

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :

Application of Duke Energy:

Ohio, Inc., for an : Case No. 07-589-GA-AIR

Increase in Gas Rates. :

In the Matter of the :

Application of Duke Energy:

Ohio, Inc., for Approval :

of an Alternative Rate : Case No. 07-590-GA-ALT

Plan for its Gas :

Distribution Service. :

In the Matter of the :

Application of Duke Energy:

Ohio, Inc., for Approval : Case No. 07-591-GA-AAM

to Change Accounting :

Methods. :

- - -

PROCEEDINGS

before Mr. Richard Bulgrin and Ms. Greta See,

Attorney Examiners, at the Public Utilities

Commission of Ohio, 180 East Broad Street, Room 11-C,

Columbus, Ohio, called at 9 a.m. on Wednesday,

March 5, 2008.

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VOLUME I

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11 On behalf of the Staff of the PUCO.

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ARMSTRONG & OKEY, INC., Columbus, Ohio (614) 224-9481

1 Tuesday Morning Session,

2 February 26, 2008.

3 - - -

4 EXAMINER BULGRIN: Good morning. This is
5 the evidentiary hearing in Case No. 07-589-GA-AIR,
6 07-590-GA-AIR, and 07-591-GA-AAM, being In the Matter
7 of the Applications of Duke Energy for an Increase in
8 Gas Rates, for Approval of an Alternative Rate Plan
9 for its Gas Distribution Service, and for Approval to
10 Change Accounting Methods.

11 My name is Dick Bulgrin, and with me is
12 Greta See. We are the Attorney Examiners assigned by
13 the Commission to conduct the hearing this morning.

14 And let's begin with taking appearances
15 of the parties.

16 Mr. Finnigan.

17 MR. FINNIGAN: Good morning, your Honors.

18 John Finnigan, Paul Colbert, and Elizabeth Watts for
19 Duke Energy Ohio, Inc., 139 East Fourth Street,

20 Cincinnati, Ohio.

21 EXAMINER SEE: And for staff.

22 MS. PARROT: On behalf of the staff of

23 the Public Utilities Commission of Ohio, Ohio

24 Attorney General Marc Dann, Duane Luckey, Section

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1 Chief, by Thomas Lindgren, William Wright, and Sarah
2 Parrot, Assistant Attorneys General, 180 East Broad
3 Street, Columbus, Ohio 43215.

4 MR. BENTINE: On behalf of Interstate
5 Gas Supply, Inc., the law firm Chester, Willcox &
6 Saxbe, by John W. Bentine and Mark S. Yurick, 65 East
7 State Street, Columbus, Ohio 43215.

8 Also I would like to note the appearance
9 of Vincent Parisi, General Counsel, Interstate Gas
10 Supply.

11 EXAMINER SEE: Thank you.

12 MR. HOWARD: If it please the Commission,
13 would you please have the record reflect the
14 appearance on behalf of Direct Energy Services, LLC,
15 the law firm of Vorys, Sater, Seymour & Pease, 52
16 East Gay Street, P.O. Box 1008, Columbus, Ohio
17 43215-1008 by Stephen M. Howard.

18 And also on behalf of Integrys Energy
19 Services, Inc., would you please have the record

20 reflect the appearance of Bobby Singh, Senior
21 Attorney, Integrys Energy Services, Inc., 300 West
22 Wilson Bridge Road, Suite 350, Worthington, Ohio
23 43085, and the law firm of Vorys, Sater, Seymour &
24 Pease at the previously indicated address by Stephen

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1 M. Howard. Thank you.

2 EXAMINER SEE: Okay. OCC.

3 MR. SAUER: Thank you, your Honor. On
4 behalf of the residential customers of Duke Energy
5 Ohio, the Office of the Ohio Consumers' Counsel,
6 Janine L. Migden-Ostrander, by Larry S. Sauer, Joseph
7 P. Serio, and Michael Idzkowski, Assistant Consumers'
8 Counsel, 10 West Broad Street, Suite 1800, Columbus,
9 Ohio 43215.

10 MR. WELL: Good morning, your Honors. On
11 behalf of People Working Cooperatively, Incorporated,
12 Mary Christensen and R. Jason Well, Christensen,
13 Christensen, Donchatz, Kettlewell & Owens, LLP, 100
14 East Campusview Boulevard, Suite 360, Columbus, Ohio
15 43235.

16 EXAMINER SEE: Thank you.

17 Did we miss anybody?

18 MR. LINDGREN: Your Honor, Tom O'Brien
19 from the City of Cincinnati is not here yet.

20 EXAMINER SEE: Thank you, Tom. Also I

21 would note for the record that Mr. Rinebolt is due in

22 shortly, but we are going to put on Mr. Hess first.

23 MR. LINDGREN: The staff calls J. Edward

24 Hess to the stand.

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1 J. EDWARD HESS

2 being first duly sworn, as prescribed by law, was

3 examined and testified as follows:

4 DIRECT EXAMINATION

5 By Mr. Lindgren:

6 Q. Good morning, Mr. Hess.

7 A. Good morning.

8 Q. Would you state your full name and

9 business address for the record, please.

10 A. My name is J. Edward Hess. My business

11 address is 180 East Broad Street, Columbus, Ohio.

12 Q. And who is your employer?

13 A. I am employed by the Public Utilities

14 Commission of Ohio.

15 Q. And what is your position there?

16 A. I am the Chief of the Accounting and

17 Electricity Division --

18 Q. Mr. Hess --

19 A. -- in the Utilities Department.

20 Q. Thank you, Mr. Hess. Did you file

21 testimony in this case?

22 A. Yes, I did.

23 Q. And what was the subject of your

24 testimony?

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1 A. I supported the settlement that was filed
2 on February 28.

3 (EXHIBIT MARKED FOR IDENTIFICATION.)

4 MR. LINDGREN: Let the record reflect
5 that the witness has what has been marked as Staff
6 Exhibit 2.

7 Q. Was this the testimony that you filed?

8 A. Yes, it was.

9 Q. And did you personally prepare this
10 testimony?

11 A. Yes, I did.

12 Q. Is there anything you would like to
13 change in your testimony?

14 A. No. I have no corrections to this
15 testimony.

16 Q. If you were to be asked all the questions
17 on record this morning, would your answers be the
18 same?

19 A. Yes, they would.

20 MR. LINDGREN: Thank you. I have no
21 further questions of this witness. The witness is
22 available for cross-examination.

23 EXAMINER SEE: Mr. Finnigan.

24 MR. FINNIGAN: No questions.

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1 EXAMINER SEE: Mr. Howard.

2 MR. HOWARD: No questions, your Honor.

3 Thank you.

4 EXAMINER SEE: Mr. Sauer?

5 MR. SAUER: No questions.

6 EXAMINER SEE: Mr. Well?

7 MR. WELL: No questions.

8 EXAMINER SEE: Would you like to move for

9 the admission of Staff Exhibit 2?

10 MR. LINDGREN: Yes, your Honor. I move

11 for the admission of Staff Exhibit 2, the Prefiled

12 Testimony of J. Edward Hess.

13 EXAMINER SEE: If there are no objections

14 to the admission of Staff Exhibit 2, the exhibit

15 should be admitted into the record.

16 (EXHIBIT ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: Thank you, Mr. Hess.

18 THE WITNESS: Thank you.

19 EXAMINER BULGRIN: Let's go off the

20 record a minute.

21 (Discussion off the record.)

22 EXAMINER SEE: Let's go back on the

23 record, please.

24 MR. WRIGHT: Since we are going through

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1 the exhibits, the company has provided a list of
2 their exhibits. We will have a total of four
3 exhibits. The Staff Report, of course, will be Staff
4 Exhibit 1. Mr. Hess's testimony has already been
5 marked as Staff Exhibit 2. Steve Puican will be
6 Staff Exhibit 3, and it's referenced in the
7 stipulation, so I am going to go ahead and mark it as
8 Staff Exhibit 4, that being the Blue Ridge Consulting
9 Report, and we will have a copy to the reporter
10 shortly. Thank you.

11 EXAMINER SEE: If there's nothing else
12 then, let's go off the record for a few minutes.

13 (Discussion off the record.)

14 EXAMINER BULGRIN: Okay. Let's go back
15 on the record. And before we get started, let's take
16 the appearance of Mr. Rinebolt.

17 MR. RINEBOLT: I bring my own theme
18 music, your Honor. On behalf of Ohio Partners for
19 Affordable Energy, David C. Rinebolt and Colleen L.

20 Murray, 231 West Lima Street, Findlay, Ohio.

21 EXAMINER BULGRIN: Thank you.

22 MR. RINEBOLT: Mooney.

23 EXAMINER BULGRIN: And I would also note

24 for the record that also appearing in this case is

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1 the law firm of Boehm, Kurtz & Lowery, 36 East 7th
2 Street, Suite 1510, Cincinnati, Ohio, for the Ohio
3 Energy Group, Inc., and I believe Kroger Company.

4 And I don't know, did we get Tom O'Brien?
5 Thomas O'Brien, Bricker & Eckler, 100 South Third
6 Street, Columbus, Ohio 43215 on behalf of the City of
7 Cincinnati.

8 Okay. Anything else?

9 Mr. Finnigan.

10 MR. FINNIGAN: Thank you, your Honor.

11 Your Honor, I would like to begin with Joint Exhibit
12 1, the Stipulation and Recommendation that was
13 previously filed by the Commission. The Stipulation
14 and Recommendation has been entered into by all
15 parties in the case, and I would ask that we
16 stipulate that into evidence.

17 EXAMINER BULGRIN: It will be so marked.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 EXAMINER SEE: Mr. Finnigan, are you --

20 MR. FINNIGAN: Is that admitted?

21 EXAMINER SEE: Yes.

22 (EXHIBIT ADMITTED INTO EVIDENCE.)

