exit from the merchant function, this proposal is made to move toward that end in two transitional phases. Phase 1 will be an interim model in which VEDO will continue to provide commodity service from the SSO initiation date until a subsequent March 31st using an auction process. VEDO will conduct a descending clock auction consistent with that conducted by Dominion East Ohio Gas Company as a result of the Commission's Opinion and Order in Case No 05-474-GA-ATA. The details of the auction are set out in Application Exhibit IV. In order to provide a transition from VEDO's current commodity procurement hedging strategy to unhedged standard prices, the SSO Service price during the initial three winter months of the Phase 1 period will be hedged as described in the testimony of VEDO Witness Perry M. Pergola. VEDO's GCR customers will become SSO Service customers on the SSO initiation date, pursuant to the terms and conditions of the relevant proposed tariffs in Application Exhibit VII.

Approximately six weeks prior to the end of the SSO Phase, VEDO will conduct an SCO Service auction, in the same manner as the SSO Service auction, the details of which are set out in Application Exhibit No. IV. The auction will be for a twelve month period. SCO Service will be a Choice Service offered on PUCO-regulated standard terms and conditions, including price, as set out in the relevant proposed tariffs in Application Exhibit VII. Bidders in the SCO Service auction must be certified CRNGS suppliers. VEDO's SSO Service customers will become SCO Service customers on the SCO initiation date. Choice customers will not be permitted to migrate to SCO Service, but SCO Service customers will be encouraged to migrate to competitive Choice Service throughout the period SCO Service is offered. The loads of all former SSO Service customers will be assigned to specific Choice suppliers who will be their SCO Service supplier, except for PIPP Customers, whose load will be served on a proportionate basis by the SCO Service suppliers (similar to SSO Service) but will not be specifically assigned. SCO Service will be offered for the initial year, and if Phase 2 Full Choice settlement is not reached with the parties and approved by the Commission by six weeks prior to the initial SCO period termination, another SCO Service auction will be held for a subsequent annual period, and so on thereafter.

In order to minimize the risk and consequences of supplier default in both Phase1 and 1.5, an individual supplier will be limited to serving no more than one third of the total volumes to be acquired through the auction process. As described in Application Exhibit IV, VEDO, SSO Service suppliers (SCO Service suppliers in Phase 1.5), Choice Service suppliers, and Large Transporters/Pool Operators would all be involved in the provider-of-last-resort ("POLR") function, with VEDO serving as coordinator.

CUSTOMER EDUCATION

VEDO will conduct a customer education program developed in consultation with a self-assigned sub-committee of the Merchant Function Exit Working Group. The purposes of the education plan are (a) to provide VEDO an opportunity to explain its exit plans to its customers and (b) to ensure that its customers understand their commodity service options, the implications of their choices, and the available customer protections. The customer education development process and plan are described in Application Exhibit No. VI.

COST RECOVERY

An Exit Transition Cost ("ETC") Rider will be established to recover Merchant Function Exit transition costs from all SSO Service, SCO Service, and Choice Service customers. This reconcilable rider will recover incremental SSO Service and SCO Service implementation and ongoing operating costs (including customer education costs). Additionally, the rider will recover/pass back costs such as residual GCR variances and migration costs, residual incremental POLR costs, and residual transporter imbalance costs. This rider is discussed in detail in Application Exhibit V.

GCR AUDITS AND LONG TERM FORECAST REPORTS ("LTFR")

Pursuant to Section 4929.04, Revised Code, Commission approval of this Application will relieve VEDO from, among other things, the statutory and rule requirements for GCR management performance ("M/P") and financial audits and LTFR filing requirements. While VEDO will no longer be subject to LTFR filing requirements, VEDO will routinely prepare a design day peak forecast which will be updated annually and provided to the Merchant Function Exit Working Group members for review.

MERCHANT FUNCTION EXIT WORKING GROUP PROCESS

VEDO's Merchant Function Exit Working Group will meet regularly as needed throughout Phases 1 and 1.5 to conduct ongoing evaluation of the SSO Service and the SCO Service and to continue ongoing discussions related to the development and implementation of Phase 2. As a part of this evaluation, the group will consider the results of an annual audit that will be conducted to review the costs and revenues arising from the implementation of Phases 1 and 1.5, as described in Application Exhibit V. Parenthetically, the required annual review of VEDO's Uncollectible Expense Rider will be conducted and reported on the same schedule as the new annual audit. The group will also continue discussions for the development of a Full Choice environment.

Application Exhibit II

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PREPARED DIRECT TESTIMONY
OF JERROLD L. ULREY
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

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Attorneys for Vectren Energy Delivery of Ohio, Inc.

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PREPARED DIRECT TESTIMONY
OF JERROLD L. ULREY

Q. Please state your name and business address.

A. My name is Jerrold L. Ulrey. My business address is One Vectren Square, Evansville, Indiana, 47708.

Q. By whom are you employed and what is your title?

A. I am Vice President, Regulatory Affairs and Fuels for Vectren Utility Holdings, Inc., the parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO").

Q. Please describe your educational background.

A. In 1975, I obtained a Bachelor of Science Degree in Industrial Management from Purdue University. In 1985, I obtained a Masters of Business Administration degree from Indiana University.

Q. Please describe your professional experience and current responsibilities.

A. I have been employed by Vectren Corporation (or its predecessor company, Indiana Energy, Inc.) since 1981. My primary focus has been in regulatory affairs and gas supply. I assumed my current position in 2001 and am responsible for coordinating the Vectren utilities' involvement in regulatory proceedings. I also oversee Vectren's gas supply activities.

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

A. This testimony is responsive to the filing requirements of Section 4929.04(A), Revised Code; and Rule 4901:1-19-04(C)(1), (C)(3), and (C)(5), O.A.C. My testimony describes how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policies as set forth in Section 4929.02, Revised Code. It should be noted that, in its September 13, 2006, Opinion and Order in Case No. 05-1444-GA-UNC and based on substantially the same information, the Commission has previously found VEDO in substantial compliance with Section 4929.02, Revised Code.

SECTION 4929.02, REVISED CODE REQUIREMENTS

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(1), Revised Code - Promote availability to

consumers of adequate, reliable, and reasonably priced natural gas services and goods.

A. Currently all of VEDO's retail customers, except the PIPP customers, have access to both sales and transportation service options. PIPP customers may receive only sales service, although their supply could be provided by an alternative supplier depending upon semi-annual PIPP RFP results.

Sales service is distribution service coupled with gas supply purchased by the customer from VEDO at regulated prices. Regarding sales service, GCR priced gas supply is currently available to all customers under VEDO's various sales rate schedules. The GCR price is a Commission-approved price that includes balancing accounts reflecting gas costs that were over or under-recovered in prior months based on actual GCR prices billed to customers.

Transportation service is distribution service only, with the customer purchasing gas supply at negotiated prices from a supplier other than VEDO. Transportation service is currently available to all of VEDO's retail customers under one of two programs. In fact, about 50% of VEDO's total annual throughput is pursuant to these two transportation services. First, Choice Transportation is available to Residential and General Service customers under the Residential and General Transportation Service rate schedules. Choice customers become part of a pool of customers that is supplied by customers' selected supplier. Under the second program, Large General Transportation Service, VEDO's largest customers, may select their own gas supplier, and be part of a customer pool as well, at their option. Under both programs, VEDO is the provider of the distribution service.

Under the Company's proposed Standard Sales Offer ("SSO" or "Phase 1") Service, a regulated sales service will continue to be available to all of VEDO's retail customers. SSO customers will pay VEDO's distribution charge as well as a Commission-approved monthly standard market price (without balancing accounts) based on NYMEX natural gas futures prices plus an auction-established retail price adjustment. Under Applicant's proposed Standard Choice Offer ("SCO" or "Phase 1.5") Service, a regulated Choice Transportation service will be available to Choice eligible customers only. The price to be paid by SCO customers will continue to be comprised of VEDO's distribution charge and a Commission-approved monthly standard price based on NYMEX natural gas futures prices plus an auction-established retail price adjustment which is defined in VEDO witness Perry M. Pergola's testimony. However, because VEDO will no longer have a sales service and SCO Service will be available only to Choice eligible customers, any Large General Sales customers will be required to transfer to Large General Transportation Service by the start of the SCO Phase.

The Company's proposal includes mandatory recallable capacity release of approximately 75% of SSO, SCO, and Choice suppliers' loads, firm capacity and supply reviews for the remaining 25%, and well-designed collective approaches to system balancing and Provider of Last Resort ("POLR") service using storage capacity released to suppliers. VEDO's proposal and SCO suppliers assure the continuing adequacy and reliability of gas supply deliveries for all customers.

In addition, Choice suppliers must be PUCO-certified and VEDO-certified in order to provide service to Choice customers. And Choice suppliers must adhere to a Code of Conduct contained in VEDO's tariff. These are important requirements to ensure the reliability of supply to customers.

Applicant's proposals for SSO and SCO Service will maintain the availability to consumers of adequate, reliable, and reasonably priced natural gas services and goods.

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(2), Revised Code - Promote availability of unbundled and comparable natural gas services and goods that provide wholesale and retail consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs.

A. In January 2003, VEDO implemented the Choice Transportation service described above to provide unbundled services to Residential and General Service customers. Today, over 75,000 customers, about 25% of those eligible, have elected Choice service and are obtaining gas supply from one of five VEDO-approved Choice suppliers. These Choice suppliers have offered a variety of prices to meet the needs and desires of customers, including fixed rates for 1 and 2 year periods, monthly variable rates, and capped rate products.

A number of potential new Choice suppliers are actively participating in the VEDO Merchant Exit Transition Working Group that led to this Application. Their active participation in VEDO's Choice market can be expected as soon as the Application is approved and the sales service GCR pricing is replaced by the standard market pricing for SSO (and subsequently SCO Services), creating a more "level playing field". The level playing field results from the SSO and SCO prices (collectively "Standard Pricing") which reflects market prices and eliminates the GCR balancing accounts, thereby becoming more comparable to unbundled service (Choice) pricing. The new participants will increase the number of suppliers available to offer unbundled service to Choice-eligible customers. The Customer Education sub-group, described in VEDO witness Michael Roeder's testimony, is developing plans for two years of media communication to promote customer awareness of the availability of comparable gas services to Residential and General Service Sales customers.

