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OCC EXHIBIT ____

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc. for an Increase in Gas Rates.	)))	Case No. 07-589-GA-AIR
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan for its Gas Distribution Service.	))))	Case No. 07-590-GA-ALT
In the Matter of the Application of Duke Energy Ohio, Inc. for Approval to Change Accounting Methods.	)))	Case No. 07-591-GA-AAM

DIRECT TESTIMONY
OF
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ON BEHALF OF
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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

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

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A2. I have a Bachelor of Arts degree in Economics from Yale University and a Master of Arts degree in Economics from the University of Massachusetts at Amherst. I have also completed coursework and passed my comprehensive exams towards a Ph.D. in Economics at the University of Massachusetts at Amherst. I have been employed in the energy industry since 1986, first with the Connecticut Energy Office (Senior Economist, 1986-1992), then Columbia Gas Distribution Companies ("Columbia Gas") (Integrated Resource Planning Coordinator, 1992-1996), and American Electric Power (Marketing Profitability Coordinator and Market Research Consultant, 1996-2002). I have been spearheading the Resource Planning activities within OCC since 2004.

Q3. DESCRIBE YOUR EXPERIENCE DIRECTLY RELATED TO UTILITY DEMAND-SIDE MANAGEMENT ("DSM") PROGRAMS AND RATE DESIGN, COST-BENEFIT ANALYSIS AND PROGRAM MONITORING AND EVALUATION.

A3. I have been involved with many aspects of DSM programs since 1986. While at the Connecticut Energy Office I represented the office in one of the first DSM collaborative processes in the country (Connecticut Department of the Public Utilities Commission Docket No. 87-07-01). There I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design) and energy efficiency standards. At Columbia Gas, I was responsible for coordinating the Company's Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I designed and managed residential DSM programs in Maryland and Virginia. At American Electric Power, I conducted numerous cost-benefit analyses of programs being sponsored by AEP's corporate marketing department, including their residential load control water heater program.

Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A4. Yes. I submitted testimony in the following cases before the Public Utilities Commission of Ohio ("Commission" or "PUCO"): Vectren Energy Delivery of

Ohio, Case No. 04-571-GA-AIR; Dominion East Ohio, Case No. 05-474-GA-ATA; Vectren Energy Delivery of Ohio, Case No. 05-1444-GA-UNC; Columbus Southern Power Company/Ohio Power Company, Case No. 06-222-EL-SLF; and FirstEnergy Companies, Case No. 07-551-EL-AIR.

Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A5. I have reviewed the rate design discussion in Volume 1 of the Company's July 18, 2007 Application, Motions, Alternative Regulation Schedules and Schedules "A" Through "D," the Direct Testimony of Company witnesses David W. Mohler and Paul G. Smith, and the staff report ("Staff Report") filed on December 20, 2007. I have also reviewed the relevant Company responses to OCC discovery and Staff of the Public Utilities Commission of Ohio ("Staff") data requests pertaining to residential rate design.

II. PURPOSE OF TESTIMONY

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A6. My testimony concerns Duke's proposed decoupling mechanism and the Staff's conceptual discussion of decoupling rate designs in its Staff Report. In particular, I am recommending that the Commission reject Duke's decoupling proposal as filed. Duke's proposal is a transition to a Straight-Fixed Variable ("SFV") rate design which is problematic because it sends consumers the wrong price signal

especially during a time of increasing natural gas prices and tightness in natural gas supply nationwide. The Staff's proposed conceptual modification of Duke's decoupling rate design likewise is flawed and should be rejected. Finally, I will propose consumer safeguards that need to be included when decoupling utility revenues from sales.

III. DUKE'S DECOUPLING PROPOSAL

Q7. WHAT IS DUKE'S PROPOSED DECOUPLING MECHANISM?

A7. Duke's proposed decoupling rider ("Rider SD") would sever the link between the volumes of gas sold and the Company's ability to recover costs. The Duke proposal is a per-customer decoupling mechanism. Through Rider SD, Duke is proposing to recover the differences between actual weather normalized base revenues and adjusted base revenues for all of its sales and transportation customers (except under its interruptible transportation customer rate ("Rate IT")). In addition, Rider SD would also allow Duke to recover lost revenues (revenues it otherwise would not collect) related to reductions in the volumes of gas sold as a result of customers' conservation efforts propelled by gas commodity price increases. Rider SD also considers customer growth as these monthly differences in revenues are multiplied by the difference between the number of customers in a particular month and the number of customers for that same month during the test year in the rate case. The accumulated monthly differences will be divided by projected sales volumes to determine the Rider SD

amount. Rider SD will be reconciled for any under or over recovery that will subsequently be collected or returned to customers via Rider SD over the next twelve months. [1] As proposed, Rider SD reduces Duke's declining usage per customer revenue risk while maintaining Duke's weather risk.

Q8. DO YOU BELIEVE THAT DUKE'S DECOUPLING MECHANISM IS A FIRST STEP TOWARDS A STRAIGHT-FIXED VARIABLE RATE DESIGN?

A8. Yes. Duke's revenue decoupling proposal is also combined with a 150 percent increase in the customer charge from $6 to $15 dollars per month. This would put Duke in a position to increase its customer charge in subsequent rate cases until all of its fixed costs are recovered through the customer charge. I see this as a significant step towards an SFV rate design.

IV. STAFF'S DECOUPLING CONCEPT

Q9. HOW DOES THE STAFF'S DECOUPLING RATE DESIGN CONCEPT DIFFER FROM DUKE'S PROPOSAL?

A9. One difference is that Staff's proposal significantly increases the customer charge that Duke's customers have been accustomed to paying. The Staff's conceptual proposal would bypass a more gradual step to an SFV rate design and instead expedite the moving of customers to a two prong SFV rate design over a two-year

[1] Description contained in Company application, Schedule Alt Reg A pages 9-11 and the Direct Testimony of Company Witness Paul G. Smith, pages 11-15.

period. In contrast to the $15 monthly customer charge proposed by Duke, the Staff has engineered a rate design where customers using less than 50 Ccf (annually) would pay $10 and $12 per month in years one and two, and those customers consuming over 50 Ccf (annually) would pay $20.25 and $25.33 per month, respectively. As can be seen in the table and graph below, the annual impact of the Company's proposed increases to the customer charge are extreme, even when compared to Ohio's three other major natural gas distribution companies.

Ohio Gas LDC Annual Customer Charge
Current Compared to Proposed

LDC	Annual Current Customer Charge	Proposed Customer Charge	Percent Increase From Current Charge		
Duke	$72.00 ($6.00X12)	$180.00 ($15.00X12)	150%		
Vectren* (Average)	$84.00 ($7.00X12)	$160.44 ($13.37X12)	91%		
Dominion**	$52.56 ($4.38X12)	$68.40 $5.70X12)	30%		
Columbia	$78.00 ($6.50X12)	NA	NA		

Notes:
*$10.00 is for summer months (May thru October) and $16.75 for the winter months (November thru April) with $13.37 as the average. [(6 x $10.00 = $60, 6 x $16.75 = $100.50) ($60 + $100.50 = $160.50, $160.50 / 12 = $13.37)].
**Increase is only for West Ohio area customers, the $5.70 remains the same for current East Ohio customers.