23 MR. FINNIGAN: Next, I would like to

24 proceed with the company's direct and supplemental

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1 testimony. I previously provided the parties and
2 your Honors with a copy of the company's exhibit
3 list. The company has 29 exhibits consisting of all
4 of our direct and supplemental testimony. I would
5 ask that the other parties stipulate that all of this
6 testimony be admitted into evidence subject to the
7 rights of other parties to strike any portion of the
8 testimony they may wish to strike and subject to
9 cross-examination of certain witnesses.

10 EXAMINER SEE: Duke Exhibits 1 through 29
11 shall be so marked.

12 (EXHIBITS MARKED FOR IDENTIFICATION.)

13 EXAMINER SEE: Are there any objections
14 to any of these exhibits?

15 With that Duke Exhibits 1 through 29
16 shall be admitted into the record.

17 (EXHIBITS ADMITTED INTO EVIDENCE.)

18 EXAMINER SEE: Mr. Finnigan, is there
19 anything else?

20 MR. FINNIGAN: No, your Honor. At this

21 time we rest our direct case.

22 EXAMINER BULGRIN: Mr. Sauer.

23 MR. SAUER: The OCC would like to

24 cross-examine initially Donald Storck.

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1 (Witness sworn.)

2 EXAMINER SEE: Mr. Sauer.

3 MR. SAUER: Thank you, your Honor.

4 - - -

5 DONALD L. STORCK

6 being first duly sworn, as prescribed by law, was

7 examined and testified as follows:

8 CROSS-EXAMINATION

9 By Mr. Sauer:

10 Q. Good morning, Mr. Storck.

11 A. Good morning.

12 Q. You have previously submitted in this
13 case your direct testimony, supplemental testimony,
14 and second supplemental testimony; is that correct?

15 A. Yes, it is.

16 Q. And if you could initially turn to page 9
17 of your direct testimony.

18 A. Yes.

19 Q. At line 1 you were asked a question

20 regarding the purpose of proposing the Rider SD -

21 Sales Decoupling Rider. Do you see that?

22 A. Yes, I do.

23 Q. And your response to that question begins

24 at line 3, and you have included three bullet points,

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1 correct?

2 A. Correct.

3 Q. And before we go through the bullet
4 points, can you kind of explain what the -- what the
5 purpose generally is for a Sales Decoupling Rider?

6 A. Generally the purpose of a Sales
7 Decoupling Rider is to allow the company a better
8 opportunity to recover its fixed costs. It also
9 removes any disincentive for the company to offer
10 demand side management or conservation programs, and
11 it provides a clearer price signal to the customers.

12 Q. You said that it allows the company a
13 better opportunity to recover its base revenues.
14 What factors can prevent Duke from recovering the
15 base revenues approved by the Commision in this case?

16 A. When the rates are made in a case,
17 currently our volumetric charge recovers the loss of
18 our fixed costs so if sales are declining, like
19 residential sales are, then we will not recover our

20 fixed costs for that class of customers.

21 Q. But outside of that, are there other

22 factors that would prevent the company from

23 recovering base revenues, for example, weather, is

24 that a factor?

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1 A. Weather would also. If you had an
2 extremely mild period of time, of course, sales of
3 gas would drop and that would not allow you to
4 recover our fixed costs.

5 Q. Are there any other factors besides
6 weather or declining sales?

7 A. That's the two major ones I can think of
8 at this time.

9 Q. And you had discussed when the weather is
10 warmer, there is a -- the company tends to not
11 recover the base revenues but, on the other hand, if
12 the weather is colder, the company could overearn its
13 base revenues, could it not?

14 A. It's possible, yes.

15 Q. And the decoupling mechanism is set up in
16 that kind of synergistic way, isn't it? It could go
17 either way symmetrically, that could be over or under
18 depending on the weather?

19 A. No. The Sales Decoupling Rider as in our

20 testimony was based on weather normalized sales, so

21 the weather wouldn't affect it, per se.

22 Q. You say, the second bullet point, it

23 aligns the interests of customers and Duke by

24 removing Duke's economic disincentive to promote

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1 energy conservation. Do you see that?

2 A. Yes, I do.

3 Q. And this is because the company recovers

4 lost sales that are caused by energy efficiency

5 reductions through the decoupling mechanism?

6 A. Yes.

7 Q. Does the decoupling mechanism also

8 provide appropriate incentives for customers to

9 invest in energy efficiency technology?

10 A. The decoupling does not provide

11 incentives to the customers.

12 Q. Would a decoupling mechanism that

13 includes a rate design that incorporates a lower

14 customer charge and a higher volumetric charge, would

15 a consumer see benefits in the way of lower bills had

16 they made those energy efficiency investments?

17 A. Yes.

18 Q. So with the decoupling mechanism there is

19 a balance between removing the company's disincentive

20 and a benefit for customers who invest in energy

21 efficiencies in the form of lower bills, correct?

22 A. Yes.

23 Q. At page 10, line 1 of your direct

24 testimony, you state that: "Rider SD would apply to

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1 all DE-Ohio sales and transportation customers except
2 IT customers." Do you see that?

3 A. Yes, I do.

4 Q. And what is the reason that the IT sales
5 customers would be excluded from the Rider SD?

6 A. The IT customers, their load tends to be
7 a little more level. It's less weather dependent,
8 doesn't seem to vary as much, so we decided to
9 exclude them from the Rider SD.

10 MR. SAUER: Your Honor, may I approach
11 the witness?

12 EXAMINER SEE: Yes.

13 MR. SAUER: I have a two-page document
14 that was included in the company's filing. I don't
15 think I need to mark this as an exhibit, but I wanted
16 to ask the witness a couple of questions about it.

17 Q. Mr. Storck, are you familiar with the
18 document that I just handed you that's marked
19 Schedule C-12.3, page 1 of 2 and page 2 of 2, Sales

20 Statistics - Total Company, Gas Sales 2002 through

21 2012?

22 A. I have seen this document before. I am

23 generally familiar with it.

24 Q. Schedule C-12.3 shows the IT sales

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1 increasing between the test year and 2012. Do you

2 see that?

3 A. No. Which line item is that?

4 Q. That would be line item 12.

5 A. Okay. Yes, I see that.

6 Q. And between 2008 and 2012 are the sales

7 projections increasing for rate IT?

8 A. No, they are not.

9 Q. 2008 is 20,092,000 roughly; is that

10 correct?

11 A. I'm sorry, I had the wrong line item.

12 Yes, line 13.

13 Q. I'm sorry, I have the wrong line, line

14 13.

15 A. Yes.

16 Q. Okay. And as you go from 2008 to 2012,

17 are those sales projections increasing each year?

18 A. Yes.

19 Q. And that is the interruptible

20 transportation customers, correct?

21 A. I believe so, yes.

22 Q. And if there was a decoupling mechanism

23 implemented for rate IT, based on those projections

24 how would the decoupling mechanism operate for those

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1 customers?

2 A. The way the decoupling mechanism is set
3 up, it actually works for each rate class
4 individually and separately. So if rate IT had a
5 separate decoupling mechanism, it would show
6 increasing sales, therefore, it would probably give
7 money back. It would reduce their rates. It would
8 be a credit.

9 Q. And the other rate classes that are shown
10 on here on this same schedule, for example, the
11 residential, are you projecting similar increases or
12 decreases for those customers?

13 A. A slight increase in sales.

14 Q. So it would be your expectation that
15 under a decoupling mechanism for the residential
16 class there would be a slight credit or refund?

17 A. If sales are increasing, yes, you would
18 see some sort of credit or refund for residential.

19 Now, do you have to realize the decoupling mechanism?

20 The way it works, if the sales are increasing
21 relative to, you know, the number of customers, I
22 mean, there are two factors in there, the number of
23 customers and how the sales are changing.

24 Q. And the company looks at both of those

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1 factors --

2 A. Yes, it does.

3 Q. -- and that calculation is done at the
4 end of the year?

5 A. Yes. That's the proposal, yes.

6 Q. It's not a monthly adjustment; it's done
7 annually?

8 A. The adjustment would be done monthly for
9 accounting purposes, but it would be done annually
10 for a filing in front of the Commission.

11 Q. And at page 12, line 13, you're stating
12 that the company is asking for deferrals, correct?

13 A. Yes.

14 Q. And how is the deferral process supposed
15 to work under a Rider SD?

16 A. Each month we would do a calculation to
17 determine if we have a net amount due to the
18 customers or net amount due to the company. And
19 depending on which way it goes, we would set up

20 either a deferred asset or a liability. And then we
21 would true that up at year end once we knew the
22 entire year.

23 Q. And the carrying charges that the company
24 proposes?

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1 A. There is no carrying charge proposed.

2 Q. No carrying charges or no interest paid
3 to the consumer?

4 A. That is correct.

5 Q. And at page 13, line 15, you inquire
6 about the precedent for a decoupling mechanism in the
7 Vectren Energy of Ohio Case No. 05-1444-GA-UNC. Do
8 you see that?

9 A. Yes, I do.

10 Q. And are you familiar with the Vectren
11 decoupling mechanism?

12 A. I have read the testimony and reviewed
13 their calculation, yes.

14 Q. Is the Vectren decoupling mechanism
15 identical to what Duke is proposing in this case?

16 A. It's very similar.

17 Q. What are the differences?

18 A. I don't recall, but I think there is a
19 couple of minor differences.

20 Q. At page 13, lines 5 to 11, you state that
21 "the rate design proposed by Duke in its application
22 is superior to the existing rate design." Do you see
23 that?

24 A. Yes, I do.

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1 Q. And that the link is broken by the
2 implement -- I'm sorry. And the reason you state is
3 there needs to be a break in the link between the
4 consumer usage and cost recovery, correct?

5 A. Correct.

6 Q. And that link is broken by the
7 implementation of a decoupling mechanism, correct?

8 A. Correct.

9 Q. And the decoupling mechanism will break
10 that link with a rate design proposed by the company
11 in its application with the customer charge of \$15
12 and the volumetric rate, correct?