VEDO's Large General Transportation Service has been in place for many years. Creditworthy suppliers may act as Pool Operators per VEDO's Rate 380. Eleven suppliers are selling unbundled gas supply to approximately 628 Large General Transportation customers in VEDO's service area. The Company's proposal for SSO and SCO Services would impact the Large General Transportation Service only tangentially, as described in the testimony of VEDO witness Scott E. Albertson. Customers under this service would continue to receive unbundled and comparable service.

VEDO does not provide transportation or sales service to wholesale customers.

Q. **Please describe how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(3), Revised Code - Promote diversity of natural gas supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers.**

A. All of VEDO's customers have effective choices over the selection of services today, as described above. VEDO recognizes that the GCR pricing, with its balancing accounts, can make the comparison to Choice pricing offers difficult. The two proposed Exit Transition Phases will utilize standard market pricing (without balancing accounts) which will provide price transparency and improve the comparability of the Standard Pricing to the Choice price offers.

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(4), Revised Code - Encourage innovation and market access for cost-effective supply and demand side natural gas services and goods.

A. Regarding demand side natural gas services, VEDO has a base rate-funded (at $1.1 million per year) low-income weatherization program administered by Ohio Partners for Affordable Energy ("OPAE"). The Company also has a VEDO-funded Demand Side Management ("DSM") program, also administered by OPAE, applicable to customers with incomes up to 300% of poverty level, roughly 60% of VEDO customers, at $1.0 million per year.

The Standard Pricing service utilized in both the SSO and SCO Phases, including the retail price adjustment auction, is an innovative approach for the transition to merchant exit. It provides competitive market-priced supply that is more easily compared to Choice offers, thereby encouraging more Choice suppliers to enter VEDO's market. A more competitive supply market in the VEDO service area should induce the innovations in natural gas services and goods that will meet various customer needs.

Q. Please describe how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(5), Revised Code - Encourage cost-effective and efficient access to information regarding the operation of the distribution system of natural gas companies in order to promote effective customer choice of natural gas services and goods.

A. VEDO currently provides a number of reports to the Commission regarding the operation of its distribution system. An Annual Report is filed with the Commission each year. SG Reports containing sales and revenue information are provided monthly to the Commission. Monthly, VEDO provides current Choice Statistics Reports to PUCO and OCC staff.

In addition, through its Merchant Exit Transition and Transportation Matters Working Groups, which include both Commission and OCC staff participants, VEDO provides information regarding the operation of its distribution system.

In the SSO and SCO phases, VEDO will provide additional reports on information relating to Choice customers and suppliers, as well as the functioning of the SSO and SCO phases, as described in the testimony of Mr. Albertson.

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(6), Revised Code - Recognize the continuing emergence of competitive natural gas markets through the development and implementation of flexible regulatory treatment.

A. The various merchant exit discussions of several large local distribution companies demonstrate the continuing emergence of competitive natural gas markets in Ohio. There has been increased interest from potential Choice suppliers in the Ohio markets because of the merchant exit discussions and, in particular, the Phase 1 Exit proceeding of Dominion East Ohio ("DEO"). Further, new suppliers to VEDO's service area have actively participated in VEDO's Merchant Exit Transition Working Group.

The Merchant Exit Transition proposed by this Application appears to be fully contemplated by the Commission's Regulation at 4929.04, which allows for exemption from commodity sales service for natural gas utilities, pursuant to flexible alternative regulatory treatment.

Q. Please describe how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(7), Revised Code - Promote an expeditious transition to the provision of natural gas services and goods in a manner that achieves effective competition and transactions between willing buyers and willing sellers to reduce or eliminate the need for

regulation of natural gas services and goods under Chapters 4905 and 4909 of the Revised Code.

A. VEDO's Choice program has been in place for 4½ years. About 25% of VEDO's eligible customers are now served under retail agreements with Choice suppliers. VEDO has well designed and soundly operating systems and procedures to ensure delivery of reliable supply to those Choice customers while maintaining overall system reliability. The Choice operating and information systems are in place and fully capable of accommodating increased Choice customer participation as expected as the SSO and SCO phases create a level playing field for Choice suppliers and customers.

The VEDO Merchant Exit Transition plan as reflected in the Application is designed to provide an expeditious transition up to full competition ("Full Choice" or "Phase 2") through two phases, SSO ("Phase 1") and SCO ("Phase 1.5"). Both phases provide incremental progress to full competition, testing different aspects of the systems and procedures applicable to a Full Choice environment. Although the two phases are meant to prepare the VEDO service area for Full Choice, through attraction of additional Choice suppliers and the growth in numbers of Choice customers, Phase 2 is not part of this Application. Any final movement to Full Choice would be the subject of continuing collaborative efforts of the working group and another Commission proceeding in the future.

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(8), Revised Code - Promote effective competition in the provision of natural gas services and goods by avoiding subsidies flowing to or from regulated natural gas services and goods.

A. VEDO and the working group have continuously pursued removal of any subsidies between regulated (sales) and non-regulated (Choice) natural gas services. The result of this effort has included the development of the Balancing Cost Rider at the outset of the Choice program to properly recover the costs of balancing Choice customer loads and crediting that recovery to the GCR customers, who were paying through the GCR for the storage used to balance Choice loads. It also includes the subsequent revision of that Balancing Cost Rider when its reserve margin component was eliminated. Most recently, based on working group discussions and the recommendation of the GCR auditor, VEDO moved contract storage carrying costs recovery from base rates to the GCR. This revision was necessary and appropriate because sales customers were being subsidized by Choice customers, who were paying for storage-related carrying costs that benefited only the sales customers. On top of the subsidy, the Choice customers were also paying any storage carrying costs imbedded in their Choice suppliers' commodity offers. This change removed a large subsidy being provided to the sales customers by the Choice customers.

Under the SSO and SCO services, the GCR will be eliminated and all standard service customers will receive the standard market price, so the balancing account will no longer interfere with current market pricing. Because VEDO's pipeline capacity will be released on an equivalent basis to all SSO, SCO, and Choice suppliers, who will collectively provide system balancing services, the Balancing Cost Rider can be eliminated and SSO, SCO and Choice suppliers can each consider identical system balancing costs in their pricing.

The remaining disparity between the SSO and Choice customers may be the taxes applicable to the supply portion of their bills. The SSO customers, who are utility sales customers, will pay a Gross Receipts Excise Tax on the supply portion of their bills, whereas the Choice customers, who receive commodity from non-utility suppliers, will continue to pay the state and local use taxes. This disparity will be eliminated in the SCO phase, when all customers will receive supply from non-utility standard choice suppliers and will therefore pay the state and local use taxes.

Q. Please describe how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(9), Revised Code - Ensure that the risks and rewards of a natural gas company's offering of non-jurisdictional and exempt services and goods do not affect the rates, prices, terms, or conditions of non-exempt, regulated services and goods of a natural gas company and do not affect the financial capability of a natural gas company to comply with the policy of this state specified in this section.

A. VEDO's Choice program implemented in 2003 reflected terms and conditions found appropriate by the Commission. Any impacts on the existing sales customers were considered in the development and approval of VEDO's Choice tariff. As described above, subsequently the working group identified and the Commission has approved changes to the Choice program to eliminate identified disparities between Choice and Sales customers' services.

Under the Application, revisions to the current Choice and Large General Transportation Service rate schedules and related terms and conditions are required to implement the proposed Merchant Exit Transition plan. The changes are described in detail in the testimony of Mr. Albertson. None of these changes would materially impact the services provided to Choice and Large General Transportation customers or their suppliers.

The Merchant Exit Transition plan will require one group of current sales customers to convert from sales service to transportation service prior to Phase 1.5. Large General Sales Service customers may remain sales customers during the proposed Phase 1, the SSO phase, but will be required to select an alternative supplier prior to the initiation of the SCO phase.

Approval of the Application should not affect the financial capability of VEDO to continue to comply with the natural gas policy of this state. There are some costs that will arise due to the Merchant Exit Transition plan – billing system changes, customer education, consulting and legal fees, etc. – but those costs will be recovered through the proposed Exit Transition Cost Rider.

Q. Please describe how VEDO's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(10), Revised Code - Facilitates the State's competitiveness in the global economy.

A. VEDO's well functioning Large General Transportation Program ensures gas supply is a positive factor for Large General Customers located in or considering locating in VEDO's service area.

A level playing field, which would be established by the standard market pricing in the SSO/SCO phases, should attract more Choice suppliers, increasing the innovative services available to small and medium sized businesses in VEDO's service area.

Q. Please describe how the Company's proposal is in substantial compliance with the State of Ohio's natural gas policy as set forth in Section 4929.02(11), Revised Code - Facilitate additional choices for the supply of natural gas for residential consumers, including aggregation.

A. Municipal aggregation is currently and will prospectively be available to residential customers of electing communities in VEDO's service area. The Choice program systems and procedures can readily accommodate aggregation customers.

As described above, the standard market pricing in the SSO/SCO phases replaces the GCR price, and provides an option that a customer can more easily compare to competitive Choice product and price offers. VEDO's Merchant Exit Transition plan should attract more Choice suppliers to provide additional choices to Choice-eligible customers.

RULE 4901:1-19-04, O.A.C., REQUIREMENTS

Q. Is VEDO currently subject to effective competition in the provision of each commodity Sales Service, and do its customers currently have reasonably available alternatives for each commodity service?

A. Yes. As described in detail above, and as supported by the testimony of VEDO witness Dr. Robert Lawson, VEDO is subject to effective competition in the provision of its commodity sales services. All VEDO customers currently have alternatives to VEDO Sales Service, with their ability to participate in the appropriate VEDO transportation program – Choice or Large General Service transportation.