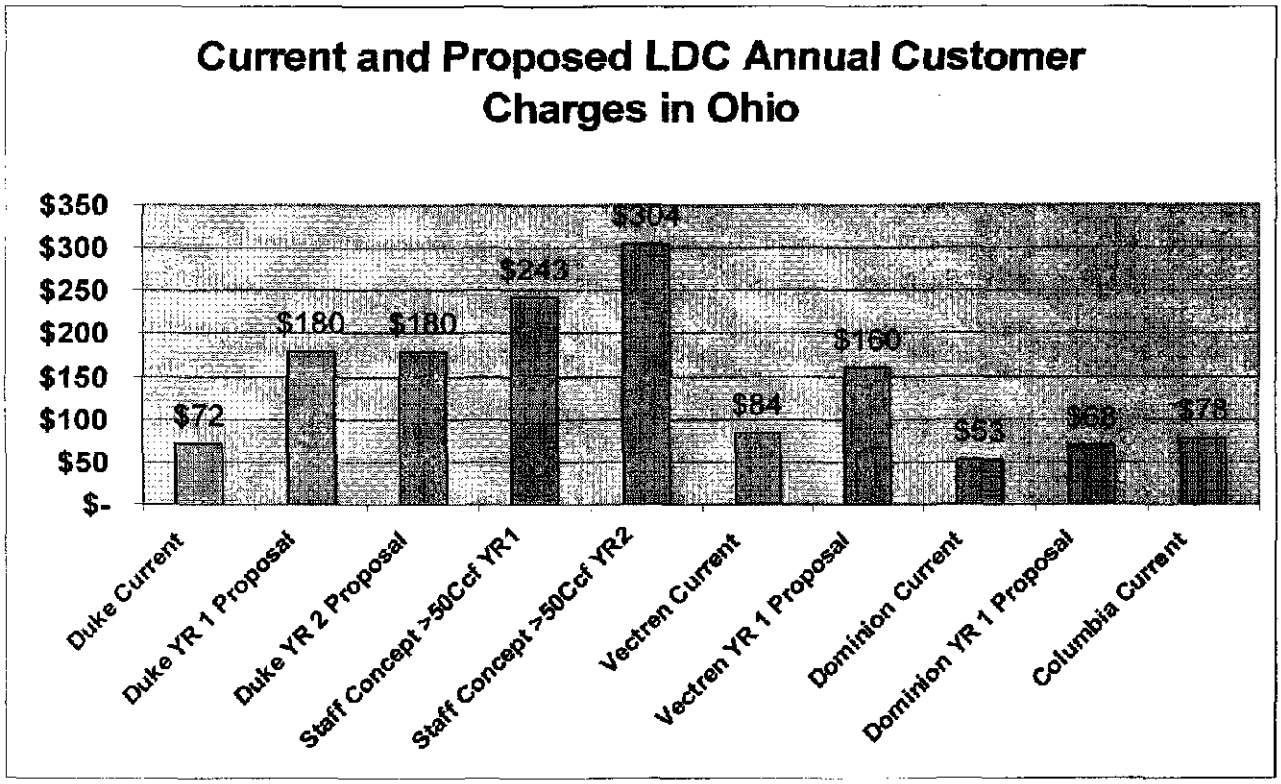
Q10. DO YOU HAVE A SIMILAR TABLE SHOWING THE PROJECTED ANNUAL CUSTOMER SERVICE CHARGE IMPACT OF STAFF'S PROPOSAL?

A10. Yes, as can be seen in the table below, the annual impact of the Staff's proposed increases to the annual customer charge are significant. By year two, approximately 97 percent of Duke's customers would experience a 421 percent increase in their customer service charge.

Staff Concept	Annual Current Customer Charge	Staff Proposed Customer Charge Year 1	Percent Increase From Current Charge	Staff Proposed Customer Charge Year 2	Percent Increase From Current Charge
Staff (Less than 50Ccf)	$72.00	$120.00	67%	$144.00	100%
Staff (More than 50Ccf)	$72.00	$243.00	238%	$303.96	421%

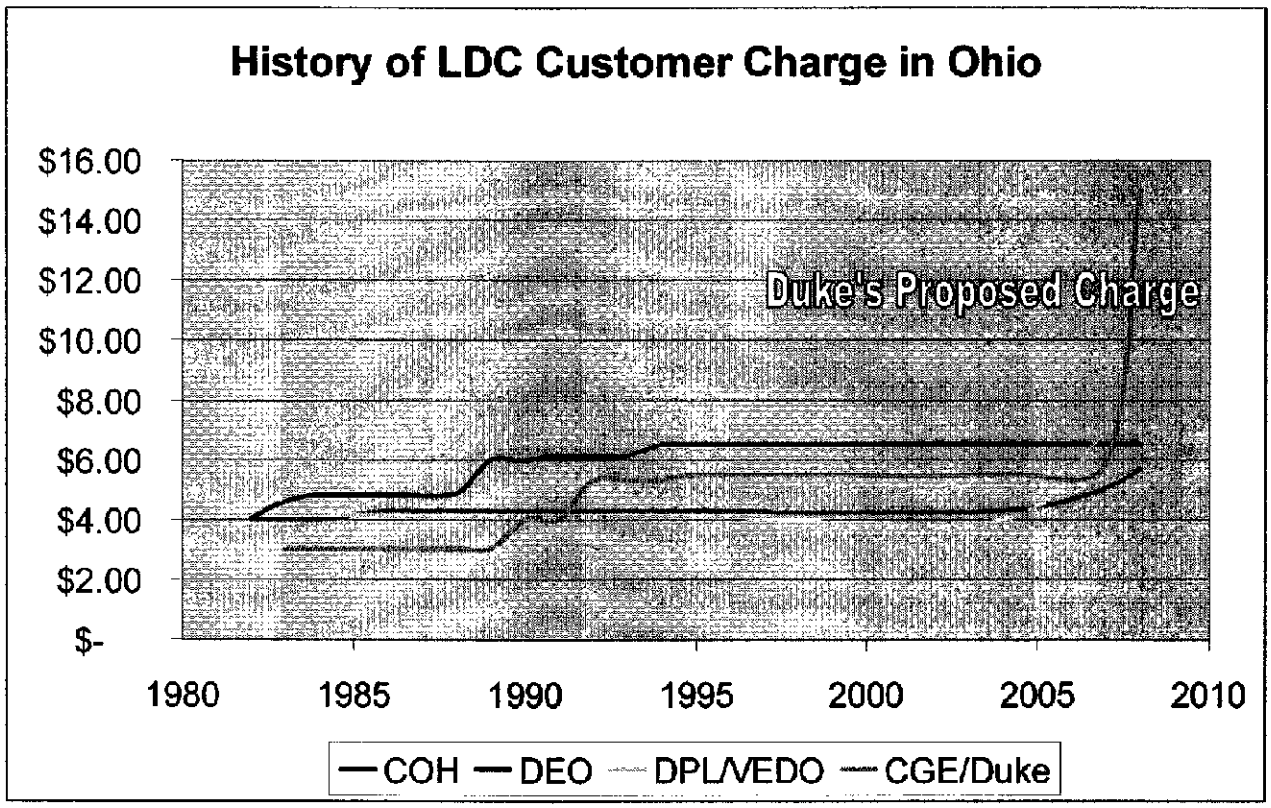
Q11. HOW DOES THE STAFF'S PROPOSED CUSTOMER SERVICE CHARGE DIFFER FROM THE COMPANY'S PROPOSAL ON AN ANNUAL BASIS?

A11. As can be seen in the graph below, the annual impact of the Staff's proposed increases to the annual customer charge are greater than any existing customer service charge of Ohio's largest LDCs and are more extreme than the Company's proposal.