13 A. Correct.

14 Q. The decoupling mechanism would also break
15 that link with a rate design that included a customer
16 charge of, say, \$10 and a higher volumetric than the
17 company proposed in this application, correct?

18 A. Correct.

19 Q. And the decoupling mechanism would also

20 break that link between customer usage and cost

21 recovery with a rate design that includes a customer

22 charge of \$6 and then an even higher volumetric rate?

23 A. Correct.

24 Q. At page 13, line 11 you state that "Rider

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1 SD improved Duke's opportunity to recover its costs
2 while setting the stage for customers to reduce their
3 overall bills by taking advantage of conservation and
4 education programs that Duke will actively promote."
5 Do you see that?

6 A. Yes, I do.

7 Q. And does this mean if an individual
8 consumer takes advantage of an energy efficiency
9 investment, such as a high efficiency furnace, he or
10 she may reduce their own bills and the individual's
11 reduction is spread over all customers through Rider
12 SD?

13 A. No.

14 Q. If a customer invests in a high
15 efficiency furnace, their own bills will be reduced,
16 correct?

17 A. Correct.

18 Q. And that reduction would be recovered by
19 the company through -- across all customers through

20 Rider SD, would it not?

21 A. Just the fixed costs component, the

22 customer would save on the cost of gas that would go

23 directly to them, but just the fixed cost component

24 that would be reduced because they used less gas

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1 would be spread to other customers.

2 Q. What do you mean by "the fixed costs
3 component"?

4 A. If a customer had a bill and let's say
5 they used 10 MCF normally and now they use 9 so that
6 1 MCF less they use, well, the cost of gas associated
7 with that, that's their savings. They get to keep
8 that and that's theirs and that doesn't affect anyone
9 else's rates, but because there is a certain
10 component of our fixed costs in the volumetric rate,
11 that's the part that goes back through Rider SD seeks
12 to recover.

13 Q. Okay. But the net savings -- there would
14 be a net savings to that customer.

15 A. Yes.

16 Q. Even with the Rider SD coming back --

17 A. Yes.

18 Q. -- and charging them a fraction for what
19 they saved.

20 A. Correct.

21 Q. Would you agree the most optimum

22 opportunity for consumers to realize true savings in

23 their energy efficiency investments would be a rate

24 design in which the customer -- with the customer or

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1 the fixed charges set as low as possible and the
2 company recovers more base revenues through a
3 volumetric rate?

4 A. Could you please repeat the question.

5 Q. Certainly. The most optimum opportunity
6 for consumers to realize true savings from their
7 energy efficiency investments would be a rate design
8 in which the customer charge is set as low as
9 possible and the company recovers more base revenues
10 through a volumetric rate?

11 A. That would probably be most for the
12 customer, would be most benefit for the customer but
13 not for the company. The company then would be
14 subsidizing that customer, their savings.

15 Q. But the decoupling mechanism would
16 protect the company from revenue erosion in that
17 case, correct?

18 A. Yes, for the fixed costs.

19 Q. If you look at page 13, lines 13, 14, you

20 describe the company's rate design as a win-win

21 solution for Duke and its customers. Do you see

22 that?

23 A. Yes, I do.

24 Q. And why do you consider it a win for Duke

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1 customers?

2 A. Several reasons, one was the Rider SD and
3 the rate design as proposed in my initial testimony,
4 the company won't be required to come in often for
5 rate increases because we will be able -- have a
6 better opportunity to recover our fixed costs. Also
7 the customers get a clearer price signal.

8 Q. What did you mean by "often" when you say
9 the company wouldn't need to come in for rate relief
10 as "often"?

11 A. One of the drivers of this rate case is
12 declining sales in our residential class, and so if
13 we continue having declining sales going forward from
14 now, that's a revenue deficiency, and as the company
15 incurs revenue deficiencies, when it gets to a
16 certain amount, we must come in for a base rate case
17 so by allowing the company the opportunity to recover
18 its base rates through a decoupling rider, it should
19 allow us not to come in as often.

20 Q. The previous Duke natural gas rate case

21 was in 2001, six years ago.

22 A. Yes.

23 Q. And I believe the case before that was

24 six years before that so about six-year increments;

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1 is that correct?

2 A. The last two cases, yes.

3 Q. And do you consider that to be too often?

4 A. No.

5 Q. Would you agree that a rate design with a
6 \$6 customer charge and a higher volumetric rate and a
7 decoupling mechanism is even a greater win for the
8 Duke customers than the rate design that was
9 proposed?

10 A. I wouldn't call it a greater win for the
11 customers.

12 Q. In terms of a customer's total bill, if
13 the customer had invested in a high efficiency
14 furnace and was confronted with either a \$15 customer
15 charge and a volumetric rate or a \$6 customer charge
16 and a volumetric rate, their savings would be greater
17 with a lower customer charge, correct?

18 A. Not necessarily. It depends on how much
19 volume they use. You know, the higher volume

20 customers usually benefit a little more from a
21 straight fixed variable type of rate so it would
22 depend.

23 Q. Well, the volumetric rate will be the
24 same for -- strike that.

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1 Assuming the customers usage -- strike

2 that.

3 If you look at page 14, line 12 of your

4 testimony, you ask a question: "Will customers and

5 the utility both benefit from approval of DE-Ohio's

6 proposal?" Do you see that?

7 A. Yes, I do.

8 Q. How does Duke's rate design in its

9 application send a better price signal to its

10 customers?

11 A. In the initial application because it had

12 a higher customer charge each month, the savings --

13 excuse me -- the savings a customer would reap would

14 be more related to the true variable costs or

15 incremental costs incurred by the company so,

16 therefore, they're actually getting economically a

17 more accurate pricing signal.

18 Q. But over the long run are your marginal

19 costs increasing?

20 A. If you believe the price of gas is going

21 up, yes, I think it is.

22 Q. So in that event wouldn't the better

23 price signal be a lower customer charge and a higher

24 volumetric charge?

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1 A. No, because that doesn't reflect what's
2 economically going on here. The company has these
3 fixed costs that are incurred throughout the year.
4 The true savings the customer should reap is the cost
5 of gas. If they use less gas, then they should
6 definitely reap the savings of the commodity, but
7 they shouldn't reap savings of the fixed costs to
8 serve those customers.

9 Q. Turning now to your supplemental
10 testimony, pages 3 to 6. On page 3, line 2, you
11 state that you generally support the staff's
12 recommendation for a higher fixed distribution
13 service charge. Do you see that?

14 A. Yes, I do.

15 Q. And that's the staff's recommendation in
16 the Staff Report?

17 A. That is correct.

18 Q. And does that opinion support the fixed
19 distribution service charge proposed in the

20 stipulation?

21 A. Yes, it does.

22 Q. What is the customer charged for year one

23 under the stipulation for rate classes RS and RFT?

24 A. I believe it's \$20.25 in year one and

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1 \$25.33 in year two, subject to check.

2 Q. And do you believe this is a better rate
3 design than Duke's existing rate design as you state
4 on page 3, line 4 to 5?

5 A. I do.

6 Q. And do you believe it is a better rate
7 design than Duke's application?

8 A. Yes, I do.

9 Q. And why would that be the case?

10 A. Again, the staff's recommendation has a
11 higher customer charge and, again, that's more
12 reflective of what's actually going on with the
13 utility and how we incur costs. It sends a clear
14 pricing signal that the customers when they implement
15 energy efficiency measures, then they will see the
16 benefit of the cost of gas that they forego. They
17 will also help levelize customers bills. You know,
18 right now with a levelized cost throughout the year
19 versus having a spike in the winter, it reduces the

20 disincentive for Duke to promote energy conservation,

21 and as I said earlier, it allows greater probability

22 of recovery of fixed costs, so it should reduce the

23 frequency of rate cases.

24 Q. And the four bullets that you have

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1 outlined here on page 3 from line 6 through 21, you
2 state that Duke's distribution costs are fixed and do
3 not vary with consumption. Do you see that?

4 A. Yes, I do.

5 Q. Larger customer charges are intended to
6 break the link between customer and cost recovery,
7 correct?

8 A. Correct.

9 Q. And that it's similar to the decoupling
10 mechanism, is it not?

11 A. Yes.

12 Q. And in bullet 2, a larger fixed
13 distribution charge will levelize customer bills. Do
14 you see that?

15 A. Yes, I do.

16 Q. And doesn't Duke's proposed decoupling
17 mechanism have the effect of contributing more evenly
18 throughout the year resembling something of a budget
19 billing plan?

20 A. No. This, I think, will levelize it much
21 more because this is just going to have a \$20.25
22 customer charge throughout the year. I think this
23 will levelize it more.

24 Q. Isn't that a means to just force

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1 customers to a budget billing?

2 A. No. Customers have a choice for budget
3 billing if they choose to take advantage of that
4 payment program the company offers.

5 Q. Do you know how many customers, Duke gas
6 customers, are on budget billing?

7 A. No, I do not.

8 MR. SAUER: Your Honor, may I approach
9 the witness?

10 EXAMINER SEE: Yes.

11 MR. SAUER: I have a three-page document
12 I would like to mark as OCC Exhibit 7.

13 EXAMINER SEE: The exhibit is so marked.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 Q. Now, Mr. Storck, I have handed you a
16 three-page document. It's an e-mail from
17 Mr. Finnigan to myself, and as -- I believe if you
18 look down about halfway down the page, an e-mail from
19 Mr. Ziolkowski to Mr. Finnigan, January 10, 2008, in

20 which it states: "Per Kelly's message below, DE OH

21 has 73,757 residential gas customers on budget

22 billing as of today." Do you see that?

23 A. Yes, I do.

24 Q. And do you accept that?

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1 A. Yes, I do.