It is VEDO's belief, and one of the guiding principles behind its decision to exit the merchant function, that the competition to sell supply to Residential and General Service customers can be made much more effective through standard market pricing in the SSO and SCO phases. In addition, new suppliers should be attracted to VEDO's service area due to its Exit Transition Plan, which should result in increased alternatives to each commodity service.

Q. Does VEDO have clear and accurate written materials related to service and product offerings, which promote effective customer choice and provision of adequate service?

A. Yes. Choice information is currently available to customers via Vectren's website and its call center. Competitive suppliers supplement VEDO's informational efforts through solicitation materials sent to potential customers. VEDO's Call Center representatives provide a list of current Choice suppliers upon customer request. No advertising currently takes place.

Please see the testimony of Mr. Roeder for a discussion of the planned Customer Education program to be implemented in the SSO and SCO phases.

Q. Please describe VEDO's commodity sales service, the potential number of customers for each service, and the availability of upstream capacity needed to support the service.

A. Each of the commodity sales services is reflected in VEDO's tariff for gas service, as shown in the testimony of Mr. Albertson.

Residential Gas Sales Service (Rate 310), which has approximately 224,000 customers, is a full requirements sales service currently priced at GCR rates. This class consumes approximately 18,670,000 Mcf per year. General Gas Sales Service (Rate 320), which has approximately 21,000 customers, is also a full requirements service priced at GCR rates. Rate 320 is available to non-residential customers using less than 15,000 Ccf per year. This class consumes approximately 8,771,000 Mcf per year. Large General Gas Sales Service (Rate 330), which has approximately 20 customers, is a full requirements sales service priced at GCR rates. This class consumes approximately 620,000 Mcf per year. Dual Fuel Sales Service (Rate 341), which has two customers, is an interruptible sales service priced at GCR rates. This class consumes approximately 4,500 Mcf per year.

Under the Merchant Exit Transition plan reflected in the Application, upstream capacity, including storage, will be allocated to suppliers equal to approximately 75% of each supplier's projected loads. The remaining 25% of capacity must be provided by the suppliers themselves and will be subject to periodic firm capacity reviews.

Q. Does VEDO offer distribution services in a fully open, equal, and unbundled basis to all of its customers and may customers reasonably acquire commodity sales service from suppliers other than VEDO?

A. Yes. Please see my testimony above which describes in detail VEDO's service offerings and compliance with this requirement.

Q. Will the proposals contained in this Application result in undue discrimination for similarly situated customers?

A. No. VEDO's public utility services are available on a comparable and non-discriminatory basis. VEDO offers its regulated service or goods to all similarly situated customers, including any persons with whom it is affiliated or which it controls, under comparable terms and conditions. Such services, terms, and conditions and rates have been reviewed and approved by the Commission and are currently incorporated in VEDO's tariff.

The above will continue to be true under the SSO and SCO Services proposed in the Application.

Q. How will the proposals in this Application apply to VEDO's PIPP customers?

A. VEDO's PIPP customers will receive standard pricing in both the SSO and the SCO phases, which could result in reductions from current rates due to the retail price adjustment being set in a competitive auction. However, PIPP customers will still not be able to select an alternative Choice supplier in that they do not qualify for Choice service.

Q. Please describe the internal process VEDO will have in place for addressing customer complaints and inquiries.

A. VEDO's Call Center representatives will receive training on standard market pricing, providing eligible Choice supplier names to customers in both the SSO and SCO phases, and explaining the SCO supplier's role in the SCO phase. The complaint escalation process internal to the VEDO Call Center is as follows. Should a call not be resolved at the first point of contact the call center specialist will seek assistance from VEDO's customer service help desk. This help desk is staffed with more senior level agents and team leaders to assist in the resolution of customer calls. Should this step of the internal process fail to achieve a satisfactory outcome, then the caller will be transferred to a call center supervisor to attempt resolution. If a complaint is registered through the PUCO or OCC consumer affairs areas, then VEDO follows the Ohio Administrative Code for complaints and complaint-handling procedures (4901:1-13-10).

Q. Does VEDO have a code of conduct which is compliant with the requirements of Sections 4905.32 and 4929,02, Revised Code, which, among other things, addresses the flow of information between employees involved in providing exempt and non-exempt services?

A. Yes. VEDO currently has an Affiliate Code of Conduct in the Choice section of its tariff for gas service which has been reviewed by the Commission for compliance with all applicable regulations, first in Case No. 02-1566-GA-ATA, in which VEDO's customer choice program was established, and most recently in VEDO's last base rate case, Case No. 04-571-GA-AIR. In the current Application, in the proposed tariff changes, this Affiliate Code of Conduct has been moved to the General Terms and Conditions section of VEDO's tariff as Sheet No. 72.

Q. Does this conclude your direct testimony?

A. Yes.

Application Exhibit III

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF DR. ROBERT LAWSON
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

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December 21, 2007

Attorneys for Vectren Energy Delivery of Ohio, Inc.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF DR. ROBERT LAWSON

Q. Please state your name and business address.

A. Robert A. Lawson
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Capital University
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Columbus, Ohio 43209-2394

Q. On whose behalf are you offering direct testimony?

A. I am testifying on behalf of Vectren Energy Delivery of Ohio, Inc. (VEDO).

Q. Would you please summarize your educational, publications and work experience?

A. I earned a B.S. degree (summa cum laude) in economics from the Honors Tutorial College at Ohio University in 1988, and an M.S. and Ph.D. in economics from Florida State University in 1991 and 1992 respectively.

I taught at Shawnee State University in Portsmouth, Ohio from 1992-1996. Since then, I have been a professor at Capital University in Columbus, Ohio, and have been promoted first from assistant to associate professor in 1999 and then to full professor in 2002. In 2001, I was named the George H. Moor Chair at Capital University. I have taught over a dozen different courses but specialize in teaching political economy, price theory-microeconomics, public finance, labor, and comparative systems. I have worked with various public policy institutes including the Buckeye Institute, the Fraser Institute (Canada), the Cato Institute, the National Center for Policy Analysis, the Mackinac Institute and others. I have previously testified as an expert on behalf of the Ohio Gas Marketing Group (Case No. 05-474-GA-UNC).

I have co-authored 11 editions of the *Economic Freedom of the World*, an annual report that benchmarks the progress toward economic liberalism around the world. This report has been cited widely in the popular press (including for example, *The Economist*) and in over 300 academic journal articles and books. I am the author or co-author of 27 journal articles, 9 articles published in edited volumes, 5 book reviews, 12 policy reports and numerous other shorter works.

Q. **What is the purpose of your testimony today?**

A. The purpose of my testimony is to demonstrate the degree of competitive behavior in the market for natural gas in relation to the proposed VEDO Merchant Exit Transition ("MET"). This testimony is responsive to the filing requirements of Section 4929.04(B), Revised Code; and Rule 4901:1-19-04(C)(2), O.A.C.

Q. Please describe the standard market pricing relationships that are proposed by VEDO in this Application.

A. In the Standard Sales Offer ("SSO") phase, standard service pricing will be based on the results of a wholesale auction. The auction will determine a retail price adjustment that will be added to the settlement NYMEX price for a given month to develop that month's standard market price. The winning SSO suppliers will be awarded an undifferentiated share of the total sales requirements. In the Standard Choice Offer ("SCO") phase, customers will again be served through auction-driven standard market pricing. However, rather than the suppliers being awarded an undifferentiated share of total sales requirements, suppliers will be allocated tranches based on requirements of identified customers. The identity of the SCO supplier will be made known to the consumer and the identity of the consumer will be made known to the SCO supplier, thus a nascent, non-contractual relationship will be developed, giving the consumer an opportunity to seek other competitive products offered by the SCO supplier and the SCO supplier an opportunity to offer alternative competitive products to the consumer.

Q. Can you comment on benefits of a market based pricing in general?

A. The simplest and most primitive function of prices in any market is to serve as a rationing device to equate the quantities of a good available from suppliers with the quantities desired by the buyers. One risk associated with any scheme to charge non-market based prices is that the price will be set so that these two quantities do not meet and there will be a shortage (if the price is "too low") or a surplus (if the price is "too high"). But this function of "clearing the market" is in many ways not the most important function of prices.

The real advantage of market based pricing is how market prices communicate information and provide proper incentives to buyers and sellers. Nobel Laureate F.A. Hayek best described this function of prices in his 1945 article, "The Use of Knowledge in Society." If the supply of a particular commodity is temporarily down or if the demand is temporarily high (it does not matter which and it is important that it does not matter which), the price of this commodity will rise. This price increase will immediately communicate to people all that they need to know: They had better economize on the use of this commodity. Market prices also send important, and underappreciated, signals to suppliers. Higher prices encourage producers to try to expand production or divert it from other areas to the area of the highest value. Natural gas and other utility markets often face significant shifts in both supply (e.g., Katrina) and demand (e.g., hot summers and cold winters) that need to be dealt with in some manner. The decentralized market price system, as Hayek argued, handles these things more efficiently than any other centralized method.

Generally speaking, government set rates try to mimic market rates so that if supply and demand conditions dictate an increase in price then the government will eventually increase the price; and if the supply and demand conditions dictate a decrease in price then the government will eventually decrease the price. The problem lies in the word eventually. The fact of the matter is that we have less natural gas and nothing can be done to alter this fundamental fact at least *in* the short *run*. Consumers have to cut back on the use of gas. There is no other option. The question is how to achieve this. If we are using market pricing, then the problem is easily solved by increasing the price. People will see the higher price and will find ways to use less. To be sure, this is a very difficult thing to do, and people are inclined to blame the price or the market in general for this disruption to their daily lives and pocketbooks, but the price is merely the messenger. The problem was that gas supply was disrupted. If we have government set pricing, then what happens to price during the period of this disruption? The answer is nothing. The price has been set for the period in question and that is that. Consumers will not get the information to economize on gas and so they will not. Shortages are one possible result. Another possible outcome is that the government would have to step in to arbitrarily reduce use by some users (one example of this is rolling brownouts in electricity markets). In short, government based pricing fails to send the proper signals to consumers (and producers) when supply and demand conditions change. To be sure, the government price will eventually catch up to the market, but it will do so *in the wrong time period.*

Q. Are there times that market based pricing would not be appropriate?

A. Yes. Market pricing is less than fully efficient in four important areas: monopoly, public goods, externalities, and information asymmetries. The latter three are not factors in the natural gas market and are not relevant to this testimony. The argument about monopoly can be broken down into two parts: natural monopoly and collusion.