Q12. HOW DOES DUKE'S PROPOSED INCREASE COMPARE TO INCREASES TO MONTHLY CUSTOMER CHARGES GENERALLY FOR DUKE AND OTHER NATURAL GAS UTILITIES IN OHIO OVER THE PAST 25 YEARS?

A12. See graph on following page:



Q13. WHAT ARE YOUR COMMENTS ON THE HISTORICAL INFORMATION CONTAINED IN THE GRAPH ABOVE?

A13. Based upon the research contained in Exhibit WG-1, until this case, the Staff has closely adhered to the theory of gradualism when setting the monthly customer charge. Between 1982 and the present, Columbia Gas of Ohio's customer charge has only increased from $3.55 to $6.50. Over a comparable time period, Dominion East Ohio's ("DEO") customer charge has increased from $4.00 to $5.70 (and in its pending rate case, Case No. 07-829-GA-AIR, DEO is again requesting a customer charge of $5.70). Finally, between 1983 and the present,

Dayton Power and Light Company/Vectren Energy Delivery of Ohio, has increased its customer charge from $4.15 to $7.00. Therefore, Duke's proposed increase in the monthly customer service charge is extreme when compared to recent Ohio historical trends.

Q14. ARE THERE OTHER DIFFERENCES BETWEEN THE STAFF'S DECOUPLING RATE DESIGN CONCEPT AND DUKE'S PROPOSAL?

A14. Yes. In addition to the customer charge discussed above, Duke proposes increasing the volumetric charge to $0.22796 in year one and again in year two to $0.24714 from the current rate of $0.18591, while the Staff goes in the opposite direction, reducing the volumetric charge to $0.153942 and $0.099103 in respective years. As a result, by year two, 79 percent of the average base revenue requirement would be fixed and would not vary with usage.[2] Although not part of its recommendation, the Staff's conceptual alternative rate design also contemplates a "seasonal" component where the fixed charge in summer months (8 warm weather months) could be lower than in winter months (4 colder weather months).[3]

Q15. WHAT ARE YOUR GENERAL CONCERNS WITH DECOUPLING?

A15. The regulatory mechanism of decoupling utility earnings from its sales volume has been a very contentious issue. Conceptually, what concerns me is that

[2] Direct Testimony of OCC Witness Yankel, at 49.

[3] Staff Report at 33.

decoupling is a form of single issue ratemaking that ignores other rate case components that could impact any decoupling effect. Decoupling is problematic because it replaces the legal "opportunity" for earning a reasonable return with a more guaranteed cost recovery, thus shifting cost recovery risks from shareholders to customers.

Decoupling mechanisms are often touted to lessen distribution utility revenue erosion due to increased and volatile commodity charges. They are also said to be imperative to removing utility disincentives against utility-sponsored energy efficiency,[4] and the need to place energy efficiency on an even plane with supply side resources from a resource allocation perspective. Decoupling mechanisms have taken a heightened importance in the energy efficiency community given the scarcity of energy supplies, the increasing cost of electric generation and the threat of global warming. At last count, there are 11 states in which gas decoupling has been approved, and 11 other states in which decoupling cases are pending.[5] Decoupling has been proposed but not adopted in11 states.[6]

[4] Staff Report at 31.

[5] Frederick Butler in "Revenue Decoupling in the Natural Gas Regulatory Environment-Trend or Transition?" June, 5, 2007.

[6] David E. Dismukes, "Regulatory Issues for Consumer Advocates in Rate Design, Incentives and Energy Effficiency," NASUCA Mid –Year Meeting, June 11, 2007, page 5.

V. DECOUPLING AND CONSUMER SAFEGUARDS

Q16. WHAT IS YOUR GENERAL POSITION ON DECOUPLING?

A16. I am supportive of decoupling as a way to encourage rather than discourage energy efficiency investments. A well designed decoupling mechanism must include an aggressive energy efficiency program and contain significant consumer safeguards as discussed above. Without comprehensive energy efficiency and consumer safeguards, a decoupling mechanism is nothing more than an opportunity for a utility to shift risks from shareholders to customers, and therefore should be rejected.

Q17. WHAT IN PARTICULAR ARE THE CONSUMER SAFEGUARDS YOU STATE ARE NECESSARY?

A17. When considering whether to approve a utility request for decoupling, the following safeguards or principles should be adhered to:

1. In exchange for the significant risk reduction in utility revenue collection the Commission must include a significant DSM program that can provide benefits for all customers as the *quid pro quo*. I define significant as, at a minimum, .75 percent to two percent of verified annual energy reductions as a result of

implementing the Company's comprehensive energy efficiency programs.[7]

2. Any mechanism adopted should contain consumer protections that guard against rate shock and utility over-earning. This consumer protection can take the form of a rate cap on the decoupling revenues. The rate cap could take the following forms:

   a. A dollar cap on decoupled revenues;

   b. A cap on the percentage amount that a rider could increase annually; and

   c. Permitting decoupled revenues to be recovered at less than 100 percent as in other jurisdictions.[8]

3. Another important protection is that the Company should utilize an appropriate weather normalization methodology for its calculations[9]

4. The PUCO should make a downward adjustment in the Company's return on equity ("ROE") as appropriate depending on the level of the Company's earnings risk that is reduced by the decoupling mechanism.[10]

Designing a decoupling mechanism based on the above principles should benefit residential customers with lower and more stable bills, while at the

[7] "Energy Efficiency" means measures or programs that target customer behavior, equipment, or devices to result in a decrease in consumption of electricity and/or natural gas without reducing the quality of energy services.

[8] See Vectren of Indiana decoupling mechanism.

[9] See the testimony of OCC witness Anthony Yankel in this case for a critique of the Company's weather normalization methodology.

same time providing the benefits of more timely revenue recovery and less risk for the Company and its shareholders.

VI. STRAIGHT FIXED VARIABLE RATE DESIGN

Q18. IF YOU GENERALLY SUPPORT DECOUPLING WITH CONSUMER SAFEGUARDS IN CONCEPT, WHY DO YOU OPPOSE THE COMPANY'S MOVE TO A STRAIGHT-FIXED VARIABLE RATE DESIGN?

A18. Although a SFV rate design can be less complex to administer than a sales reconciliation type of decoupling mechanism because it eliminates periodic reconciliations and weather adjustments,[11] an SFV rate design introduces a host of other analytical problems, including:

1. **The SFV rate design decreases the natural gas price signal:** Price is a strong motivation for customers to reduce energy consumption. An SFV rate design gives customers the wrong price signal at a time of increasing marginal costs for natural gas in particular and energy in general.[12] An SFV rate design has the effect of reducing the customer's incentive to use energy more efficiently because the per-unit price of energy the customer sees is reduced. This is demonstrated in Exhibit WG-2 where the

[10] OCC witness Aster Adams will address this issue in his rate of return testimony.

[11] Some also view an SFV rate design as adhering more closely to cost causation as they tend to view fixed costs as a function of the number of customers.