2 Q. As the number of customers that were on
3 DE-Ohio's billing plan as of that date?

4 A. Yes, I do.

5 Q. And roughly what percentage of Duke's
6 residential customers would you say that is?

7 A. About 20 percent.

8 Q. And for customers who heat their homes
9 with natural gas, when are their gas bills at their
10 highest or --

11 A. During the winter months, probably
12 December through February.

13 Q. And those same customers, when would
14 their electric bills be at their highest?

15 A. Assuming they have electric air
16 conditioning, probably July and August.

17 Q. So is it possible that customers don't
18 get on budget billing because the natural rise and
19 fall of the -- their total energy bills, the gas and

20 electric, form sort of a natural budget billing plan

21 in itself?

22 A. I suppose you could say that.

23 Q. And for natural gas customers on budget

24 billing, the bill is not fixed, is it?

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1 A. I am not sure what you mean by "fixed."

2 Q. Well, at the end of the year there would
3 be a true-up so they may have a set bill but that may
4 change at the end of the year --

5 A. That's correct.

6 Q. -- when the actual is determined. And
7 that can be a significant adjustment, can't it?

8 A. Usually not. What the company does is
9 after a certain number of months, if they see that
10 you are way over or way under, they will send you a
11 notice and they will say that we would like to adjust
12 your billing up or down so you don't have a large
13 end-of-year settlement. So it can happen, but
14 typically we do inform the customers because we are
15 trying to make sure they don't have that last
16 settlement that's a large amount.

17 Q. But it can happen.

18 A. It can happen, yes.

19 Q. And customers that don't get on budget

20 billing don't have to contend with the true-ups at

21 the end of the year, do they?

22 A. That is correct.

23 Q. In your third bullet you have a larger

24 fixed distribution rate reduces the company's

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1 disincentive to promote energy efficiency. Do you

2 see that?

3 A. Yes, I do.

4 Q. Doesn't the decoupling mechanism you

5 discuss in your direct testimony do the same thing?

6 A. It will achieve that goal, yes.

7 Q. I understand how the higher customer

8 charges reduces the company's disincentive, but does

9 the larger customer charge that's proposed in this

10 case, the 20.25, and the stipulation per year one and

11 25.23 per year two, do those provide an incentive for

12 customers to invest in energy efficiency?

13 A. No. I say the incentive comes from the

14 high cost of gas, not so much from customer charge.

15 Q. But there is not as much incentive to

16 invest with a 20 or 25 dollar customer charge, the

17 same incentive isn't there for, say, if it was a \$6

18 customer charge.

19 A. There would be some difference but it

20 would be very minor. Still over 80 percent of the
21 bill is taken care of through the volumetric charge.
22 Q. Well, there would be more volumetric
23 charge in the \$6 customer charge to be reduced as a
24 result of that energy efficiency investment, would

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1 there not?

2 A. That is correct.

3 Q. And where you say a larger fixed
4 distribution rate reduces regulatory lag and the
5 number of future cases, do you see that?

6 A. Yes.

7 Q. Doesn't a decoupling mechanism accomplish
8 the same thing?

9 A. Yes, it would. Of course, the decoupling
10 mechanism would also add future cases that you would
11 have to come in and file for that.

12 Q. Now, could you turn to now your second
13 supplemental testimony, page 12, lines 4 to 6.

14 A. Yes.

15 Q. At that -- at that point you are asking a
16 question regarding Mr. Yankel's concerns regarding a
17 larger potential Rider SD.

18 A. Yes, I do.

19 Q. And you don't agree with that concern, do

20 you?

21 A. Right, I do not.

22 Q. You state a 2.87 decrease in the annual

23 decline in average usage per customer over the last

24 six years; is that correct?

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1 A. That's correct.

2 Q. And you don't expect much deviation from
3 that trend, do you?

4 A. I don't expect it to deviate
5 significantly, no.

6 MR. SAUER: May I approach the witness,
7 your Honor?

8 EXAMINER SEE: Yes.

9 MR. SAUER: I have a document I would
10 like to mark as OCC Exhibit 8.

11 EXAMINER SEE: The exhibit is so marked.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 Q. Mr. Storck, I just handed you I think a
14 16-page document that is the company's response to
15 staff data request 03-016. And are you familiar with
16 this document, sir? At the bottom of the second page
17 you are listed as the witness responsible.

18 A. Yes.

19 Q. And on the page 1 of 14 there is a Rider

20 SD Calculation Rate RS/RFT for 2008 through 2012. Do

21 you see that?

22 A. Yes, I do.

23 Q. And it's a calculation of what you would

24 expect for the sales decoupling revenue increase or

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1 decrease to -- and that's anticipated 2008 and 2012.

2 A. Yes.

3 Q. And the annual increase or decrease per

4 customer during that same time period.

5 A. Yes.

6 Q. Would the calculations that are on here

7 be impacted in any way by the stipulation, for

8 example, the revenue requirement that was agreed to

9 or the excess subsidy agreement?

10 A. Yes.

11 Q. Does that affect the numbers here?

12 A. Yes, it would.

13 Q. Okay. But the methodology is what the

14 company's proposing under Rider SD through -- these

15 calculations that are depicted here, correct?

16 A. That is correct.

17 Q. I'm sorry, if you could look again at

18 your direct testimony, I think it was DLS-2, you had

19 a similar Rider SD calculation for residential

20 customers; however, it was only for rate RS as

21 opposed to RS/RFT, correct?

22 A. Yes.

23 Q. And you're anticipating a fairly

24 significant difference between the two

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1 calculations -- well, let me ask you this, what does
2 DLS-2 -- what time period does this calculation
3 represent?

4 A. It doesn't really represent a time frame.
5 What I did is I just tried to use some numbers just
6 to show how the rider would be impacted. It
7 doesn't -- it doesn't cover any specific actual time
8 frame. I just wanted to show the calculation, and
9 then I said -- I forget the exact percentage change
10 in sales, and this is what it would yield so it's not
11 related to an exact time frame. It was just for
12 illustrative purposes.

13 Q. And for illustration purposes the actual
14 revenue number that you use on line 1 of DLS-2, was
15 it from a specific time period? I mean, is it a
16 fairly specific number?

17 A. No. I believe the way I calculated it, I
18 took what we had and I changed it by a percentage so
19 it was using a very specific number times a

20 percentage which gives you a very specific number.

21 Q. And the number that you multiplied by a

22 percentage, do you remember what that number was?

23 A. I don't recall. I think it was probably

24 what we had in the forecasted period.

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1 Q. Do you know what the percentage was that
2 you multiplied?

3 A. Not without reviewing my work papers.

4 Q. Are you saying that DLS-2 is more of a --
5 just a pro forma-type calculation?

6 A. I would characterize it as an
7 illustration of how the rider would work.

8 Q. And the company's response in O3-016, is
9 it more of an actual calculation of what might be
10 expected under the rider?

11 A. I believe the one in the exhibit you just
12 handed me, that's where we went out and looked at
13 what sales levels, what they would do, and then also
14 the changing in the subsidy access per the original
15 filing.

16 Q. So OCC Exhibit 8 is a more specific and
17 more accurate number?

18 A. It was just based on our projected
19 numbers.

20 Q. The projected numbers you are talking
21 about, would it -- would it go back to the sales
22 statistics, total company, the document I handed you
23 originally? It was unmarked, but it was Schedule
24 C-12.3 from the company's filing.

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1 A. I believe so, yes.

2 Q. And if you notice, between the test year
3 and 2008 the total sales decrease between the test
4 year and 2008, do you see that, for residential and
5 residential transportation?

6 A. Which schedule?

7 Q. On this C-12.3 if you look at the test
8 year in round numbers, there's 28,040,000. Are these
9 CCF?

10 A. Yes.

11 Q. And in 2008 it's 25,504,000 CCF.

12 A. Right.

13 Q. Like a 3 million CCF drop. Fairly
14 significant drop, isn't it, sir?

15 A. Yes.

16 Q. And you think these are the numbers that
17 were used to project your Rider SD calculation on OCC
18 Exhibit 8?

19 A. Yes; that's my recollection.

20 Q. Okay. Do you have any recollection as to
21 why there would have been such a drop between the
22 test year and 2008?

23 A. No, I don't know.

24 Q. Okay. And that drop would be a

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1 significant contributing factor to the -- what the
2 Sales Decoupling Rider is trying to calculate, would
3 it not?

4 A. It would.

5 Q. Okay. Do you know who might understand
6 what the reason for that drop would be?

7 A. In the sales?

8 Q. Yeah. Was there a company witness who
9 would have some particular knowledge as to what went
10 into the assumptions?

11 A. I would have to check. I don't know for
12 sure.

13 Q. Okay. Thank you. Going back to your
14 second supplemental testimony, page 12, lines 14 to
15 16, you address a concern raised by Mr. Yankel
16 regarding a low customer charge and a higher
17 volumetric charge. Do you see that?

18 A. Yes, I do.

19 Q. And you state the customers tend to look

20 at their total bill rather than preparing a

21 sophisticated variable cost analysis. Do you see

22 that?

23 A. Yes.

24 Q. Do you know what the useful life of a

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1 furnace is typically?

2 A. It's a very long time, greater than 20
3 years probably.

4 Q. Well, assuming 20 years, would you agree
5 that 1/20 of Duke's customers are making a decision
6 regarding replacement of their furnace?

7 A. If it truly has a life of 20 years and
8 that was the average, then, yes, 1/20 of them would
9 have to look for new furnaces, but I am -- again, I
10 am not sure what that age is, whether it's 20 or 50
11 years.

12 Q. And assuming you are correct, that
13 customers are looking only at their total bill, who
14 would achieve more savings from their total bill upon
15 purchasing a high efficiency furnace, a customer
16 under the stipulation rate design, a high customer
17 charge, low volumetric charge, or a customer under a
18 lower customer charge, say, a \$6 customer charge, and
19 a volumetric charge?