A natural monopoly can be defined as a situation in which a single firm can effectively supply an entire market place at lower average cost than could be achieved using any larger number of firms. This is an argument about economies of scale. The nature of technology may exist so that having more than one firm in the market would result in higher average costs for everyone. The cost advantages of the single large firm would dictate that a single large firm would prevail in the competition of the market. An argument for government price regulation often rests on the desire to regulate such natural monopolies. A plausible argument can be made that the natural gas distribution network (at the local, retail level) is a natural monopoly. Having multiple competing gas lines running to homes and businesses is likely to be more expensive for everyone than having a single gas line network. But this case is not about the distribution network; it is about the production and sale of the natural gas itself, as distinguished from the problem of transporting the gas to peoples' homes and businesses. There is no argument that I am aware of that suggests that there are significant economies of scale in the production of natural gas itself. Many natural gas suppliers can simultaneously exist in the market without causing an increase in average costs for the gas itself.

Even if the market is not a natural monopoly we still would be concerned with the prospect that firms will collude to act like a monopoly. In the case of natural gas, my understanding is that the number of wholesale suppliers is sufficiently large that collusion is not likely and, most importantly, the market is structured to be open to new entrants should collusion take place.

The bottom line is that there are special cases in which market-based pricing is problematic. The good news is that these cases do not apply in the case of the production/sale of natural gas.

Q. Can you comment on the degree to which the product is of substantially the same quality provided by any or all of the sellers?

A. The product in question, natural gas, is homogeneous in the eyes of consumers regardless of the regulatory rules of the game. That is, there is no significant ability on the part of natural gas providers to differentiate their products on the quality dimension, though in a choice-driven environment, natural gas providers may offer differentiated pricing plans or customer services of other kinds. It should be noted that gas consumers will be similarly treated in every respect related to the distribution network. That is, the distribution charges for standard service and Choice service are essentially identical.

On the supplier side, all standard service suppliers (currently, as well as under the SSO and SCO phases) are similarly situated in terms of the requirements to enter the market and provide services. VEDO will coordinate the provider-of-last-resort (POLR) and system balancing functions. Currently, as well as during the SSO and SCO phases, VEDO will handle commodity issues with standard service customers and Choice providers will handle commodity issues with their customers. VEDO will continue to handle distribution issues for customers at all times.

Q. Can you comment on the degree to which buyers and sellers are readily able to enter or leave the market and switch between buyers and sellers (i.e. entry and exit barriers)?

A. Historically, the ability of new firms to enter natural gas markets was heavily restricted by regulatory barriers that guaranteed local public utilities monopoly rights over their service areas. With the current Choice Plan, new firms are encouraged to enter to compete directly for customers against the public utility. The SSO phase of the VEDO MET would allow gas providers to indirectly compete for all customers by buying at auction the right to provide certain portions of VEDO's default supply. In the SCO phase, firms would compete to purchase the rights to supply loads for identified customers. After certain basic certification requirements (set by PUCO and VEDO) are satisfied, any qualified natural gas provider should be allowed to bid in the SSO or the SCO phase auctions.

Q. Can you comment on the degree to which buyers and sellers have readily available information about the "market"?

A. The smooth functioning of markets requires that participants have information about the choices they face. But information is scarce and market participants will <u>never</u> have completely perfect information. Nevertheless, compared with many other everyday product markets (e.g., cell phones) that offer a dizzying array of products and terms, the natural gas market is one where we can safely assume consumers understand the nature of the market reasonably well. Natural gas has the characteristic of being homogeneous so consumers have no particular difficulty judging the quality of the gas provided by firm A versus firm B. It is also a product with which consumers have a lot of experience. There is little doubt that they understand that turning up the heat in the winter will cause the gas bill to increase at the end of the month.

One of the advantages of the SCO phase over the SSO phase of the VEDO MET is that it provides consumers with more information about the nature of the natural gas market. Currently VEDO is the default provider for the consumers in its service area. But few consumers may understand that VEDO is really just the middleman between the gas producers and regional/national distributors and its customers. Even under the SSO phase where VEDO's standard pricing would be based on the auction bids of these firms, the consumers could still suffer the misimpression that VEDO actually purchases and transports natural gas for ultimate use of its customers. In fact, in the SSO phase, VEDO merely distributes gas from its city gate to the local consumers and handles the billing, emergency, and customer service functions. In the SCO phase, when consumers are matched with identifiable gas providers, consumers would have more information about the market. The SCO phase is, in essence, more transparent than the SSO phase (or the current system).

Opponents of market-driven pricing and consumer choice in the natural gas market are generally eager to argue that consumers need to have more information about markets. But more market prices, competition and choice give consumers more information not less. The fallback position of opponents seems to be that competition is too confusing for consumers to understand. This is an odd position to take in a nominally free society that allows people to freely engage in a wide array of complicated transactions such as contracting for cell phone services with almost no "protection" from government. In a choice environment, natural gas consumers will choose from among a handful or perhaps more providers selling a homogeneous product with a limited range of pricing options. How hard is that for consumers to understand? Yes, people make mistakes in markets because of limited information, but of all the markets to worry about in this regard, the natural gas market would be pretty far down the list.

Q. Can you comment on how and to what degree the product is available in the relevant market from alternative providers (Alternative providers in the relevant market (i.e. number of sellers), respective share of the market, expected growth in the market, expected growth in suppliers and their respective shares, affiliations between suppliers)?

A. Currently, VEDO services approximately 70% of the service area as the natural gas supplier while approximately 26% is handled by one of four Choice providers, two of which are non-regulated VEDO affiliates (one of which serves only commercial customers). These figures alone tell us very little about the degree of competitiveness in the VEDO service territory. Ultimately, the question of competitiveness addresses the relationship between the availability of alternative providers and the degree of competition. In this context, there are several different common approaches used to determine whether a market is competitive.

Number of Firms/Concentration Measures. First, one approach would look simply at the number of firms engaged in selling natural gas and assume that a large number of firms in a market means we have competition, whereas only one firm (i.e., a monopoly) means no competition. Economists however are not clear on how many firms you need to have to achieve a competitive result. To be sure, the greater the number of firms, the better the likelihood of securing a competitive price in the market, but there is no "magic number" of firms beyond which we can say with certainty that we will have a fully competitive result. In some cases, two firms may be enough to result in competitive price. Of course having only two firms invites an opportunity for collusion between the firms so we may instead get monopoly-like prices. There is no well-defined economic theory to help us predict which result we will get in the real world. It is also not easy to determine the definition of the market in terms of counting firms. Is it the number of natural gas firms only or is it the number of natural gas, electricity, and heating oil firms in the market that we should count? After all, electricity and heating oil are competing products with natural gas and could be considered a part of the "energy market" broadly defined. An equally problematic approach, for all the same reasons, would be too look at market share concentration ratios for the top firms or other measures of market concentration (e.g., Herfindahl-Hirschman index).

Pricing/Profit Margins. Second, one may attempt to measure directly the degree of competition by looking at the margins between price and average (or sometimes marginal) cost. This is the approach taken when using a Lerner index. If we have competition, then there should be no profit margin (in an economic sense) but if we have monopoly we would expect to find a profit margin. There are serious problems with this approach. One problem is that the no profit result applies in the "long run" and we simply do not know how long the economic concept of the long run is in terms of actual time; we do know however that the length of time necessary for long run adjustments to take place will vary considerably from industry to industry. Short run profits do happen in competitive markets all the time (as do short run losses) and their existence at a point in time is absolutely no evidence of collusion or a lack of competition. A second problem is that calculating profit margins requires detailed knowledge of the costs <u>and risks</u> facing the firm that no outsider can possibly know and indeed the firm itself may have only a vague idea about.

<u>Contestability</u>. Third, we can try to judge the competitiveness of a marketplace by its "openness" to new entrants. If a market has only one firm, but faces potential competition from new entrants (i.e., it is "contestable"), it may still charge a competitive price in order to deter entrants. In many ways this is the most satisfactory way to view the issue. If we had a contestable market in which only one firm or a small group of colluding firms were charging high monopoly-like prices, we would expect the new entrants to come in and compete away the high prices. The key thing from this point of view is to determine how open the market is to new entrants. If new entrants can enter a market easily, then my view is that we may rest easy that the market will approximate a competitive result in the long run.

The SSO and SCO auctions are essentially designed to maximize the amount of contestability in the market. By opening up the service area to bidders, the goal is to increase the number of firms interested in the market, both in terms of entities interested in the bid processes and in terms of traditional competitive retail suppliers. The relatively large number of firms in the VEDO MET working group seems to testify favorably toward this point. This does not necessarily mean that all natural gas providers will decide to bid in any ensuing auctions; the important point is that they *could*. If there is little interest at first in the VEDO auctions and prices increase a bit, then other firms will sense a profit opportunity in the next auction. Of course, bidding firms know that if they take advantage of any short run opportunity to increase prices, they will only succeed in attracting more competitors in the next round. This sort of entry and exit competition is highly effective in keeping prices near competitive levels even if the number of firms in the market at any point in time appears low.

Q. Can you comment on the data and calculations necessary to measure market concentration (Four-firm concentration ratio, Herfindahl-Hirschman index, Lerner index, etc.)?

A. For the reasons cited above, static measures of concentration ratios, HH indexes, or Lerner indexes are not very useful in understanding the degree of competitiveness in a dynamic market.