[12] See Kushler, M., D. York, and P. Witte. 2005, "Examining the Potential for Energy Efficiency to Help Address the Natural Gas Crisis in the Midwest;" Washington, DC: American Council for and Energy Efficiency Economy.

distribution cost per Ccf that a customer faces is higher at lower consumption levels than at higher consumption levels. This fact is compounded in year two of the Duke and Staff concepts, because the distribution cost per Ccf is lowered by increased consumption to $0.25 and $0.10 respectively, lower than if the customer charge remained at $6 (or $0.37). This may lead customers to procure uneconomic loads like gas lighting. Given the tight natural gas market, now is not the time to reduce the variable charge.[13] Although costs may vary with the number of customers in the short run (several years), in the long run costs are driven by demand. Policymakers should be concerned with the *long-run* [14] consequences of energy production and consumption, and in the long run no cost is "fixed."[15] Costs can be avoided. The General Assembly has adopted a principle for energy efficiency and conservation in R.C. 4905.70. The statute states that "The Public Utilities Commission shall initiate programs that will promote and encourage conservation of energy and a reduction in the growth rate of energy consumption, promote

[13] This point was made strongly by Ralph Cavanagh, Senior Attorney of the Natural Resources Defense Counsel ("NRDC") in the May, 2006 "Rethinking Natural Gas Utility Rate Design" Conference at the Ohio State University.

[14] Rates that reflect long-run marginal costs will promote economically efficient investment decisions in energy efficiency, because the long-run perspective is consistent with the long expected useful lives of most energy efficiency measures, and the potential for energy efficiency to defer costly capital improvements. In developing rates, the goals of short-run and long-run marginal based pricing must be balanced. For a further discussion in this topic see Chapter 5 in "National Action Plan for Energy Efficiency", US EPA/DOE, July 2006.

[15] Even in a gas distribution system, fixed costs do vary partly as a function of individual customer demand. The SFV rate used by Atlanta Gas Light, for example, estimates the fixed charge as a function of the maximum daily demand for gas imposed by each premise. American Gas Association, Natural Gas Rate Round-Up: Innovative Rate Designs for Fixed Cost Recovery, June 2006.

economic efficiencies, and take into account long-run incremental costs." An SFV rate design appears to contradict the policy provisions of R.C. 4929.02(A)(4) to "encourage innovation and market access for cost-effective supply- and demand-side natural gas services and goods." In a time of increasing marginal costs, long-term economic efficiency depends in part on consumers being rewarded with lower bills when their consumption decreases, and "penalized" with higher bills when their consumption increases. While it is important to provide utilities with incentives to implement energy efficiency programs, it is equally important to provide customers with incentives to do so as well.

2. **SFV is regressive on low usage customers (some of which are low income or on fixed incomes) and it will produce significant rate shock:** All low usage customers (less than average consumption) will bear a disproportionate increase in their natural gas bills even while they maintain their current usage patterns. This could have an even greater impact on low use or low income customers or elderly customers on fixed incomes. An SFV rate design will have intra-class impacts, invariably shifting cost from high usage, high income customers to low usage or low income/fixed income customers. Increasing natural gas bills presents an undue hardship for low usage or low income/fixed income customers and may lead to increasing PIPP arrearages. The SFV rate design is not particularly fair since all residential consumers contribute equally to Duke's distribution revenue regardless of the level of their usage. Those

who make a greater use of the distribution system should bear a proportionately greater share of its cost.[16] Based on Exhibit WG-2, an estimated 65 percent of Duke's customers will have higher bills and be worse off in year 2 in both Duke's and the Staff's proposal than if the customer charge remained at $6 and the volumetric charge were increased.[17] More importantly this percentage may increase over time, so even more of Duke's customers are worse off, as more customers participate in low income weatherization programs, Duke's energy efficiency programs, or invest in energy efficiency outside of Duke's funded programs.

3. **SFV may cause very low usage customers to drop off of the system:** An SFV rate design can result in very low volume users (potentially as many as 10,500 or three percent of customers in Duke's territory) discontinuing their gas service.[18] For example, those customers who only use natural gas for secondary non-heating purposes may opt to switch to other energy sources. This response would then necessitate a further reallocation of the fixed costs they would contribute to remaining customers in the form of higher rates creating increased costs for

[16] Generally, it would cost less to serve a residential customer who lives in a small apartment in an area with high customer density than it would to serve a customer who lives in a neighborhood with a larger home and large frontage in less densely populated areas.

[17] Based on average usage in witness exhibit 1 the rate of customers worse off is 77%. However, the breakeven point is in the 850-875 Ccf range and therefore I have assumed a normal distribution for those customers in the 500 to 1,000 Ccf usage and reduced the estimate to 65 percent.

[18] See Company response to Staff Data Request 17-075, page one of nine.

remaining customers and potentially starting a vicious cycle of ever increasing costs for potentially fewer customers.

4. **SFV penalizes those customers who have undertaken energy efficiency investments:** Customers who have invested in additional home insulation, purchased more efficient furnaces and water heaters as a rational response to increasing gas costs will see their investment returns diminished and payback periods increased as a result of an SFV rate design. Making a radical rate design shift in midstream is especially unfair for customers who have invested to become more energy efficient as a response to actions urged by State and Federal energy efficiency policies. In this sense, an SFV rate design takes away some of the control customers have over their utility bills.

5. **SFV leads to less energy efficiency by lessening consumer incentives for self-initiated efficiency:** An SFV rate design lengthens the payback period[19] of customers contemplating energy efficiency investments by reducing the variable portion of the rate.[20] Exhibit WG-3 illustrates this point in the case where a more energy efficient furnace is purchased. Under a six dollar monthly customer service charge the customer payback is 3 years whereas under the Company's plan the payback is increased to 4

[19] An SFV rate design reduces the Participant Test Benefit-Cost ratio as defined by the 2002 "CALIFORNIA STANDARD PRACTICE MANUAL: ECONOMIC ANALYSIS OF DEMAND-SIDE PROGRAMS AND PROJECTS". As such, it requires utility sponsored energy efficiency programs to provide higher customer incentives to move customers to invest in energy efficient measures.

[20] This point is developed further in V. Jensen, "Aligning Utility Incentives with Investment in Energy Efficiency", ICF, July 2007, and M. Kushler et al.; "Aligning Utility Interests with Energy Efficiency

years. The staff's higher conceptual customer charge delays the customer payback to yet another year to 5 years. At a time when Ohio's public policy is recognizing the importance of energy efficiency, an SFV rate design contradicts this very important tenet in public policy as highlighted by both the Energy Security and Climate Stewardship Platform for the Midwest ("MESCSP")[21] and the Executive Order to which Governor Strickland has committed the state. Governor Strickland's Executive Order 2007 – 02S ("Executive Order"), Coordinating Ohio Energy Policy and State Energy Utilization, raised the bar for energy efficiency.[22] The Executive Order sets forth a number of actions that state agencies, commissions, and boards are required to undertake to reduce and improve the energy consumption of the state. The Executive Order clearly states that "it is the responsibility of state government to lead by example in reducing energy consumption in this era of steep energy prices, mounting environmental concerns, and persistent energy security risk."[23] It further states that "by improving energy efficiency and adopting advanced energy utilization technologies, we can make the most of our existing energy resources and also stimulate activity and investment in the energy

Objectives: A review of Recent Efforts at Decoupling and Performance Incentives," ACEEE, October, 2006.

[21] The energy efficiency commitment is as follows: "Meet at least 2 percent of regional annual retail sales of *natural gas* and electricity through energy efficiency improvements by 2015, and continue to achieve an additional 2 percent in efficiency improvements every year thereafter." See http://www.midwesterngovernors.org/resolutions/Platform.pdf (emphasis added).

[22] Issued on January 17, 2007.

[23] Id at 2.

efficiency services sector."[24] The MESCSP recommends that 22% of Ohio's energy needs by 2025 be met with energy efficiency.