20 A. A customer would reap more savings with a
21 lower customer charge, higher volumetric charge.

22 Q. On page 13, lines 1 to 3, you state:

23 "High commodity costs, comprising the majority" --

24 I'm sorry -- "the major portion of the customers'

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1 bills will motivate customers to conserve usage
2 regardless of whether the distribution charge is
3 fixed or volumetric." Do you see that?

4 A. Yes, I do.

5 Q. Would you agree that high commodity costs
6 and high volumetric charges will further motivate
7 customers to conserve usage?

8 A. Higher volumetric costs will increase
9 their savings.

10 Q. In a rate design with a high customer
11 charge such as 20 or 25 dollars proposed in this case
12 and a low volumetric charge would increase the
13 payback period for an energy efficiency investment,
14 would it not?

15 A. Yes, it would.

16 Q. Would you agree that an SFD or a straight
17 fixed variable rate design form is a declining block
18 rate structure?

19 A. No. That's not my understanding what

20 declining block rate structure is.

21 Q. Well, what is your understanding of a

22 declining block rate structure?

23 A. It would be a rate structure where you

24 have different blocks built into it with different

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1 volumetric charges where the more you use each block

2 of volumetric charge starts declining similar to --

3 Q. I'm sorry.

4 A. Go ahead.

5 Q. Finish.

6 A. Duke Energy Ohio has an electric

7 declining block rate structure in effect for

8 residential for the winter period.

9 Q. With a straight fixed variable cost the

10 more you use, the less it costs you for that use,

11 does it not?

12 A. No. The more you use, the more it costs.

13 Gas is very expensive. The more MCF you purchase it

14 will cost more.

15 Q. I am just focused on the base rate piece

16 and the higher that customer charge, a 20 or 25

17 dollar customer charge, if you are a customer that

18 uses, say, 10 CCF, that \$20 customer charge would be

19 \$2 per CCF? And if you use 20 CCF, that would be \$1

20 per CCF, correct?

21 A. Uh-huh.

22 Q. So the more you are using, the less it is

23 costing you; is that correct?

24 A. On a per unit basis?

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1 Q. Yes.

2 A. Yes, that is correct.

3 Q. On page 13, line 17 to 23, you address
4 the safeguards that Wilson Gonzalez addresses, should
5 a decoupling mechanism be implemented. Do you see
6 that?

7 A. Yes, I do.

8 Q. The first safeguard entails an
9 appropriate level of DSM program; is that correct?

10 A. Yes, that's what Mr. Gonzalez says.

11 Q. And you disagree. You state the company
12 is willing to discuss any OCC DSM proposal in context
13 of the company's DSM proceedings; is that right?

14 A. That is correct.

15 Q. And what proceedings are you speaking to?

16 A. The next DSM proceeding that the company
17 has before the Commission.

18 Q. And when is that proceeding?

19 A. I don't know the date.

20 Q. Is there a case number associated with

21 that proceeding?

22 A. I don't know.

23 Q. Do you know what Mr. Gonzalez's DSM

24 target efficiency recommendations are?

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1 A. No, I do not recall them.

2 Q. Do you know if the DSM proceedings that
3 you are speaking to will implement programs that will
4 accomplish the objectives that Mr. Gonzalez proposes?

5 A. No, I do not know.

6 Q. If you turn back to OCC Exhibit 8, it's
7 the company's response to data request 03-016, do you
8 see that?

9 A. Yes, I do.

10 Q. And on page 1 of 14, you -- on line 3,
11 you have -- there's an adjustment for DSM lost
12 revenues. Do you see that?

13 A. Yes, I do.

14 Q. And what's the purpose of that
15 adjustment?

16 A. If the company has a DSM filing where we
17 seek recovery of lost revenues as a result of that, I
18 want to remove that from this calculation so the
19 company does not recover it twice.

20 Q. I'm sorry, sir. If you could turn back
21 to your direct testimony for just a moment, at page
22 13 at line 11 to 13. Are you there?

23 A. I'm sorry, which page number?

24 Q. Your direct testimony on page 13, lines

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1 11 through 13.

2 A. Yes.

3 Q. And you discuss the benefit of a rate
4 design which incorporates a decoupling mechanism; is
5 that correct?

6 A. That is correct.

7 Q. And it says that customers can take
8 advantage of conservation and education programs that
9 Duke will actively promote. Do you see that?

10 A. I'm sorry. Are you on page 13, line 11?

11 Q. Thirteen, line -- it's I guess line 12 to
12 13.

13 A. Okay, yes, I see that.

14 Q. You do see that?

15 A. Yes.

16 Q. Okay. And what programs are you
17 contemplating that Duke will be promoting?

18 A. I am not familiar with the DSM programs.

19 Q. Going back to your second supplemental

20 testimony, page 14, lines 4 to 6, it says: "The
21 decoupling mechanism will give Duke an opportunity to
22 earn its authorized return but should not lead to
23 rate increases or overearning." Do you see that?
24 A. Yes, I do.

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1 Q. Is there a reason why you didn't say "it
2 will not" or "shall not lead to overearning"?

3 A. No, but it will not.

4 Q. So you are saying there is no possibility
5 that overearning could occur?

6 A. I can't say that it could never occur.
7 It could occur.

8 Q. Under what circumstances could
9 overearnings occur?

10 A. Since the decoupling rider is based on
11 weather normalization, if you had an extremely cold
12 winter, it's possible that the company could
13 overearn.

14 Q. On page 14, line 15 you state: "A higher
15 fixed charge will not reduce the average customer
16 total bill." Do you see that?

17 A. Yes, I do.

18 Q. And what do you mean by that statement?
19 Strike that.

20 What is meant by an average customer?

21 A. Average customer would be one using an

22 average amount of natural gas, which I think is

23 currently around 820 CCF annually.

24 Q. And you say reduces the total bill.

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1 Compared to what?

2 A. In other words, if you are an average
3 customer and we change the customer charge, the
4 average customer won't see their bill, their annual
5 bill, really go up or down because we are just taking
6 the fixed costs and spreading it over the year versus
7 allowing it to float with a volumetric charge.

8 Q. And if you are a customer using less than
9 average, you will see an increase in your total bill?

10 A. Yes, you will.

11 Q. And customers who use above average will
12 see no increase or a decrease in their total bill?

13 A. They will see less of an increase in
14 their total bill.

15 Q. On page 15, lines 3 to 6, you address a
16 concern raised by Mr. Gonzalez that the SFV rate will
17 produce low usage customers'. Do you see that?

18 A. Yes, I do.

19 Q. And your response on pages 15, line 7 to

20 8 you state: "A higher fixed rate will produce a
21 higher rate increase for low usage customers." Do
22 you see that?

23 A. Yes, I do.

24 Q. And on lines 8 to 12 you challenge

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1 Mr. Gonzalez's opinion that low equates with low

2 usage, correct?

3 A. Correct.

4 Q. And has the company done any studies to

5 determine who the low usage customers are or how much

6 a low usage customer is using -- or low income

7 customer would be using?

8 A. The only studies that I am aware of is

9 the one that was performed relative to the PIPP

10 customers, and I have also reviewed the work of a

11 study by Philip Thompson relative to his analysis of

12 low income customers.

13 Q. So you are using the PIPP customer as

14 your proxy for what's -- what a low income customer

15 should expect?

16 A. Right. It's the only information I have

17 available to me.

18 Q. However, there are low income customers

19 that meet the criteria for PIPP; isn't that true?

20 A. Depending on your definition of low

21 income, yes.

22 Q. And those low income customers may be in

23 a small studio apartment or small structure that

24 would require less energy to heat?

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1 A. They could be.

2 Q. And do you know how many low income
3 customers who are not PIPP eligible there are in
4 DE-Ohio's service territory?

5 A. I'm sorry. Could you please repeat the
6 question?

7 Q. Yes. Do you know how many low income
8 customers who are not PIPP eligible there are in
9 DE-Ohio's service territory?

10 A. No, I do not.

11 Q. Under the stipulation there is a pilot
12 program proposed to address low -- low income, low
13 usage customers, is there not?

14 A. There is.

15 Q. And that pilot is limited to 5,000
16 customers?

17 A. That is correct.

18 Q. And do you know what percent of the
19 eligible customers this pilot program will serve?

20 A. I don't know how many eligible customers

21 there are, so I could not tell you.

22 Q. And on page 15, line 16 to 18 you address

23 another criticism of Mr. Gonzalez that the SFV rate

24 design penalizes those customers who have hot

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1 undertaken energy efficiency investments. Do you see
2 that?

3 A. Yes, I do.

4 Q. And you disagree with Mr. Gonzalez's
5 criticism, don't you?

6 A. I do.

7 Q. Isn't it true relative to the base rate
8 charges alone the payback period would be longer
9 under the customer rate design and the stipulation
10 than under the a rate design proposal of, say, a \$6
11 customer charge and a higher volumetric charge?

12 A. I think it would be slightly longer,
13 again, because they are still going to have
14 80 percent of the total cost recovered through a
15 volumetric rate.

16 Q. Mr. Storck, I understand that you have
17 adopted Mr. Ziolkowski's testimony as well.

18 A. That is correct.

19 MR. SAUER: Could I take a few minutes to

20 see if I have any questions regarding his testimony

21 before I start crossing him on Mr. Ziolkowski?

22 EXAMINER SEE: Sure.

23 MR. SAUER: Could we go off the record

24 for a few minutes?

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1 EXAMINER SEE: Let's take about a

2 5-minute break.

3 (Recess taken.)

4 EXAMINER SEE: Let's go back on the

5 record. Mr. Sauer.

6 MR. SAUER: Thank you, your Honor.

7 Q. (By Mr. Sauer) Mr. Storck, I had one

8 follow-up question for you. As we were kind of

9 concluding, I had asked you if you were using the

10 PIPP customers as a proxy for the low income, low

11 usage customers.

12 A. Yes.

13 Q. You said yes. Is that a random sample,

14 sir?