Q. Does this conclude your testimony?

A. Yes, it does.

Application Exhibit IV

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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PREPARED DIRECT TESTIMONY
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ON BEHALF OF
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December 21, 2007

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF PERRY M. PERGOLA

Q. Please state your name and business address.

A. Perry M. Pergola
One Vectren Square,
Evansville, Indiana, 47708

Q. By whom are you employed?

A. I am Director, Gas Supply for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company"). I hold the same position with two other utility subsidiaries of VUHI - Southern Indiana Gas and Electric Company ("Vectren South") and Indiana Gas Company, Inc. ("Vectren North").

Q. Please describe your educational background.

In 1982, I graduated from Duquesne University with a Bachelor of Science degree in Accounting. In 1988, I graduated from Robert Morris University with a Master of Business Administration degree, majoring in Finance.

Q. Please describe your professional experience.

A. I have 23 years of natural gas industry experience, primarily in the areas of gas supply and capacity management. Prior to my current position at VUHI for the last four years, I worked for 14 years in numerous positions at Consolidated Natural Gas Company, which is now part of Dominion Resources. My responsibilities were primarily with the interstate pipeline affiliate and local distribution companies. I also have 5 years of energy trading experience with unregulated affiliates of Duke Energy Corporation and PG&E Corporation.

Q. What are your present duties and responsibilities as Director, Gas Supply?

A. I am responsible for the management of the activities of the Gas Supply department including gas supply planning, hedge strategy, and the acquisition of capacity and gas supplies for VUHI's three gas distribution utilities.

Q. What is the purpose of this testimony in this proceeding?

A. The purpose of my testimony is to provide explanation on the following topics for both the Standard Sales Offer ("SSO") Service and the Standard Choice Offer ("SCO") Service phases of VEDO's proposed Merchant Exit Transition:

- SSO and SCO Pricing Mechanism;
- SSO and SCO Auction Process;
- VEDO's ability to maintain reliability during both the SSO and SCO Phases including the Provider-of-Last-Resort ("POLR") coordination; and
- Exemption from the current GCR regulations

My testimony will be organized into the sections described above.

I. <u>SSO and SCO Pricing Mechanism</u>

Q. What are the SSO and SCO prices?

A. The SSO and SCO price each month will compensate SSO and SCO Suppliers for all of their costs of providing the respective standard offer service for the entire term of each phase. In addition, these prices, adjusted to Ccf, will be billed to SSO and SCO customers for the volumes used during each calendar month.

Q. What are the components of the SSO and SCO prices for each month?

A. With the limited exception of December 2008 through February 2009 which I will address later, the SSO and SCO price each month will be based on the NYMEX natural gas futures settlement price for such month converted to Mcf using a standard BTU value plus the retail price adjustment determined in the respective SSO and SCO auctions. This will be a price per Mcf. It will be converted to a price per Ccf for SSO and SCO customer billing purposes. The SSO and SCO customer price per Ccf will then be used for the Commission's "Apples-to-Apples" price comparison posting.

Q. Why does the Company propose that the SSO and SCO prices be a function of the NYMEX natural gas futures settlement for the upcoming month?

A. NYMEX prices are the most visible indicator of natural gas futures prices available. The NYMEX, or New York Mercantile Exchange, is the world's largest physical commodity futures exchange on which contracts for future deliveries of multiple forms of energy, including natural gas, are traded. The Commission recognized the NYMEX as the best source of future pricing information in its January 12, 2005, Entry in Case No. 04-1912-GA-UNC when it made the NYMEX price the *de facto* benchmark for monthly GCR filings. Using a NYMEX-based price will provide continuity in the overall pricing approach and will enable the SSO and SCO prices to reflect current market pricing thus sending accurate price signals to consumers.

Q. Please explain the retail price adjustment component of the SSO and SCO prices.

A. The retail price adjustment will be determined for the term of the applicable exit transition phase by the outcome of the respective auction process for each phase. The retail price adjustment will compensate Suppliers for all interstate pipeline demand and variable costs, VEDO system balancing responsibilities, unaccounted for gas volume variances, actual variations from the average BTU values used in price and daily delivery volume determinations, volume variations resulting from proration of SSO and SCO prices among calendar months in monthly customer billing, volume risk associated with winter SSO price hedging, other hedging costs if any, and all other aspects of cost and risk relating to the provision of SSO and SCO service.

Q. Other than the monthly NYMEX settlement price and the retail price adjustment, are there any other components for either the SSO or SCO price for each month?

A. There will be no other components of the SCO price. However, in the SSO Phase, for the three winter months of December 2008 and January and February 2009, the SSO price will be hedged by using a costless collar. The SSO price for these three months will be established at the weighted average of 40% of the NYMEX settlement price and 60% of the collared NYMEX price.

Q. Why has VEDO proposed to hedge a portion of the SSO prices during the three winter months?

A. VEDO has proposed that a portion of the SSO price during the initial winter months of the SSO phase be hedged to serve as a pricing transition for the sales (SSO) customers from the current GCR sales service. Under the current GCR pricing mechanism, VEDO has typically hedged a portion of projected normal winter season deliveries for GCR customers via the combination of withdrawals of gas supply from storage at the weighted average cost of gas inventory and fixed priced purchases made in advance of the month of delivery.

II. <u>SSO and SCO Auction Process</u>

Q. Please describe the SSO auction process that VEDO proposes.

A. VEDO proposes an auction approach based largely on the Request for Proposal ("RFP") process that was utilized by Dominion East Ohio ("DEO") in Case No. 05-474-GA-ATA. The SSO auction will determine the SSO price applicable to VEDO's sales customers' usage requirements (including PIPP customers), with pre-qualified, creditworthy suppliers bidding for the right to serve a "tranche", or portion of those requirements.

As described in greater detail in the Application, VEDO will conduct this SSO auction approximately six weeks before the SSO phase is initiated.

Q. How will VEDO select which suppliers to invite to participate in the SSO auction?

A. As VEDO has done with its PIPP RFP process, VEDO will send the bid package to all suppliers currently providing commodity service to customers through VEDO's pooling programs, all suppliers who have participated in VEDO's merchant exit working group process, and any supplier serving the DEO market. In addition, VEDO will send the information to any wholesale supplier that has sold gas to the Company for system supply during the prior twelve months. Because VEDO's existing wholesale suppliers are not required to be certified by the Public Utilities Commission of Ohio ("PUCO" or "Commission"), VEDO will not include a requirement that bidders be a Commission-certified competitive retail natural gas supplier to participate in the SSO auction. The bid packages distributed to potential suppliers will require submission of information that will demonstrate a supplier's technical and financial capabilities to perform as required during the term of the applicable phase.

Q. Can VEDO conduct the SSO auction and award tranches to suppliers without Commission approval?

A. No, after an initial determination by VEDO of the integrity of the auction and the acceptability of the results, VEDO will request Commission approval of the awards after they have been reviewed with Staff. That oversight gives the Commission an opportunity to assess the bidding process and resulting prices before approving the recommended awards.

Q. Please describe the type of auction VEDO proposes to conduct in order to choose the SSO Suppliers.

A. VEDO proposes to conduct a descending clock auction which will proceed in a series of rounds, very similar to the SSO auction performed by DEO. At the beginning of each round, the auctioneer announces the price per Mcf, and each potential supplier bids the number of tranches it is willing and able to supply at that price. As the price declines from one round to the next, in this case at $.05/Mcf decrements, a bidder can bid the same or fewer numbers of tranches than it bid in the preceding round, but cannot bid more tranches. The auction ends when the number of tranches bid equals the number of tranches being awarded.

However, if the number of load tranches bid in the latest round is less than the number being procured, the descending clock auction reverts to the price at the previous round and begins using $.01/Mcf decrements. The auction continues with $.01 decrement rounds until the number of tranches bid matches those offered. If the auction reaches a point where the tranches bid once again are less than the tranches offered, the auctioneer will award tranches to the final round bidders at the previous round price on a percentage basis using their bids from the previous round.

Q. Will the process for the SCO auction be any different than for the SSO auction?

A. The process for the SCO auction will be identical to the SSO auction. The only difference being proposed by VEDO is the requirement that each bidder be a Commission-certified competitive retail natural gas supplier.

III. <u>VEDO's Ability to Maintain System Reliability</u>

Q. What measures has VEDO included in its exit transition program in order to maintain reliability of supply during the SSO and SCO phases?

A. There are several ways that the Company will ensure continued reliability of gas supplies for all Choice eligible customers. First and foremost, the Company will require all SSO, SCO, and Choice Suppliers to take mandatory capacity assignment of all the Company's interstate firm transportation and storage capacity for the entire term of the respective SSO and SCO phases. The combination of this released interstate firm capacity and the allocation of capacity from VEDO's on-system propane air facilities will equal approximately 75% of the total system peak day demand requirements for all of VEDO's Choice eligible customers. VEDO will retain recall rights to all of this released capacity. This mandatory capacity release requirement:

- enables the VEDO released capacity to follow the customer to the new supplier upon customer's migration to/from a Choice Supplier;
- enables the utilization of VEDO released storage to achieve a collective approach to balancing the VEDO operating system and providing POLR services in the SSO and SCO phases, which reduces costs to customers; and
- enhances reliability resulting from VEDO's ability to recall 75% of the capacity from a defaulting Choice or SSO/SCO Supplier.

In addition to the mandatory released capacity described above, for the term of the applicable SSO and SCO phase, VEDO will require each SSO/SCO Supplier to obtain sufficient firm interstate pipeline transportation and/or storage capacity with the primary delivery points to the VEDO city gates and/or city-gate firm gas supply arrangements to meet 100% of the monthly design peak day demands for its tranches, less the capacity released to each supplier by VEDO. This requirement assures that the suppliers replacing VEDO as the commodity provider have the wherewithal to make deliveries under the same design day conditions that the Company uses in its gas supply planning process. Further, the Application states that VEDO will coordinate the POLR provisions in the event of a Choice, SSO, or SCO Supplier default.