6. **SFV violates the "gradualism" doctrine of rate design:** The 150 percent increase being proposed by Duke in the customer charge constitutes a form of rate shock as demonstrated earlier. In fact, two of the principles of gas rates as stated in the Staff Report are to "cause minimal impact (sometimes called 'gradualism') when changed, and provide continuity in pricing structures."[25] A 150 percent increase is neither minimal nor gradual especially when taken in conjunction with the AMRP Rider and other Company rate increase proposals in this case.

7. **SFV has a more extreme impact when compared to a revenue reconciling form of decoupling:** The Company has not presented any evidence that its move towards the SFV rate design will be well accepted by customers. In fact, the large increase in the customer charge for all customers and the increased bills of low usage customers may be a recipe for customer complaints and protest.[26] A sales reconciling form of

[24] Id at 2.

[25] Staff Report at 23.

[26] See problems experienced by Atlanta Gas Light ("AGL") when it implemented an SFV rate design. When asked "[w]hat were the most difficult decisions that you've had to make?" AGL energy executive Paula Rosput answered, "[w]hen we first implemented the straight fixed variable rate structure last winter and it was causing enormous bill impacts was one of the hardest..." See "Rosput Tells How Atlanta Gas Light Took On Deregulation and Survived," Pipeline & Gas Journal, April Issue 2000. See also Ken Costello's NRRI report;" Retail Competition in the Natural Gas Sector: The Georgia Market" where he states that the turmoil from restructuring "can be compared to the chaos caused by restructuring of the electricity industry in California." One of the reasons for the chaos stated is "a major change in the rate design of distribution service to a straight fixed variable method..."
http://64.233.169.104/search?q=cache:d_0cmbD_FgkJ:www.nrri.ohio-state.edu/dspace/bitstream/2068/161/1/Case%2BStudy%2Bof%2BGeorgia%2Bgas%2Bmarket.pdf+costello+nrri+georgia+natural+gas+restructuring&hl=en&ct=clnk&cd=1&gl=us.

decoupling without an increase to the customer charge is a less extreme approach since it represents a less dramatic shift in customer bills and its impact does not fall disproportionately on low usage low income and fixed income customers. I recommend that the Commission require a more thorough examination of the public acceptance of an SFV rate design and its impact on all customers before it would consider adopting the Company's move in that direction.

I would also note that economic efficiency is an important consideration when structuring rates but it is not the only consideration. Fairness, rate stability, revenue stability, ease of administration, non-discrimination and environmental protection are equally significant and need to be reconciled by the Commission. In this regard, an SFV has been rejected by Commissions in six states. [27]

Q19. DO THE STAFF'S CONCEPTUAL MODIFICATIONS TO DUKE'S DECOUPLING MECHANISM PROVIDE SUFFICIENT CORRECTIONS TO THE SFV RATE DESIGN CONCERNS IDENTIFIED EARLIER?

A19. No. The Staff's more extreme formulation of an SFV design exacerbates many of the problems noted above. Staff's two-prong approach has de minimus impact as it provides a relative decrease in the customer charge to only a small fraction of

[27] Dismukes at 11. Of the six states where an SFV rate design was rejected, three did allow some increase to the customer service charge. Two states have approved an SFV rate design.

1 the customer base (less then three percent).[28] If adopted, Duke will have one of
2 the highest residential customer charges in the country. [29]
3

[28] See Company response to Staff Data Request 17-075, page one of nine (Exhibit WG-2).

[29] Currently, Columbia of Virginia at $15.76 and NSP-ND at $15.69 have the highest residential customer service charges in the country. See Exhibit No. S-3 in the Testimony of S.C. Devon in Michigan Case No. U-14893, November 13, 2006.

VII. CONCLUSION

Q20. IF THE COMMISSION WERE TO APPROVE A DECOUPLING MECHANISM FOR DUKE IN THIS PROCEEDING, WHAT DECOUPLING MECHANISM WOULD YOU RECOMMEND?

A20. If the Commission were to approve the Company's SFV proposal or the Staff's conceptual and more extreme SFV rate design proposal there will be winners and losers in the residential class. Residential customers who have been hit by unprecedented gas costs and that are struggling to pay their bills and undertaking efforts to reduce their consumption (by weatherization or energy efficiency measures or lowering their comfort level through conservation) will be punished by an SFV rate structure. Moreover, shifting cost recovery to a near 100% fixed charge is not the optimal way to align utility and customer interests when attempting to promote energy efficiency. Therefore, I recommend the Commission reject the Company's and the Staff's formulation of an SFV rate design and instead in the alternative craft a sales reconciling form of rate design with the customer protections that I highlighted earlier in my testimony. Otherwise, the Commission should not adopt a decoupling mechanism in this case.

Q21. WHAT OTHER ISSUES CONCERNING DUKE'S DECOUPLING PROPOSAL WOULD YOU LIKE TO COMMENT ON?

A21. In its DSM proposal in Duke Energy of Ohio Case No. 06-91-EL-UNC, the Company received approval for Rider DSM in part, to recover the lost distribution revenues stemming from the Company's DSM programs.[30] If the Commission approves a decoupling mechanism as part of this case, it will need to eliminate the lost revenue component of that rider so that Duke does not over-collect.

Q22. DOES THIS CONCLUDE YOUR TESTIMONY?

A22. Yes, however, I reserve the right to supplement my testimony to incorporate new information that may subsequently become available.

[30] Rider DSM recovers program costs (PC), lost revenues (LR), and a performance incentive (PI), and also contains a balance adjustment (BA) component.

Residential Customer Charge Increases for Columbia Gas, Dominion East Ohio, DP&L/Vectren, and CG&E/Duke 1983 – 2007

Columbia Gas Cases

Case Number	Present Customer Charge (at the time of filing)	Requested Customer Charge Increase	Commission-Approved Customer Charge
94-0987	$6.50	$6.50	$6.50
91-0195	$6.15	$7.40	$6.50
89-0616 to 89-0620	$6.00	$4.97 to $9.03 (Seasonal-Regional cases consolidated)	$6.25
88-716 to 88-0720	$4.50 - $5.25	$4.46 - $7.54	$6.00
84-1102	$4.20 - $5.46	$6.40	$5.10
84-0754	$4.30 - $5.04	$5.20	$4.50
84-0552	$5.00	$6.40	$5.25
84-0067	$4.37 - $5.26	$5.30	$4.70
83-1519	$4.20 - $5.25	$6.40	$5.25
83-1301	$4.48	$6.15	$5.15
83-0822	$4.05	$6.15	$5.25
83-0677	$4.00	$5.15	$4.25
83-0584	$4.00	$6.00	$4.30
83-0545	$5.30 - $5.95	$6.65	$5.00
83-0392	$4.06 - $5.50	$5.87	$4.30
83-0233	$5.04	$5.00	$4.45
83-0131	$4.40	$5.70	$5.05
83-0107	$4.40	$5.30	$4.80
82-1311	$4.25	$5.45	$4.65
82-1261	$4.05	$5.05	$4.40
82-1174	$4.60	$6.35	$5.50
82-1152	$3.84	$5.30	$4.60
82-1151	$3.55	$5.00	$4.30

Dominion/East Ohio Cases

Case Number	Present Customer Charge (at the time of filing)	Requested Customer Charge Increase	Commission-Approved Customer Charge
07-0829	$5.70	$5.70	Pending
07-0829	$4.38	$5.70	Pending
93-2006	$4.28	$7.80	$5.70
86-0297	$4.28	$4.50	$4.28
82-0901	$4.00	$4.25	$4.25