15 A. No. We actually went out and analyzed

16 every single PIPP customer.

17 Q. If you could now turn to Mr. Ziolkowski's

18 testimony, which I understand you are adopting.

19 A. That is correct.

20 Q. And if you turn to page 7, line 20, you
21 have a question which states: "Please explain how
22 you developed the company's proposed rates for this
23 proceeding." Do you see that?

24 A. Yes, I do.

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1 Q. And can you explain your methodology for
2 arriving at the customer charge that you proposed in
3 your application?

4 A. Sure. The cost of service study, it's
5 done by each rate class, and so if you look at the
6 residential RS/RFT rate class, you will see there is
7 a column entitled -- it's either customer charge,
8 customer component, or something to that effect,
9 where we actually calculated how much of the costs
10 are related to customer component.

11 Q. And at page 8, line 17, you say you
12 experimented by inserting various rate options into
13 Schedule E-4 and E-4.1 until you satisfied --
14 developed rates that satisfied the various objectives
15 that you discuss in this testimony and that produced
16 the targeted revenue target. Do you see that?

17 A. Yes, I do.

18 Q. What were the various objectives that you
19 were trying to satisfy through your rate design?

20 A. Of course, recovery of the company's
21 revenue requirement. We were trying to determine a
22 good mix of customer charge to a volumetric charge,
23 and we experimented with just many variations of that
24 to come up with the one we finally settled upon.

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1 Q. And it was your determination that the
2 good mix you are talking about was the rate design
3 that was proposed in the company's application?

4 A. Yes.

5 Q. On page 9 at line 11, you have a question
6 regarding Attachments JEZ-3 and JEZ-4 and how these
7 were used in designing rates that you proposed. Do
8 you see that?

9 A. Yes, I do.

10 Q. What is JEZ-3?

11 A. JEZ-3 is the summary page from the cost
12 of service study.

13 Q. And you say a summary page. It's what, a
14 three-page document that --

15 A. Well --

16 Q. -- that uses various -- let me ask you
17 this, under the column item, is that -- what is
18 listed there?

19 A. Item A is a reference to where that

20 number is actually calculated in the cost of service

21 study.

22 Q. And there's also -- and then the costs --

23 the total costs are then allocated to the various

24 customer classes, would you say?

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1 A. On this particular sheet in front of you,

2 this is for rate RS.

3 Q. Uh-huh, on page 1.

4 A. On page 1.

5 Q. Yes.

6 A. And, yes, we take the cost averages. We

7 allocate them between production and distribution,

8 and then between demand commodity and customer

9 charge.

10 Q. And is it then the column labeled

11 "Customer" that is used to develop the customer

12 charge?

13 A. That is correct.

14 Q. And then those costs, is that what flows

15 over to JEZ-4?

16 A. Yes.

17 MR. SAUER: Your Honors, may I approach

18 the witness?

19 EXAMINER SEE: Yes.

20 MR. SAUER: I have a document I would

21 like to have marked as OCC Exhibit 9.

22 EXAMINER SEE: The exhibit is so marked.

23 (EXHIBIT MARKED FOR IDENTIFICATION.)

24 Q. Mr. Storck, this is a three-page document

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1 that responds to OCC interrogatories Nos. 04-94 and
2 04-95. Do you see that?

3 A. Yes, I do.

4 Q. And I believe the witness responsible was
5 Mr. Ziolkowski. And if you turn to the third page of
6 that, that three-page document, he makes an
7 adjustment to what is his JEZ-4 page 1 of 3. Do you
8 see that?

9 A. Yes, I do.

10 Q. And that if you could explain what --
11 what is the purpose of JEZ-4.

12 A. The purpose of the schedule is to
13 determine what would be the total amount of the
14 customer charge.

15 Q. And the schedule is labeled Residential
16 Service Customer Charge, Analysis/Minimum Bill
17 Rationale. Do you see that?

18 A. Yes.

19 Q. What is the minimum bill rationale? What

20 does that mean?

21 A. I don't know.

22 Q. Presumably Mr. Ziolkowski could answer

23 that question.

24 A. Perhaps, yes.

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1 MR. SAUER: Is there a way we could get
2 an explanation as to what minimum bill rationale
3 means onto the record?

4 MR. FINNIGAN: Sure. We could supplement
5 the information at the hearing from Mr. Ziolkowski,
6 if that's satisfactory to you.

7 MR. SAUER: As long as we can follow-up
8 with a question once we get the explanation, that
9 would be helpful.

10 EXAMINER SEE: Okay.

11 MR. FINNIGAN: We can call him and ask
12 him now. We think we can probably reach him. And is
13 this all that you have for Mr. Storck?

14 MR. SAUER: No. I have got a few more
15 questions, but I will just continue with what I have,
16 but if you can supplement that.

17 EXAMINER SEE: If you could contact
18 Mr. Ziolkowski possibly during the lunch break and
19 let us know after the break.

20 A. May I respond to the question? After
21 thinking about it, I think I do know what he means by
22 this.

23 Q. Please. What's your explanation?

24 A. Minimum bill analysis, if you had a

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1 customer and we adopted this, this would be the
2 minimum amount we should collect from that customer.
3 In other words, this is the customer component so if
4 the customer took no usage at all, this would be your
5 minimum bill plus whatever riders you have for taxes
6 or whatever. I believe that's what he means by
7 minimum bill analysis -- rationale, excuse me.

8 Q. And based upon his calculation, he came
9 to the conclusion that \$18.89 was the minimum bill?

10 A. Yes.

11 Q. And would the calculations that appear on
12 JEZ-3 and as it's been corrected in the discovery
13 response to OCC interrogatory 095, would there be any
14 changes to these calculations based on the
15 stipulation; in other words, the revenue requirement
16 change or the excess subsidy changes, would those
17 impact these calculations here?

18 A. Yes, they would.

19 Q. And generally how -- how would those

20 calculations be impacted by the stipulation?

21 A. The return with a different level than

22 what we originally proposed so that would change that

23 amount. I believe there was some changes made to

24 operating expenses. I don't recall any changes to

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1 rate base. Revenues PRES, I believe, stayed the
2 same, so I think those are the line items that would
3 change.

4 Q. So it's just line 3 and line 4 would be
5 impacted and then however they flowed through the
6 calculation?

7 A. I believe lines 2, 3, 4, yes.

8 Q. And each of those would be a downward
9 adjustment?

10 A. Yes.

11 Q. And the 18.89 would be a lower number
12 than what's shown as \$18.89?

13 A. Yes. But this is for a customer charge,
14 not what's in the stipulation, which is a more of a
15 fixed charge. I mean, it's a little bit apples and
16 oranges.

17 Q. And it was based on this minimum bill
18 calculation that led Mr. Ziolkowski to his
19 determination that the \$15 customer charge was

20 appropriate?

21 A. That is correct. Well, let me resay

22 this. This set the highest limit for that amount.

23 Q. This set the highest limit for what he

24 determined to be the customer charge?

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1 A. Right. It could not be greater than this

2 amount.

3 Q. And if you look at page 11, line 13 of

4 Mr. Ziolkowski's testimony.

5 A. Yes, I have it.

6 Q. He says: "The Commission has rejected

7 large increases in the monthly fixed charge component

8 of rates in prior proceedings." Do you see that?

9 A. Yes, I do.

10 Q. Is that based on his understanding that

11 the Commission has been sensitive to gradualism

12 issues in terms of the customer charge?

13 A. I don't know if it's related to

14 gradualism. It's just what they have actually done

15 in the past.

16 Q. If you look at page 12, lines 5 to 7, he

17 states that: "Today, customers routinely pay fixed

18 monthly charges several times the amount that I have

19 proposed for such services as telephone, cable, and

20 cell phone services." Do you see that?

21 A. Yes, I do.

22 Q. There is no commodity associated with

23 those services you mentioned, are there?

24 A. Telephone can have a commodity. Cable

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1 has a commodity in that you may ask for premium
2 channels or additional features, cell phone same way.
3 There's you may buy it with or without a commodity
4 charge.

5 Q. There's no stated policy related to the
6 conservation of telephone services though, is there?

7 A. None that I am aware of.

8 Q. Or cable or cell phone services?

9 A. None that I am aware of.

10 Q. And are you familiar that some -- some
11 cable companies are experimenting with a new pricing
12 structure?

13 A. I have heard that there is some
14 experimentation, yes.

15 Q. And that they are considering tiered
16 services in which, for example, if you are providing
17 a high speed internet provider, a pricing structure
18 in which customers are charged based on how much data
19 in a month is downloaded?

20 A. I am not familiar with that.

21 MR. SAUER: May I approach the witness,

22 your Honor?

23 EXAMINER SEE: Yes.

24 MR. SAUER: I have marked this as OCC

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1 Exhibit 10.

2 EXAMINER SEE: The exhibit shall be so
3 marked.

4 (EXHIBIT MARKED FOR IDENTIFICATION.)

5 Q. Mr. Storck, I have just handed you a
6 document that was a press release by Time Warner
7 Cable dated Thursday, January 17, 2008. Do you see
8 that?

9 A. Yes, I do.

10 Q. And if you look in the second paragraph,
11 the company's discussing a proposal -- or a trial
12 pricing structure in Texas where they are going to
13 sell to their internet customers tiered levels of
14 service based on how much data they download per
15 month rather than the usual fixed price packages with
16 unlimited downloads. Do you see that?

17 A. Yes, I do.

18 Q. And would you agree that this is
19 something different than what you've stated in your

20 testimony, that customers pay fixed charges for such

21 a service?

22 A. This particular test, yes, it is

23 different than what I have in my testimony.

24 MR. SAUER: Could I have just a minute,

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1 your Honor?

2 EXAMINER SEE: Sure.

3 MR. SAUER: That's all the questions I

4 have, your Honor.