VEDO proposes to have the supply requirements in both the SSO and SCO phases bid out in six equally sized tranches. By bidding out supply responsibilities in tranches, VEDO is able to mitigate the impact of any one supplier defaulting on its delivery obligation. VEDO will limit the SSO and SCO tranches awarded to any individual supplier to one-third of the total supply requirement. Other standard service offer auctions have successfully used a tranche approach to avoid concentrating too much supply responsibility to any one supplier.

Q. How will system balancing be impacted in the SSO and SCO phases in comparison to today's environment?

A. Currently, VEDO provides system balancing for all of its customers – GCR, Choice, and Large Transportation. This balancing is accomplished primarily through the use of VEDO's Columbia Gas Transmission (TCO) storage, with a no-notice injection or withdrawal each day to cover any system imbalance.

In the SSO and SCO phases, VEDO will not retain any portion of TCO storage to perform the system balancing function. Instead, the holders of VEDO's released TCO storage capacity will collectively provide system balancing by receiving an allocation of daily system imbalances through Pre-determined Allocations (PDAs). The collective system balancing will be accomplished through the following conditions on the TCO storage capacity release:

- Suppliers must agree to allow their storage (individually, and in the aggregate) to be used to balance the VEDO system.

- Suppliers must agree to follow VEDO-established minimum and maximum bandwidths for daily storage injection or withdrawal, and minimum inventory levels, to ensure sufficient storage inventory and capacity to balance the VEDO system each day.
- The TCO storage capacity may not be re-released by the Supplier.
- VEDO must be provided access to information about the Supplier's TCO storage nominations and balances at all times. All SSO/SCO and Choice Suppliers will be required to enter into a TCO Agency Agreement giving VEDO the rights to access all nomination, contracts and storage information.
- Suppliers must agree to allow VEDO to shift released capacity among the Suppliers at the start of each month to reflect monthly Choice load migrations, or intra-month if a large Choice migration occurs.

The PDA agreement with TCO will be updated monthly and will assign a percentage of VEDO system imbalances each day to each TCO capacity holder, based on their proportion of total VEDO-released TCO storage capacity. TCO will treat those PDA amounts as daily storage activity for each of the Suppliers.

Q. How will POLR responsibilities be impacted during the SSO and SCO phases?

A. The current POLR responsibility involves temporarily providing supply to Choice customers in the event of a Choice Supplier default. The Choice Supplier Agreement and relevant tariff sheets also hold the defaulting Choice Supplier financially responsible. Eventually, the customers of a removed Choice Supplier are assumed by non-defaulting Choice Suppliers or revert to sales service.

In the SSO/SCO phases, the POLR responsibility will expand to include temporarily providing supply to cover tranche loads in the event of an SSO/SCO Supplier default. The SSO/SCO Supplier Agreements and relevant tariff sheets will hold the defaulting Supplier financially responsible. Defaulting Suppliers will be required to reimburse for any incremental POLR costs incurred. Any incremental costs not recovered from defaulting Suppliers will be included in the proposed Exit Transition Cost Rider.

The following approach to POLR will be used during the SSO/SCO phases:

- VEDO, SSO/SCO Suppliers, Choice Suppliers, and Large Transporters/ Pool Operators will all be involved.
- VEDO will act as the POLR Coordinator, identifying the need for POLR supply and notifying the non-defaulting SSO/SCO and Choice Suppliers.

- In the event of supplier default or other need for POLR Service, VEDO will take the following short-term action with regard to obtaining POLR supply.
    1. SSO/SCO/Choice Suppliers collectively will provide supply to meet POLR needs, using their individual TCO storage inventories. The withdrawn storage inventory will be subsequently replaced with the cost assessed to the defaulting Supplier, when appropriate.
    2. If VEDO determines that the daily quantity of POLR gas needed may affect the reliability of the system, an Operational Flow Order ("OFO") will be issued to ensure that Large Transporters/Pool Operators are not under delivering versus their Transport Customer usages during the OFO period.
    3. Next, as soon as possible, all transportation and storage capacity released to a defaulting Supplier will be recalled by VEDO, who will use it to meet some portion of the immediate needs of the defaulting Supplier's customers. VEDO will claim a predetermined portion of the defaulting Supplier's storage inventory as needed to meet the defaulting Supplier's customer loads.
    4. VEDO will fill any remaining shortfall by acquiring additional temporary capacity and supply or city-gate deliveries.

5. In the event of a Supplier default, VEDO will coordinate the provision of POLR service for the defaulting Supplier's customer loads for the remainder of the billing month in which the default occurs, and the subsequent month, or until an alternate solution is effectuated.

In the event of a Supplier removal, VEDO will take the following action with regard to an alternate solution:

- If a Choice Supplier defaults, per the Choice Tariff, VEDO will offer non-defaulting Choice Suppliers the option of assuming the customers of the defaulting supplier. If there are no takers, the customers will revert to standard service (SSO or SCO).
- If an SSO/SCO Supplier defaults or Choice Suppliers do not assume the customers of a removed Choice Supplier:
    1. The existing SSO/SCO Suppliers' loads will be increased to cover the defaulted load on a pro rata basis. Incremental load will be limited to 50% of the initial tranche size.
    2. For the portion of load quantity greater than 50% of initial load tranche size, that load will be assigned to a new SSO/SCO Supplier based on an abbreviated auction process.

IV. <u>Exemption from the Current GCR Regulations</u>

Q. From what GCR regulation requirements will VEDO be exempt with *this transition from the current GCR sales service to the SSO sales* service?

A. With the transition from GCR sales service, VEDO will no longer need to formally file an annual Long Term Forecast Report of Natural Gas Demand, Gas Supply, and Resources. As currently performed, VEDO will continuously update its peak day demand model to reflect changes in customer counts, customer usage patterns, and model variables in order to have the proper mix of capacity assets to meet customer demands.

Additionally, VEDO will not be regularly subject to the GCR management performance audit as it is today. While the proposal calls for an end to management performance audits upon exemption from the GCR regulations, VEDO understands that the Commission has the authority to order a special management performance audit at any time as it deems necessary.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Application Exhibit V

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PREPARED DIRECT TESTIMONY OF SCOTT E. ALBERTSON ON BEHALF OF VECTREN ENERGY DELIVERY OF OHIO, INC.

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December 21, 2007

Attorneys for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF SCOTT E. ALBERTSON

Q. Please state your name and business address.

A. Scott E. Albertson, One Vectren Square, Evansville, Indiana, 47708.

Q. By whom are you employed?

A. I am Director of Regulatory Affairs for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO"). I hold the same position with two other utility subsidiaries of VUHI -- Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South") and Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North").

Q. Please describe your educational background.

A. I received a Bachelor of Science degree in mechanical engineering from Rose-Hulman Institute of Technology in 1984.

Q. Are you a Registered Professional Engineer?

A. Yes. I have been a professional engineer in Indiana since 1990 (registration number 900464).

Q. Please describe your professional experience.

A. I have over 23 years experience in the utility industry, primarily in the operations and engineering areas. I began my career with Ohio Valley Gas Corporation in a project engineering position. I have worked at VUHI and its predecessor companies since 1987 in a variety of positions including Operations Staff Manager, Assistant Chief Engineer, Director of Engineering Projects, and Director of Engineering. Prior to assuming my current role in 2004, I was Director of Technical Services with responsibility for engineering and technical support for all VUHI utility operations

Q. What are your present duties and responsibilities as Director of Regulatory Affairs?

A. I have responsibility for the regulatory matters of the regulated utilities within VUHI, including proceedings before the Public Utilities Commission of Ohio ("the Commission") and the Indiana Utility Regulatory Commission.

Q. Have you previously testified before the Commission?

A. Yes. I filed testimony in Case Nos. 04-220-GA GCR and 05-220-GA-GCR on VEDO's Financial and Uncollectible Expense Audits. I also filed testimony in Case No. 07-1081-GA-ALT related to VEDO's proposal to implement a Distribution Replacement Rider.

Q. What O.A.C. filing requirements is this testimony responsive to in this proceeding?

A. My testimony is responsive to the filing requirements of Rule 4901:1-19-04(C)(6), O.A.C.

Q. What is the purpose of this testimony in this proceeding?

A. The purpose of my testimony is to support VEDO's Tariff for Gas Service ("Tariff") attached to the Application as Application Exhibit No. VII. I am responsible for and sponsor the E-1, E-2, and E-3 schedules. My testimony will also discuss: 1) proposed changes to the Choice Program and associated tariff sheets, 2) proposed changes to the Large General Transportation Program and associated tariff sheets, 3) the addition of Rate Schedules applicable to Standard Sales Offer ("SSO") and Standard Choice Offer ("SCO") Suppliers, 4) the new Exit Transition Cost ("ETC") Rider, 5) changes, if any, to cases with special customer arrangements pursuant to Section 4905.31, Ohio Revised Code, that are affected by this application, 6) the proposed annual financial audit, and 7) periodic reporting to the Commission during the SSO and SCO Phases of VEDO's Exit Transition.

Q. How is your testimony organized?

A. My testimony is organized as follows:

I. Changes to Choice Program

II. Changes to Large General Transportation Program

III. Tariff Changes

- A. Introduction
- B. Changes to Choice Tariff Sheets
- C. Changes to Large General Transportation Service Tariff Sheets
- D. SSO/SCO Supplier Service
- E. ETC Rider

IV. Description of cases with special arrangements pursuant to Section 4905.31, Ohio Revised Code affected by this application

V. Annual Financial Audit

VI. Periodic Reporting

I. <u>CHANGES TO CHOICE PROGRAM</u>

Q. Please summarize the proposed changes to the Choice Program resulting from the Exit Transition Plan.

A. The proposed changes are described in the Schedule E-3 Narratives. The following highlights some major changes:

1. VEDO's existing Balancing Cost Rider, applicable to Choice Suppliers, recovers a portion of Columbia Gas Transmission Corporation ("TCO") storage costs to compensate GCR customers for balancing provided to Choice customers. In its Exit Transition Plan, VEDO proposes to release its TCO storage to each Choice, SSO and, in the future, SCO Supplier on a pro-rata basis. The holders of VEDO-released TCO storage capacity will collectively provide system balancing by receiving an allocation of daily system imbalances through Pre-determined Allocations ("PDAs") with TCO. Because they will be paying for TCO storage directly through the release, Choice Suppliers will no longer pay balancing costs for their Choice pools through the Balancing Cost Rider and the Rider will therefore be suspended.