DP&L/Vectren Cases

Case Number	Present Customer Charge (at the time of filing)	Requested Customer Charge Increase	Commission-Approved Customer Charge
07-1080	$7.00	$10.00	Pending
07-1080	$7.00	$16.75	Pending
07-1080	$7.00	$22.00	Pending
04-0571	$4.00	$8.00	$7.00
91-0415	$4.15	$5.00	$4.00
83-0777	$4.15	$4.15	$4.15

CG&E/Duke Cases

Case Number	Present Customer Charge (at the time of filing)	Requested Customer Charge Increase	Commission-Approved Customer Charge
07-0589	$6.00	$15.00	Pending
95-0656	$5.50	$10.00	$5.50
92-1463	$5.30	$6.00	$5.50
90-0390	$4.00	$6.00	$5.30
83-1529	$3.00	$10.00	$4.00

Duke Energy Ohio — STAFF-DR-17-075

Note: Size Categorized By Annual CCF
"PIPP" Means PIPP Accounts
"12 Bills" Means 12 Bills For 2006 — accounts excluded due to other than 12 bills

Year Two (All Customer Analyst)

		RATE								Duke					Staff				
		Non-PIPP	PIPP	Grand Total	$6 Fixed				Dist.					Dist.					Dist.
SIZE	Data	Residential	Residential		Fixed	Variable	Commodity	Total	$ per Ccf	Fixed	Variable	Commodity	Total	$ per Ccf	Fixed	Variable	Commodity	Total	$ per Ccf
Less than 50	Sum of NUM ACCTS	9,475	23	10,535															
	Average of AVG ANN CCF	19	21	17	72	$6.38	$15.23	$94	$4.54	180	$4.26	$15.23	$199	$10.68	150	$1.71	$15.23	$167	$8.79
50 to 500	Sum of NUM ACCTS	79,973	1,509	87,601															
	Average of AVG ANN CCF	338	369	353	72	$130.62	$312.03	$515	$0.57	180	$87.33	$312.03	$579	$0.76	303.96	$35.02	$312.03	$651	$0.96
500 to 1000	Sum of NUM ACCTS	201,683	4,384	211,073															
	Average of AVG ANN CCF	731	748	735	72	$271.76	$649.21	$993	$0.47	180	$191.71	$649.21	$1,011	$0.49	303.96	$72.86	$649.21	$1,026	$0.61
1000 to 1500	Sum of NUM ACCTS	54,280	2,577	59,763															
	Average of AVG ANN CCF	1,177	1,213	1,205	72	$445.78	$1,064.93	$1,583	$0.43	180	$298.06	$1,064.93	$1,543	$0.40	303.96	$119.52	$1,064.93	$1,488	$0.35
1500 to 2000	Sum of NUM ACCTS	10,137	978	13,105															
	Average of AVG ANN CCF	1,700	1,703	1,713	72	$633.28	$1,512.87	$2,218	$0.41	180	$423.43	$1,512.87	$2,116	$0.35	303.96	$169.80	$1,512.87	$1,987	$0.28
2000 to 2500	Sum of NUM ACCTS	3,715	333	5,473															
	Average of AVG ANN CCF	2,217	2,203	2,221	72	$820.84	$1,960.94	$2,854	$0.40	180	$546.84	$1,960.94	$2,690	$0.33	303.96	$220.09	$1,960.94	$2,486	$0.24
2500 to 3000	Sum of NUM ACCTS	1,836	133	3,111															
	Average of AVG ANN CCF	2,720	2,696	2,719	72	$1,005.17	$2,401.28	$3,478	$0.40	180	$672.09	$2,401.28	$3,253	$0.31	303.96	$269.51	$2,401.28	$2,975	$0.21
3000 to 3500	Sum of NUM ACCTS	1,001	54	1,944															
	Average of AVG ANN CCF	3,224	3,243	3,236	72	$1,196.02	$2,857.23	$4,125	$0.39	180	$799.70	$2,857.23	$3,837	$0.30	303.96	$320.68	$2,857.23	$3,482	$0.19
3500 to 4000	Sum of NUM ACCTS	637	12	1,394															
	Average of AVG ANN CCF	3,730	3,771	3,747	72	$1,385.04	$3,308.77	$4,766	$0.39	180	$926.08	$3,308.77	$4,416	$0.30	303.96	$371.36	$3,308.77	$3,984	$0.18
4000 to 4500	Sum of NUM ACCTS	439	8	1,126															
	Average of AVG ANN CCF	4,245	4,199	4,229	72	$1,563.02	$3,733.95	$5,369	$0.39	180	$1,045.08	$3,733.95	$4,959	$0.29	303.96	$419.08	$3,733.95	$4,457	$0.17
4500 to 5000	Sum of NUM ACCTS	361	1	919															
	Average of AVG ANN CCF	4,736	4,640	4,708	72	$1,740.14	$4,157.09	$5,969	$0.38	180	$1,163.51	$4,157.09	$5,501	$0.29	303.96	$466.57	$4,157.09	$4,928	$0.16
5000 to 5500	Sum of NUM ACCTS	318	3	753															
	Average of AVG ANN CCF	5,230	5,448	5,306	72	$1,961.31	$4,685.45	$6,719	$0.38	180	$1,311.39	$4,685.45	$6,177	$0.28	303.96	$525.87	$4,685.45	$5,515	$0.16
5500 to 6000	Sum of NUM ACCTS	245	3	657															
	Average of AVG ANN CCF	5,747	5,712	5,738	72	$2,121.03	$5,067.02	$7,260	$0.38	180	$1,418.19	$5,067.02	$6,665	$0.28	303.96	$568.69	$5,067.02	$5,940	$0.15
6000 to 6500	Sum of NUM ACCTS	205		585															
	Average of AVG ANN CCF	6,223		6,237	72	$2,305.17	$5,506.92	$7,884	$0.38	180	$1,541.31	$5,506.92	$7,228	$0.28	303.96	$618.07	$5,506.92	$6,429	$0.15
6500 to 7000	Sum of NUM ACCTS	169		487															
	Average of AVG ANN CCF	6,751		6,754	72	$2,498.30	$5,963.51	$8,532	$0.38	180	$1,669.11	$5,963.51	$7,813	$0.27	303.96	$669.31	$5,963.51	$6,937	$0.14
7000 to 7500	Sum of NUM ACCTS	119	1	401															
	Average of AVG ANN CCF	7,224	7,116	7,196	72	$2,669.82	$6,354.14	$9,086	$0.38	180	$1,778.44	$6,354.14	$8,313	$0.27	303.96	$713.15	$6,354.14	$7,371	$0.14
7500 to 8000	Sum of NUM ACCTS	99		344															
	Average of AVG ANN CCF	7,731		7,744	72	$2,862.32	$6,837.92	$9,772	$0.38	180	$1,913.84	$6,837.92	$8,932	$0.27	303.96	$767.45	$6,837.92	$7,909	$0.14