5 EXAMINER SEE: Mr. Rinebolt.

6 MR. RINEBOLT: Thank you, your Honor.

7 - - -

8 CROSS-EXAMINATION

9 By Mr. Rinebolt:

10 Q. Good morning, Mr. Storck.

11 A. Good morning.

12 Q. We are going to start with your second

13 supplemental testimony, if possible. But I have an

14 initial question for you that isn't directly related

15 to your testimony but it is. If I had a -- I have a

16 Honda Accord that gets about 30 miles to the gallon.

17 And if I traded that in and I got myself a Prius that

18 got 45 miles to the gallon, I would arguably reduce

19 my use of gasoline by about a third, wouldn't I?

20 A. Yes, you would.

21 Q. Now, if you had to buy a monthly license
22 to use the gas station, then my reduction in gasoline
23 use would still be a third, but my reduction in cost
24 wouldn't be a third, would it?

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1 A. Could you explain a monthly license? I

2 am not sure I understand that.

3 Q. Say I have to pay a gas station \$25 to be

4 able to buy gas there.

5 A. Okay.

6 Q. All right? So if I save the same number

7 of gallons but I also had to pay a \$25 charge, okay,

8 then the value of my savings would decline, wouldn't

9 it?

10 A. Depending on what volume price you pay

11 for the gasoline as a result of having the fixed

12 cost, it could go either way.

13 Q. Let's look at page 11 at 21. Now, you

14 indicate in that testimony that 6 million of your

15 current revenue deficiency is due to decline in

16 sales, correct?

17 A. That's correct.

18 Q. And that's about \$1 million per year if

19 you average it in revenue.

20 A. Yes.

21 Q. Now, Mr. Wathen's Schedule C-12.3 that
22 OCC provided you, I am just going to read a number
23 off of it.

24 A. Oh, okay.

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1 Q. It indicates that there are 367,980
2 residential customers in the test year so that annual
3 revenue erosion, the million dollars, divided by the
4 number of residential customers in the test year
5 comes out to about \$2.72. Would you accept that
6 subject to check?

7 A. Subject to check, yes.

8 Q. And, likewise, if you included all
9 customers, the revenue erosion per customer, was
10 about \$2.34, again, subject to check.

11 A. Subject to check, but, remember, the \$6
12 million is for residential only.

13 Q. Okay. Well, then let's stick with the
14 residential number of \$2.72. Now, couldn't you just
15 increase the customer charge by \$3 to \$5 a month and
16 capture that 2.72?

17 A. You could increase that to recover that
18 \$6 million.

19 Q. Uh-huh. And wouldn't a modest increase

20 along those lines better follow the principle of

21 gradualism in rates?

22 A. Gradualism is just one of several

23 principles in rates --

24 Q. Finish. I'm sorry.

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1 A. And gradualism is, yes, you gradually
2 increase or change rates but there's also other
3 principles such as, you know, cost of service that
4 each class should pay their fair cost of service.
5 Each customer within a class should pay for their
6 fair cost of service.

7 Q. But my question, Mr. Storck, is that if
8 you increased customer charge by a modest amount, 3
9 to 5 dollars, so that you recaptured the revenue that
10 you are entitled to under your cost of service,
11 wouldn't that 3 to 5 dollar increase be more gradual
12 than a 20 dollar increase?

13 A. If you are only looking at one component
14 of the total bill, I think any time you talk
15 gradualism you have to look at the entire bill and
16 what the change is. You can't pick just one
17 component and go with that. If you do, yes, one
18 component would probably be more gradual. But I
19 think you should look at the entire bill.

20 Q. Mr. Storck, your interest in -- or the
21 company's interest is collecting its revenue
22 requirement, correct?

23 A. Correct.

24 Q. And are you ambivalent about how you

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1 collect that as long as you collect it?

2 A. We are not ambivalent because I want to
3 collect it in a proper way to make sure each class
4 collect their revenue requirement, so I am somewhat
5 concerned how I collect it, but, yes, I want to
6 recover it, but I want to recover so residential pays
7 for residential, general service pays for general
8 service, and IT pays for IT.

9 Q. And, in fact, in your application you
10 propose doing that via the decoupling mechanism,
11 correct?

12 A. Yes. Actually, it was more through the
13 elimination of subsidy access for that particular
14 issue, but decoupling is more to help us in a period
15 of declining sales.

16 Q. Okay. Now, you indicated in response to
17 a question from Mr. Sauer that the 2.7, whatever
18 percent reduction, 6, 7 percent reduction in sales,
19 the average reduction, is a trend; is that correct?

20 A. Yes, over the last I believe five years.

21 Q. Okay. Could you refer to Mr. Wathen's
22 schedule?

23 A. Sure.

24 Q. And look at the sales by class in 2002,

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1 2003, 2004. It's line 8 on the first page.

2 A. For total retail.

3 Q. Uh-huh.

4 A. Yes.

5 Q. Now, compared to 2002 throughput went up

6 in 2003, didn't it?

7 A. Yes, it did.

8 Q. And while it went down a little bit in

9 '04, '05, compared to '03, it still exceeded '02,

10 correct?

11 A. Correct.

12 Q. And then the big loser was in 2006 when

13 consumption plunged.

14 A. Yes.

15 Q. All right.

16 MR. RINEBOLT: Your Honor, I would

17 request that we mark this as OPAE Exhibit 1, and may

18 I approach?

19 EXAMINER SEE: Yes, you can approach.

20 OPAE Exhibit 1 will be so marked.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 Q. Now, what have I just handed you,

23 Mr. Storck?

24 A. You did not hand me anything.

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1 Q. I walked right by you, didn't I? I'm
2 sorry. I'm either thinking too much or not enough.
3 I am not sure which it is. Thank you, sir.

4 Now, referring to this chart, Mr. Storck,
5 and I am also looking at your Attachment 1 to your
6 prefiled testimony which gives the annual reductions
7 in throughput.

8 A. Okay. Yes.

9 Q. All right. Now, would you say that the
10 reductions of usage in 2006 may have been affected by
11 the price spike that's shown on the NYMEX chart?

12 A. It may have.

13 Q. Okay. And would you allow that in
14 2001 -- I'm sorry, strike that -- that in 2002, based
15 on this chart, while prices were lower, that was a
16 year that you saw modest increase in throughput.

17 A. Yes.

18 Q. Would you think that there is some
19 correlation between gas prices and throughput?

20 A. Yes.

21 Q. All right. So reductions in customer use
22 could be caused by price volatility or increase in
23 prices?

24 A. Yes. I think that would be one driver.

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1 Q. Okay. Let's switch to another subject.

2 On page -- oh, wait a second. On page -- oh, I guess

3 it is -- you indicated that in the application -- in

4 the company application, there was a revenue

5 deficiency indicated of 21.8 million. Would you

6 accept that subject to check?

7 A. Yes.

8 Q. Now, you indicated in our earlier

9 discussion that the reduction in sales caused a

10 revenue erosion of 6 million, correct?

11 A. Correct.

12 Q. So of that 21.8 million, about 27 percent

13 of it was caused by the revenue deficiency.

14 A. Yes.

15 Q. Now, so the reduction in sales was not

16 the primary cause of the revenue shortfall, was it?

17 A. No. There were multiple causes.

18 Q. That's right. In fact, 73 percent of it

19 was caused by something else.

20 A. Yes.

21 Q. All righty. Let's go to page 12.

22 A. Of my direct testimony?

23 Q. Of your supplemental, second

24 supplemental. This is at line 23.

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1 A. I'm there.

2 Q. Okay. You are faster than I am today.

3 Your colleague, Mr. Smith, in his filed testimony in

4 support of the stipulation indicates that 60 to 80

5 percent of the customer bill is commodity -- strike

6 that. We will pass on that series of questions.

7 On page 14 at line 15, please, now, you

8 indicate there that a -- you are talking in the

9 answer to question -- that question on line 12 about

10 an average customer, correct, that high fixed charge

11 wouldn't affect an average customer's bill?

12 A. It's not the average customer. It's

13 just, you know, the -- you still have a very large

14 price of natural gas which is a driver in people

15 making decisions.

16 Q. I appreciate that. But we are talking

17 about the fixed charge here.

18 A. Okay.

19 Q. But it's true that if you are a small --

20 smaller user, because of the increased customer

21 charge your bill will increase, price of gas

22 remaining the same?

23 A. Yes.

24 Q. And, again, all things being equal, if

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1 you are a big user, your bill will decrease, correct?

2 A. I wouldn't say decrease. They may not
3 increase as much.

4 Q. Not increase as much, that's probably a
5 fair assessment. Have you looked at what the median
6 usage per customer is?

7 A. Yes. For residential?

8 Q. For residential.

9 A. Yes.

10 Q. And what would that be?

11 A. I believe if you go back to my testimony,
12 I think -- we calculated the average for 2006 to be
13 79.4 MCF.

14 Q. Right. But what's the median? Did you
15 calculate that?

16 A. No, I did not.

17 Q. Okay. All right. Let's go to page 14,
18 please, sir. And I am at line 9. Now, you indicate
19 that the average PIPP customer uses more energy than

20 the average --

21 A. I'm sorry. Are you on the second

22 supplemental page?

23 Q. Second supplemental page 14.

24 A. Line 9.

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1 Q. Line 9.

2 A. I'm sorry.

3 Q. No problem, no problem. Therein you
4 state, as do a number of witnesses in this case, that
5 the average PIPP customer uses more than the average
6 non-PIPP customer.

7 EXAMINER SEE: I believe you are
8 referring to page 15 of the second supplemental
9 testimony.

10 MR. RINEBOLT: Oh, I'm sorry, your Honor.

11 Q. So PIPP customers use more than your
12 average customer?

13 A. That is correct.

14 Q. Okay. Do you know if customers receiving
15 assistance under the Home Energy Assistance Program
16 use more than the average residential customer?