2. Release of VEDO's capacity will no longer be optional for Choice Suppliers. As of the start of the SSO Phase, Choice Suppliers will take mandatory release of VEDO's contracted pipeline capacity at that time. VEDO will release such capacity to Choice Suppliers based upon approximately 75% of the peak design day demand of each Choice Supplier's pool. Terms and conditions of the capacity release will be specified in pipeline capacity release forms.

3. Choice Suppliers will no longer receive annual and quarterly delivery and usage volume reconciliations. VEDO will perform reconciliations for each Choice Supplier on a monthly basis, the second month following the end of the month of flow.

Q. When will the proposed changes to the Choice Program become effective?

A. All changes to the Choice Program will become effective upon the initiation date of the SSO Phase.

II. <u>CHANGES TO LARGE GENERAL TRANSPORTATION PROGRAM</u>

Q. Please summarize the proposed changes to the Large General Transportation Program.

A. The proposed changes are described in the Schedule E-3 Narratives. The following highlights the major changes:

1. Large General Transportation Service customers will no longer carry forward any over/under delivery imbalance quantities to the following month. The monthly allowed carryover for Large General Transportation customers will be revised from 5% to 0%. Therefore, effective with the start of the SSO Phase, all monthly over/under delivery imbalance quantities less than 5% will be cashed out with VEDO with no premium or discount applied.

2. Daily Balancing Provisions will apply to over-deliveries during a Cold Weather OFO and to under-deliveries during a Warm Weather OFO unless VEDO determines that the over/under deliveries in excess of the daily tolerance are helpful to the system.

3. The gas cost portion of all Large Transportation Program cashout charges, currently applied to the GCR, will be recovered from/passed back to SSO/SCO and Choice Suppliers in their monthly statements.

4. Creditworthiness evaluations will be conducted for Large General Transportation customers to mitigate risk exposure to SSO/SCO and Choice Suppliers for monthly balancing services.

Q. When will the proposed changes to the Large Transportation Program become effective?

A. All changes to the Large Transportation Program will become effective upon the initiation date of the SSO Phase.

III. TARIFF CHANGES

A. Introduction

Q. Please describe Schedule E-1.

A. Schedule E-1 consists of four parts. Schedule E-1A (SSO) is a clean copy of the proposed changes to the VEDO tariff to implement the SSO Phase. Schedule E-1A (SCO) is a clean copy of the proposed changes from

Schedule E-1A (SSO) to implement the SCO Phase. Schedule E-1B (SSO) and Schedule E-1B (SCO) are red-lined ("track changes") copies of the proposed tariff changes to implement the SSO and SCO Phases as described above.

Q. Please describe Schedule E-2.

A. Schedule E-2 contains a clean copy of the current tariff sheets that VEDO is proposing to update.

Q. Please describe Schedule E-3.

A. Schedule E-3 provides the rationale for the proposed tariff changes included in this filing. Schedule E-3 (SSO) and Schedule E-3 (SCO) are included and describe the rationale for the changes to implement each Phase of the exit. These schedules provide cross-references to Schedules E-1 and E-2 through the use of the Tariff Sheet Identifier, which indicates whether the tariff sheet being described is in the proposed SSO tariff (E-1) or the current tariff (E-2). The Schedule E-3 narratives explain in detail the proposed changes and the rationale behind those proposed changes. My testimony highlights the most important changes reflected in the Schedule E-3 narratives.

B. Changes to Choice Tariff Sheets

Q. Is VEDO proposing to make any administrative changes to its existing Choice tariff sheets?

A. Yes. Under the existing Choice Rate Schedules (Rate 315, Sheet No. 11; Rate 325, Sheet No. 13; and Rate 385, Sheet No. 21) and the Pooling Service Terms and Conditions (Sheet No. 52), the term "Supplier" has been changed to "Choice Supplier".

Q. Please describe the proposed changes to Rate 315 (Sheet No. 11).

A. The ETC Rider has been added to the "Riders" section of this tariff sheet.

Q. Please describe the proposed changes to Rate 325 (Sheet No. 13).

A. The ETC Rider has been added to the "Riders" section of this tariff sheet.

Q. Please describe the proposed changes to Rate 385, Pooling Service (Residential and General) (Sheet No. 21).

A. Following are the proposed changes to Rate 385:

1. Additional charges and credits have been added to the newly-named "Monthly Statement" section as follows: Nomination Error Charge, City-Gate Allocation Non-Compliance Charge, Storage Non-Compliance Charge, Monthly Reconciliation Amount, Meter Operator Charges, System Balancing Amount, POLR Amount, Customer Billing Amount and Related Charges (pages 1 and 2 of 4).

2. "Peaking Supplies Charge" has been changed to "Propane Supplies Charge" and additional language has been added (page 2 of 4).

3. The Balancing Cost Rider has been eliminated from the "Riders" section (page 2 of 4).

4. The "Requirements for Choice Supplier Participation" section has been updated to reflect the additional credit exposure resulting from the release of storage and pipeline capacity to Choice Suppliers and the desire to clarify that the creditworthiness requirements of Choice Suppliers shall be consistent with those of Large General Transportation Service Customers, Pool Operators, SSO/SCO Suppliers and other entities who have a direct impact on the reliability of VEDO's system (pages 3 and 4 of 4).

Q. Please describe the proposed changes to the Balancing Cost Rider (Sheet No. 36).

A. The Balancing Cost Rider will be suspended beginning with the initiation date of the SSO Phase, as discussed previously.

Q. Please describe the proposed changes to the Pooling Service Terms and Conditions (Residential and General) (Sheet No. 52).

A. Following is a list of proposed changes to the Pooling Service Terms and Conditions:

1. Additional definitions have been added to the "Definitions" section as follows: Load Tranche or Tranche, Pre-determined Allocation ("PDA") and SSO/SCO Supplier (pages 1 and 2 of 16).

2. Additional language has been added to the "Pool's Usage" definition (page 2 of 16).

3. The "Mandatory Assignment of Pipeline Capacity" section has been updated to reflect mandatory release of pipeline capacity to Choice Suppliers (page 10 of 16).

4. A "Monthly Reassignment of Capacity" section has been added to describe that transportation and storage capacity released to suppliers will follow customers to their new suppliers upon their migration to and from Choice service with monthly reassignment of capacity to suppliers based on their Peak Design Day Demands (page 10 of 16).

5. An "Operational System Balancing" section has been added to describe that holders of VEDO's released TCO storage (Choice and SSO/SCO Suppliers) will collectively provide system balancing (page 10 of 16).

6. A "Provider of Last Resort ("POLR") section has been added explaining that Choice and SSO/SCO Suppliers are required to temporarily provide supply to cover Choice and SSO/SCO Suppliers loads in the event of a default by another supplier (page 11 of 16).

7. Added language to "Daily Scheduling of Directed Delivery Quantities" section to reflect TCO storage capacity conditions that have been established for the purpose of Choice and SSO/SCO Suppliers collectively balancing the system (pages 13 and 14 of 16).

8. The "Volume Reconciliations" section has been changed to "Monthly Volume Reconciliations" and updated to reflect that reconciliations will be done on a monthly basis instead of a quarterly and annual basis (page 14 of 16).

9. The "Allocation of Propane Supplies" and "Supplier Withdrawal or Termination" sections have been updated with changes to be effective beginning with the initiation date of the SSO Phase (pages 13, and 15 of 16).

10. The "Operational Flow Orders" section has been deleted and a new Section 12 has been added to the General Terms and Conditions (Sheet No. 71) applicable to Choice and SSO/SCO Suppliers and Large Transporters.

Q. Please describe the proposed changes to the Supplier Pooling Agreement (Sheet No. 53)

A. A significant rewrite of the Supplier Pooling Agreement will be necessary to reflect the Exit Transition Plan and is the subject of on-going discussion among VEDO's Exit Working Group participants. The Supplier Pooling Agreement has been deleted from the Tariff in its entirety.

C. <u>Changes to Large General Transportation Service Tariff Sheets</u>

Q. Please describe the proposed changes to Rate 345, Large General Transportation Service (Sheet No. 17).

A. The "Creditworthiness Evaluation" section has been added to reflect that VEDO shall perform creditworthiness evaluations of Large Transportation customers consistent with VEDO's standard creditworthiness evaluation practices (page 3 of 3).

Q. Please describe the proposed changes to Large General Transportation Terms and Conditions (Sheet No. 50).

A. Following is a list of proposed changes to the Large General Transportation Terms and Conditions:

1. The "Backup Sales Service" section has been deleted in its entirety. There are no longer any customers taking Backup Sales Service, and given VEDO's proposed transition away from sales service, this service will cease as of the start of the SSO Phase (page 2 of 5).

Q. Please describe the proposed changes to Large General Transportation and Pool Operator Nomination and Balancing Provisions (Sheet No. 51).

A. Following is a list of proposed changes to the Large General Transportation and Pool Operator Nomination and Balancing Provisions:

1. The over/under delivery imbalance cashout percentage has been changed from 5% to 0%. There will be no carry forward of any over/under imbalance quantities to the following month (page 4 of 6).

2. The "Operational Flow Order Imbalance Provisions" section has been changed to reflect that Daily Balancing Provisions will apply to over-deliveries during a Cold Weather OFO and to under-deliveries during a Warm Weather OFO unless VEDO determines that the over/under deliveries in excess of the daily tolerance are helpful to the system (page 5 of 6).