8000 to 8500	Sum of NUM ACCTS	71		298															
	Average of AVG ANN CCF	8,224		8,234	72	$3,043.35	$7,270.37	$10,386	$0.38	180	$2,034.86	$7,270.37	$9,485	$0.27	303.96	$815.99	$7,270.37	$8,390	$0.14
8500 to 9000	Sum of NUM ACCTS	52		245															
	Average of AVG ANN CCF	8,752		8,753	72	$3,235.37	$7,729.10	$11,036	$0.38	180	$2,163.27	$7,729.10	$10,072	$0.27	303.96	$867.47	$7,729.10	$8,901	$0.13
9000 to 9500	Sum of NUM ACCTS	66		257															
	Average of AVG ANN CCF	9,252		9,249	72	$3,418.20	$8,165.87	$11,656	$0.38	180	$2,285.52	$8,165.87	$10,631	$0.27	303.96	$916.49	$8,165.87	$9,386	$0.13
9500 to 10000	Sum of NUM ACCTS	48		214															
	Average of AVG ANN CCF	9,767		9,755	72	$3,605.81	$8,614.06	$12,292	$0.38	180	$2,410.96	$8,614.06	$11,205	$0.27	303.96	$966.79	$8,614.06	$9,885	$0.13
10,000 to 20,000	Sum of NUM ACCTS	356		2,064															
	Average of AVG ANN CCF	13,389		13,706	72	$5,065.91	$12,102.16	$17,240	$0.37	180	$3,387.23	$12,102.16	$15,669	$0.26	303.96	$1,358.28	$12,102.16	$13,764	$0.12
20,000 to 30,000	Sum of NUM ACCTS	62		699															
	Average of AVG ANN CCF	24,012		24,155	72	$8,926.17	$21,328.87	$30,329	$0.37	180	$5,969.67	$21,328.87	$27,479	$0.25	303.96	$2,393.83	$21,328.87	$24,027	$0.11
30,000 to 40,000	Sum of NUM ACCTS	22		341															
	Average of AVG ANN CCF	34,188		34,256	72	$12,661.53	$30,247.64	$42,981	$0.37	180	$8,465.91	$30,247.64	$38,894	$0.25	303.96	$3,394.83	$30,247.64	$33,946	$0.11
40,000 to 50,000	Sum of NUM ACCTS	4		202															
	Average of AVG ANN CCF	44,239		44,511	72	$16,452.05	$39,302.95	$55,827	$0.37	180	$11,000.36	$39,302.95	$50,483	$0.25	303.96	$4,411.14	$39,302.95	$44,018	$0.11
50,000 to 60,000	Sum of NUM ACCTS	1		95															
	Average of AVG ANN CCF	58,350		56,538	72	$20,897.52	$49,922.92	$70,892	$0.37	180	$13,972.76	$49,922.92	$64,076	$0.25	303.96	$5,603.07	$49,922.92	$55,830	$0.10
60,000 to 70,000	Sum of NUM ACCTS			76															
	Average of AVG ANN CCF			64,725	72	$23,923.69	$57,152.27	$81,148	$0.37	180	$15,996.18	$57,152.27	$73,328	$0.25	303.96	$6,414.45	$57,152.27	$63,871	$0.10
70,000 to 80,000	Sum of NUM ACCTS	1		49															
	Average of AVG ANN CCF	70,557		72,558	72	$26,818.90	$64,068.75	$90,960	$0.37	180	$17,931.99	$64,068.75	$82,181	$0.25	303.96	$7,190.72	$64,068.75	$71,563	$0.10
110,000 to 120,000	Sum of NUM ACCTS	1		17															
	Average of AVG ANN CCF	110,526		112,606	72	$41,620.88	$99,429.77	$141,123	$0.37	180	$27,829.08	$99,429.77	$127,439	$0.25	303.96	$11,159.44	$99,429.77	$110,893	$0.10
More than 120,000	Sum of NUM ACCTS			136															
	Average of AVG ANN CCF			256,087															
Total Sum of NUM ACCTS		365,366	10,019	404,070															
Total Average of AVG ANN CCF		16,250	3,077	20,587															
Year Two Variables																			
Var Rate at $6 Cust. C	0.36962																		
Existing Cust Charge	6																		
Duke Var Rate	0.24714																		
Duke Cust Charge	15																		
Staff Var Rate	0.099103																		
Staff Cust Charge <50	12.5																		
Staff Cust Charge >50	25.33																		
Commodity Rate	8.83																		
Existing Var Rate	0.18591																		

Natural Gas Screening Tool-Participant Cost			**(Low Customer Charge Example)**						
			Furnace/boiler						
Inflation	0		Measure cost	$ 485		Total Cost	$ 485		
Real Escalation	0		Measure Life	18		Total Benefits	$ 1,439		
Discount Rate	0.1		Savings/unit	11.1		Net Benefits	$ 954		
Starting Year	2008		# of units	1		B/C Ratio	2.97		
Distribution Charge*	3.6952		Equipment cost	$ 485		Simple PB			
Customer Charge	$ 6		Overhead	0		**Discounted PB**	3		

Year	Price per Mcf	Units	Mcf Savings	Dollar Savings	Discounted Savings	Annual Net Benefits	Cumulative Net Benefits	Discounted PB Test	Commodity**
2008	$ 12.53	1	11	$ 139	$ 139	$ (346)	$ (346)	1	$ 8.83
2009	$ 12.79	1	11	$ 142	$ 129	$ 129	$ (217)	1	$ 9.09
2010	$ 13.06	1	11	$ 145	$ 120	$ 120	$ (97)	1	$ 9.37
2011	$ 13.34	1	11	$ 148	$ 111	$ 111	$ 14	0	$ 9.65
2012	$ 13.63	1	11	$ 151	$ 103	$ 103	$ 118	0	$ 9.94
2013	$ 13.93	1	11	$ 155	$ 96	$ 96	$ 214	0	$ 10.24
2014	$ 14.24	1	11	$ 158	$ 89	$ 89	$ 303	0	$ 10.54
2015	$ 14.56	1	11	$ 162	$ 83	$ 83	$ 386	0	$ 10.86
2016	$ 14.88	1	11	$ 165	$ 77	$ 77	$ 463	0	$ 11.19
2017	$ 15.22	1	11	$ 169	$ 72	$ 72	$ 534	0	$ 11.52
2018	$ 15.56	1	11	$ 173	$ 67	$ 67	$ 601	0	$ 11.87
2019	$ 15.92	1	11	$ 177	$ 62	$ 62	$ 663	0	$ 12.22
2020	$ 16.29	1	11	$ 181	$ 58	$ 58	$ 721	0	$ 12.59
2021	$ 16.66	1	11	$ 185	$ 54	$ 54	$ 774	0	$ 12.97
2022	$ 17.05	1	11	$ 189	$ 50	$ 50	$ 824	0	$ 13.36
2023	$ 17.45	1	11	$ 194	$ 46	$ 46	$ 870	0	$ 13.76
2024	$ 17.87	1	11	$ 198	$ 43	$ 43	$ 914	0	$ 14.17
2025	$ 18.29	1	11	$ 203	$ 40	$ 40	$ 954	0	$ 14.59
2026	$ 18.73	0	-	$ -	$ -	$ -		0	$ 15.03
2027	$ 19.18	0	-	$ -	$ -	$ -		0	$ 15.48
2028	$ 19.64	0	-	$ -	$ -	$ -		0	$ 15.95
2029	$ 20.12	0	-	$ -	$ -	$ -		0	$ 16.43
2030	$ 20.62	0	-	$ -	$ -	$ -		0	$ 16.92
2031	$ 21.12	0	-	$ -	$ -	$ -		0	$ 17.43
2032								0	
2033								0	
2034								0	
2035								0	
2036								0	
2037								0	
2038		Total	200	$ 3,033	1439	$ 954		3	

*Calculated Per Duke Filing

** Commodity Costs used in Staff Report escalated at three percent annually.

Natural Gas Screening Tool-Participant Cost			(Duke Proposal Yr 2)						
			Furnace/boiler						
Inflation		0	Measure cost	$ 485		Total Cost	$ 485		
Real Escalation		0	Measure Life	18		Total Benefits	$ 1,316		
Discount Rate		0.1	Savings/unit	11.1		Net Benefits	$ 831		
Starting Year		2008	# of units	1		B/C Ratio	2.71		
Distribution Charge*	2.4714		Equipment cost	$ 485		Simple PB			
Customer Charge	$ 15		Overhead	0		**Discounted PB**		4	

Year	Price per Mcf	Units	Mcf Savings	Dollar Savings	Discounted Savings	Annual Net Benefits	Cumulative Net Benefits	Discounted PB Test	Commodity**
2008	$ 11.30	1	11	$ 125	$ 125	$ (360)	$ (360)	1	$ 8.83
2009	$ 11.57	1	11	$ 128	$ 117	$ 117	$ (243)	1	$ 9.09
2010	$ 11.84	1	11	$ 131	$ 109	$ 109	$ (134)	1	$ 9.37
2011	$ 12.12	1	11	$ 135	$ 101	$ 101	$ (33)	1	$ 9.65
2012	$ 12.41	1	11	$ 138	$ 94	$ 94	$ 61	0	$ 9.94
2013	$ 12.71	1	11	$ 141	$ 88	$ 88	$ 149	0	$ 10.24
2014	$ 13.01	1	11	$ 144	$ 82	$ 82	$ 230	0	$ 10.54
2015	$ 13.33	1	11	$ 148	$ 76	$ 76	$ 306	0	$ 10.86
2016	$ 13.66	1	11	$ 152	$ 71	$ 71	$ 377	0	$ 11.19
2017	$ 13.99	1	11	$ 155	$ 66	$ 66	$ 443	0	$ 11.52
2018	$ 14.34	1	11	$ 159	$ 61	$ 61	$ 504	0	$ 11.87
2019	$ 14.69	1	11	$ 163	$ 57	$ 57	$ 561	0	$ 12.22
2020	$ 15.06	1	11	$ 167	$ 53	$ 53	$ 614	0	$ 12.59
2021	$ 15.44	1	11	$ 171	$ 50	$ 50	$ 664	0	$ 12.97
2022	$ 15.83	1	11	$ 176	$ 46	$ 46	$ 710	0	$ 13.36
2023	$ 16.23	1	11	$ 180	$ 43	$ 43	$ 753	0	$ 13.76
2024	$ 16.64	1	11	$ 185	$ 40	$ 40	$ 794	0	$ 14.17
2025	$ 17.07	1	11	$ 189	$ 37	$ 37	$ 831	0	$ 14.59
2026	$ 17.50	0	-	$ -	$ -	$ -		0	$ 15.03
2027	$ 17.95	0	-	$ -	$ -	$ -		0	$ 15.48
2028	$ 18.42	0	-	$ -	$ -	$ -		0	$ 15.95
2029	$ 18.90	0	-	$ -	$ -	$ -		0	$ 16.43
2030	$ 19.39	0	-	$ -	$ -	$ -		0	$ 16.92
2031	$ 19.90	0	-	$ -	$ -	$ -		0	$ 17.43
2032								0	
2033								0	
2034								0	
2035								0	
2036								0	
2037								0	
2038	Total	1	200	$ 2,769	1,316	$ 831		4	

*Per Duke Filing (using year two volumetric charge)

** Commodity Costs used in Staff Report escalated at three percent annually.

Natural Gas Screening Tool-Participant Cost			(Staff Proposal Yr 2)							
			Furnace/boiler							
Inflation		0	Measure cost	$ 485			Total Cost	$ 485		
Real Escalation		0	Measure Life	18			Total Benefits	$ 1,168		
Discount Rate		0.1	Savings/unit	11.1			Net Benefits	$ 683		
Starting Year		2005	# of units	1			B/C Ratio	2.41		
Distribution Charge*	0.99103		Equipment cost	$ 485			Simple PB			
Customer Charge	$ 25.33		Overhead	0			**Discounted PB**	**5**		

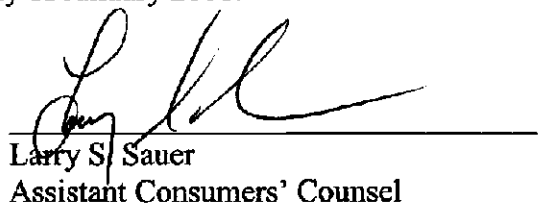
Year	Price per Mcf	Units	Mcf Savings	Dollar Savings	Discounted Savings	Annual Net Benefits	Cumulative Net Benefits	Discounted PB Test	Commodity**
2008	$ 9.82	1	11	$ 109	$ 109	$ (376)	$ (376)	1	$ 8.83
2009	$ 10.09	1	11	$ 112	$ 102	$ 102	$ (274)	1	$ 9.09
2010	$ 10.36	1	11	$ 115	$ 95	$ 95	$ (179)	1	$ 9.37
2011	$ 10.64	1	11	$ 118	$ 89	$ 89	$ (90)	1	$ 9.65
2012	$ 10.93	1	11	$ 121	$ 83	$ 83	$ (8)	1	$ 9.94
2013	$ 11.23	1	11	$ 125	$ 77	$ 77	$ 70	0	$ 10.24
2014	$ 11.53	1	11	$ 128	$ 72	$ 72	$ 142	0	$ 10.54
2015	$ 11.85	1	11	$ 132	$ 68	$ 68	$ 210	0	$ 10.86
2016	$ 12.18	1	11	$ 135	$ 63	$ 63	$ 273	0	$ 11.19
2017	$ 12.51	1	11	$ 139	$ 59	$ 59	$ 332	0	$ 11.52
2018	$ 12.86	1	11	$ 143	$ 55	$ 55	$ 387	0	$ 11.87
2019	$ 13.21	1	11	$ 147	$ 51	$ 51	$ 438	0	$ 12.22
2020	$ 13.58	1	11	$ 151	$ 48	$ 48	$ 486	0	$ 12.59
2021	$ 13.96	1	11	$ 155	$ 45	$ 45	$ 531	0	$ 12.97
2022	$ 14.35	1	11	$ 159	$ 42	$ 42	$ 573	0	$ 13.36
2023	$ 14.75	1	11	$ 164	$ 39	$ 39	$ 612	0	$ 13.76
2024	$ 15.16	1	11	$ 168	$ 37	$ 37	$ 649	0	$ 14.17
2025	$ 15.59	1	11	$ 173	$ 34	$ 34	$ 683	0	$ 14.59
2026	$ 16.02	0	-	$ -	$ -	$ -		0	$ 15.03
2027	$ 16.47	0	-	$ -	$ -	$ -		0	$ 15.48
2028	$ 16.94	0	-	$ -	$ -	$ -		0	$ 15.95
2029	$ 17.42	0	-	$ -	$ -	$ -		0	$ 16.43
2030	$ 17.91	0	-	$ -	$ -	$ -		0	$ 16.92
2031	$ 18.42	0	-	$ -	$ -	$ -		0	$ 17.43
2032								0	
2033								0	
2034								0	
2035								0	
2036								0	
2037								0	
2038	Total		200	$ 2,493	1,168	$ 683		0	

*Per Staff Report Filing (using year two volumetric charge)

** Commodity Costs used in Staff Report escalated at three percent annually.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Testimony of Wilson Gonzalez of the Office of the Ohio Consumers' Counsel has been served upon those persons listed below via first class U.S. Mail, prepaid, this 29th day of January 2008.



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