3. Gas cost portions of all cashouts relating to imbalances and all incremental gas costs and pipeline penalties will be recovered from or credited to suppliers providing system balancing through Company-released storage, (page 6 of 6). Nomination Error Charges, City-Gate Non-Compliance Charges and the non-gas cost portion of imbalance cashouts will be also be credited to the suppliers.

Q. Please describe the proposed changes to Pooling Service Terms and Conditions (Residential and General (Sheet No. 52).

A. The Affiliate Code of Conduct language has been moved to a new tariff sheet, Sheet No. 72.

D. Rates 395 and 396 – SSO/SCO Supplier Service

Q. Please describe the new Rate Schedules 395 (Sheet No. 22) and 396 (Sheet No. 23).

A. New Rate Schedules 395 and 396, similar to Rate 385, are being established to describe SSO and SCO Supplier Service. Associated SSO and SCO Supplier Terms and Conditions are reflected on Sheet Nos. 55 and 56, respectively.

E. Exit Transition Cost ("ETC") Rider

Q. Please describe the ETC Rider (Sheet No. 41).

A. The ETC Rider has been established to recover various incremental implementation costs and other costs of VEDO's Exit Plan from all sales and Choice customers. This Rider is proposed to be applicable to the following Rate Schedules: Rates 310, 315, 320, 325, 330, 340 and 341.

Q. What costs and revenues will be recovered/passed back through the ETC Rider?

A. This rider will recover all incremental SSO/SCO Phase implementation costs which include: 1) Business system (e.g. information technology) development costs, 2) Informational and educational costs, 3) Call center costs, 4) Billing costs and 5) Other implementation costs, such as tax consulting, and FERC legal fees as required to obtain authority to engage in the Application proposals as designed.

The ETC Rider will also recover/pass back the following: 1) GCR variances remaining as of the implementation of SSO service, 2) any stranded gas supply costs related to customer migration to Choice, 3) any incremental POLR costs not recovered from a defaulting SSO/SCO or Choice Supplier, 4) any imbalance costs not recovered from Large General Transportation customers/Pool Operators, 5) gas costs incurred by Company when diverting customers' transportation gas quantities during a curtailment (see Sheet No. 70, paragraph 11.B1.(9)), and 7) other costs applicable to all SSO/SCO and Choice customers.

Q. Please describe the ETC Rider filing process with the Commission.

A. The ETC Rider will be filed with the Commission quarterly and will reflect the reconciliation of actual costs recoverable and actual costs incurred, with any under or over recoveries being recovered or returned through the ETC Rider over a subsequent twelve month period.

Q. What are the estimated implementation costs for the SSO and SCO Phases?

A. The current estimates for implementation of the SSO and SCO Phases are approximately $1.1 million and $2.4 million, respectively. VEDO continues to refine these estimates, and actual costs may vary as additional implementation requirements are finalized. Additionally, as discussed by VEDO witness Michael F. Roeder, customer education costs are expected to be approximately $1 million in each Phase.

Q. Are there any planned additional expenses for the implementation of the SSO and SCO Phases?

A. Additional annual O & M expenses, approximately $800,000 initially, will be incurred in order to implement and operate during the SCO Phase.

Q. Does VEDO propose to roll the Choice Program Migration Costs into the ETC Rider?

A. Yes. VEDO plans to incorporate the existing Migration Cost Rider Balance as part of the ETC Rider. The Migration Cost Rider recovers all costs incurred for VEDO's gas supply commitments that are no longer required due to customer migration from Residential or General Sales Services to Residential or General Transportation Services, including but not limited to the costs associated with no longer needed pipeline capacity entitlements. Currently the Migration Cost Rider balance is approximately $492,000, which will be credited to customers via the ETC Rider.

IV. CASES WITH SPECIAL ARRANGEMENTS PURSUANT TO SECTION 4905.31, OHIO REVISED CODE, AFFECTED BY THIS APPLICATION

Q. Are there any Cases with special arrangements pursuant to Section 4905.31, Ohio Revised Code, that will be affected by this application?

A. No.

V. ANNUAL FINANCIAL AUDIT

Q. Will there be an annual financial audit during the SSO/SCO Phases?

A. Yes.

Q. Please describe the annual financial audit process.

A. An annual financial audit, replacing the current GCR financial audit, will be conducted by VEDO's independent financial auditors in a docketed case before the Commission.

Q. Please describe what will be reviewed as part of the annual financial audit.

A. All ETC Rider costs and revenues and Large General Transportation Service customer cashouts will be subject to review as part of the annual audit. Also, the Uncollectible Expense Rider, formerly reviewed as part of the annual GCR financial audit, will be audited on the same schedule as this new annual audit.

Q. When will the annual financial audit be conducted?

A. The annual financial audit will be conducted after each SSO/SCO term has expired.

Q. Will the GCR management performance audit and GCR financial audit still need to be performed?

A. No. The elimination of the GCR also eliminates the need for the GCR management performance audit and the GCR financial audit. The new annual financial audit replaces these audits.

VI. PERIODIC REPORTING

Q. Will VEDO periodically report to the Commission on the status of the SSO/SCO Phase?

A. Yes.

Q. Please describe what will be reported to the Commission on a monthly basis?

A. VEDO will provide the following SSO/SCO Phase statistics:

1. SSO/SCO Rider Rate,
2. Number of SSO/SCO and Choice customers,
3. SSO/SCO and Choice volumes by rate schedule,
4. SSO/SCO participation rates by rate schedule,
5. Number of SSO/SCO Suppliers,
6. Market share of each SSO/SCO Supplier, and
7. Any other information desired by the Commission.

Q. Please describe what will be reported to the Commission on a quarterly basis?

A. VEDO will file quarterly reports that contain an assessment of supplier performance based on the following criteria:

1. Targeted deliveries compared to nominated volumes,
2. Targeted deliveries compared to billed volumes,
3. Comparable capacity required compared to comparable capacity demonstrated,
4. Impact of any supplier defaults, and
5. Storage use and system balancing performance.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Application Exhibit VI

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF MICHAEL F. ROEDER
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

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December 21, 2007

Attorneys for Vectren Energy Delivery of Ohio, Inc.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services from Chapters 4905, 4909, and 4935 except Sections 4905.10, 4935.01, and 4935.03, and from specified sections of Chapter 4933 of the Revised Code.	)))))))))	Case No. -GA-EXM

PREPARED DIRECT TESTIMONY
OF MICHAEL F. ROEDER

Q. Please state your name and business address.

A. Michael F. Roeder, One Vectren Square, Evansville, Indiana, 47708.

Q. By whom are you employed?

A. I am Director of Corporate Communications/Lobbyist for Vectren Corporation.

Q. Please describe your educational background.

A. I hold a Bachelor of Arts in communications from the University of Southern Indiana and a Masters in public relations from Ball State University.

Q. Please describe your professional experience.

A. I have more than 18 years of public relations and government affairs experience; first as a staff member for the Indiana House of

Representatives, and later, seven years as communications director for the Indiana Association of Cities and Towns. I have been in my present role with Vectren since March of 2000. I oversee both external and internal communications issues and often serve as the company spokesperson.

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

A. The purpose of my testimony is to explain the customer awareness and education efforts and associated market research efforts associated with VEDO's Merchant Exit Transition plan.

Q. How is your testimony organized?

A. My testimony is organized as follows:

I. Customer Education Process

II. Customer Education Budget

I. CUSTOMER EDUCATION PROCESS

Q. Please summarize the process used to develop the customer awareness portion of this filing.

A. As a part of the larger Merchant exit working group, I have led an education subgroup focused on customer awareness messaging opportunities associated with this transition plan. The team is made up of communications and marketing professionals from the OCC, PUCO and a number of competitive retail natural gas suppliers (please see list below).

Merchant Function Education Team

Mike Roeder	Vectren	812.491.4143	mroeder@vectren.com
Lynda Walls Rominski	OCC	(614) 466-9571	rominski@occ.state.oh.us
Karen Shallcross	Direct Energy	(614) 799-4882	Karen.shallcross@directenergy.com
Jennifer Mullins	Shelton Communications	(865) 524-8385	jmullins@sheltoncom.com
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Neil Collins	IGS		ncollins@igsenergy.com
Doug Austin	IGS		daustin@igsenergy.com
Rick Maas	Vectren Source	812 491 5119	rmaas@vectren.com
Scott Blake	PUCO	(614) 995-5476	Scott.Blake@puc.state.oh.us
Erin Biehl	OCC		BIEHL@occ.state.oh.us
Barbara Bossart	PUCO		barbara.bossart@puc.state.oh.us
Gretchen Hummel			ghummel@mwncmh.com
Lynda Hoffman	VEDO	937-225-5302	lhoffman@vectren.com

Q. What has this group worked on to date?

A. This working group has met several times via conference call, including the last scheduled session on August 21, 2007. We have focused our discussion on the need to make customers aware of the options available and have talked about the messages required to make this transition plan successful. We have also talked about the necessary budget to penetrate the message overload our busy customers in the Miami Valley face daily.

We have also initiated field research to help determine customer awareness on each of these phases. Previous research combined with new focus groups will help us guide the education working group on message and channel for delivery.

Q. Will this group have a continuing role during the transition process?

A. Yes, I envision that this group will continue to work collaboratively and meet periodically to assess the effectiveness of the awareness campaign and to determine what, if any, message refinement or changes in approach are appropriate.

II. CUSTOMER EDUCATION BUDGET

Q. How did you develop the budget outlined in the proposal?

A. In cooperation with our current advertising agency, The Shelton Group, we believe a budget of $1 million for phase 1 and another $1 million for phase 1.5 is a reasonable expectation to promote effective customer awareness of competitive alternatives and to ensure that customers understand the implications of this transition plan. The budget will include newspaper, on-line advertising, television and direct mail. Phases 1 and 1.5 represent measured and incremental steps to an eventual goal of exiting the merchant function. It is incumbent upon VEDO to provide meaningful, useful and candid information to its customers about the envisioned transition plan.

Q. Does this conclude your testimony?

A. Yes.