17 A. I haven't performed that analysis.

18 Q. All right. Now, let's assume that you
19 were very poor and you couldn't afford your bill

20 regardless of consumption. You would go on the PIPP

21 program, wouldn't you?

22 A. Yes, I would.

23 Q. And if you were poor and your gas bill

24 was very high, you would go on the PIPP program,

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1 wouldn't you, if that was a better payment for you?

2 A. Yes.

3 Q. And that would most likely occur if you
4 were a large user or you were very poor, reasonable?

5 A. Yes.

6 Q. I mean, and the reason you would come in
7 for a HEAP benefit is, again, because your bill isn't
8 affordable given your income circumstances or your
9 usage, correct?

10 A. Correct.

11 Q. Now, do you know what percentage of
12 customers that are eligible for the Home Energy
13 Assistance Program actually receive assistance?

14 A. No, I do not.

15 Q. Okay. So you don't know -- do you know
16 what proportion of PIPP customers are -- I'm sorry --
17 what proportion PIPP customers are of low income
18 customers generally?

19 A. No, I do not.

20 Q. Would it be reasonable to assume that if
21 you have an income that makes you eligible for these
22 programs but you don't apply for assistance that you
23 can -- that you have bills that are low enough that
24 you can afford them?

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1 A. I'm sorry. Could you please repeat the
2 question?

3 Q. If you don't go get assistance, is it
4 reasonable to assume that you somehow can afford to
5 pay your bills?

6 A. I think that's a reasonable assumption.

7 Q. And could that be the case because you've
8 used very little natural gas?

9 A. That could be.

10 Q. Or because you have an income at the
11 higher end of the eligibility scale?

12 A. That could be.

13 Q. Okay. All right. Thank you. And shall
14 we move to Mr. Ziolkowski. All right, sir, I am
15 looking at page 11, the last question, and then it
16 continues over to the next page. And the testimony
17 speaks about a compelling case that low income
18 residential users, the housing that they live in has
19 certain characteristics. On what data or studies did

20 you consult to develop this opinion?

21 A. Basically we did some analysis of the

22 PIPP customers. We actually took the top 10 PIPP

23 customers and went out and looked at their housing

24 via the Hamilton County Auditor's report to see age

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1 of house, size of houses to try to understand how

2 that is.

3 Q. But you only looked at PIPP customers?

4 A. Only looked at PIPP customers.

5 Q. All right. Do you know what the average

6 age of a home of a low income customer is?

7 A. No, I do not.

8 Q. Okay. Do you know what the average size

9 of the home of a low income customer is?

10 A. No, I do not.

11 Q. Do you know what the average air leakage

12 of a low income household versus an average

13 residential customer is?

14 A. No, I do not.

15 Q. Have you reviewed any studies on the

16 relative knowledge of low income households about

17 energy conservation when compared to the average

18 residential customer?

19 A. No, I have not.

20 Q. Let me ask you a hypothetical. If you
21 and I both have a natural gas bill of, say, \$1,500 a
22 year, and I make \$20,000 a year and you make \$100,000
23 a year, that \$1,500 is a much bigger percentage of my
24 income than it is of yours, isn't it?

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1 A. Yes.

2 Q. So do you think that if I was paying a

3 very high percentage of my income for energy, that I

4 might be a little more interested in conservation

5 than somebody who only pays say 1.5 percent of their

6 income for energy?

7 A. You may be more interested, but I don't

8 know if you are able to act upon it given your income

9 level.

10 Q. Let's move to the next page, right at the

11 top on line 3. You indicate that your revenue

12 decoupling program which distributes costs across the

13 year resembles a budget billing plan. It isn't a

14 budget billing plan though, is it?

15 A. It is not a budget billing plan.

16 Q. Okay. So isn't it more predictable if

17 100 percent of your bill is an average and not 20

18 percent of it?

19 A. Yes.

20 Q. Uh-huh. And if you know, given the low
21 level of summer usage, the customer charge would, in
22 fact, raise prices over what an average customer is
23 paying for summer usage right now?

24 A. Yes, it would.

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1 MR. RINEBOLT: Okay. That's all I have.

2 Thank you very much, Mr. Storck.

3 EXAMINER SEE: Mr. Wright?

4 MR. WRIGHT: No questions.

5 EXAMINER SEE: Any redirect,

6 Mr. Finnigan?

7 MR. FINNIGAN: Yes. Yes, I have a few

8 questions, thank you.

9 - - -

10 REDIRECT EXAMINATION

11 By Mr. Finnigan:

12 Q. Good morning, Mr. Storck.

13 A. Good morning.

14 Q. Mr. Storck, you were asked about the

15 amount of the revenue deficiency that gave rise to

16 this case. Do you recall that?

17 A. Yes, I do.

18 MR. FINNIGAN: Your Honor, may I approach

19 the witness, please?

20 EXAMINER SEE: Yes.

21 Q. I have placed before you Mr. Paul Smith's
22 direct testimony. Could you please turn to page 3,
23 lines 12 to 14.

24 A. Yes.

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1 Q. What is the amount stated there in terms
2 of the revenue deficiency that gave rise to this
3 case?

4 A. 34.1 million.

5 Q. Thank you. You were asked earlier
6 whether increasing the customer charge by \$3 would
7 account for the amount of revenue erosion that has
8 been caused by declining usage.

9 A. That is correct.

10 Q. Would that take care of the expected
11 future decline and usage per customer?

12 A. No, it would not.

13 Q. You were asked earlier whether using a \$6
14 customer charge would break the link between customer
15 usage and cost recovery?

16 A. Yes.

17 Q. Would a customer charge as low as \$6 send
18 a correct price signal?

19 A. No, it would not.

20 Q. Why not?

21 A. Because the price it would be sending,

22 the volumetric rate, would include fixed costs in it

23 versus the true incremental cost to the company which

24 is the cost of gas.

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1 Q. Would a customer charge as low as \$6 also
2 accomplish the objective of levelizing customer
3 bills?

4 A. No, it would not.

5 Q. You were asked several questions about
6 straight fixed variable rate design. Do you recall
7 that?

8 A. Yes, I do.

9 Q. Is the staff's proposal that the company
10 supports a straight fixed variable rate design or a
11 modified straight fixed variable rate?

12 A. A modified straight fixed variable rate.

13 Q. What's the difference between a straight
14 fixed variable and modified straight fixed variable?

15 A. Straight fixed variable all of your fixed
16 costs would be recovered through the monthly charge.
17 A modified fixed variable, a smaller amount would be
18 recovered and some of your fixed costs would be
19 recovered through a volumetric charge.

20 Q. If the company recovered all of its fixed
21 costs through a fixed charge, what would the amount
22 of the customer charge be?

23 A. Approximately \$30 for a residential
24 customer.

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1 Q. You were asked some questions about the
2 impact of the rate increase on low income customers.
3 Do you recall that?

4 A. Yes, I do.

5 Q. You mentioned in one of your responses a
6 study by a Mr. Philip Thompson.

7 A. Yes.

8 Q. Can you give me the background of that
9 study?

10 A. Yes. That study was offered into
11 evidence in a Missouri Gas case and what Mr. Thompson
12 did an analysis looking at income levels within
13 various zip codes based on census and other data and
14 his purpose was to determine does low income have a
15 relationship to their average usage. And what it
16 came out to be is he said it's not a lineal
17 relationship, it's more of a use relationship, so the
18 lowest income usually has some of the higher usage
19 because they have the worst housing stock, you know,

- 20 probably older homes, not well insulated, not new
- 21 windows, things like that, and then what they found
- 22 out is as their income starts rising, their usage
- 23 drops until it gets to a point that it starts rising
- 24 again because they are well enough off they have a

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1 bigger home, more appliances, and thus use more gas.

2 Q. And does that support the research you
3 did on PIPP customers?

4 A. Yes, it does.

5 Q. Could you please turn to your
6 supplemental testimony at page 3 -- or I'm sorry,
7 page 2, line 22, the question and the answer
8 continuing to page 3, line 21.

9 A. Yes.

10 Q. Do you still have an opinion as to
11 whether the straight fixed variable or the modified
12 straight fixed variable rate design that is supported
13 by the Staff Report and adopted in the stipulation is
14 the preferred -- your preferred rate design?

15 A. Yes, I do have an opinion. It is my
16 preferred rate design.

17 Q. Why is that?

18 A. It does several things. One it levelizes
19 the customer's bill throughout time, and so I think

20 that's going to make it easier for them, especially
21 in the winter months. Two, it's going to protect the
22 company from this declining usage per customer that
23 we have seen over the last decade or so. Three, I
24 think it is much better ratemaking because it allows

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1 our recovery of dollars to more match our expenditure

2 of dollars.

3 MR. FINNIGAN: Your Honor, may I have a

4 moment?

5 EXAMINER SEE: Yes.

6 MR. FINNIGAN: That's all I have. Thank

7 you.

8 EXAMINER SEE: Thanks.

9 - - -

10 EXAMINATION

11 By Examiner Bulgrin:

12 Q. Mr. Storck, before we let you go, I do

13 have a question for you. Looking at your

14 supplemental testimony and page 7.

15 A. Yes.

16 Q. In here you are discussing adopting

17 staff's two-tier customer charge, if I am

18 characterizing it right, and you indicate, I think,

19 that the company would need to make some changes to

20 their computer systems in order to accommodate that.

21 A. That is correct.

22 Q. I am wondering if you can elaborate on

23 that and give us a little more information on what --

24 what all that would entail.

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1 A. Sure. What I have done is as we worked
2 this rate case, I am in contact with our billing
3 group to tell them different things that we are
4 looking at to determine is it something that's easily
5 to put into effect or is it something that would be
6 very difficult or very expensive. And so as we talk
7 through this, I've talked to them about the
8 stipulation, and that's one reason the stipulation
9 like, for instance, for general service we broke out
10 two customer classes. We have a general service
11 small and general service large, and it's easier for
12 us instead of having two rates within one class to
13 have two separate classes. We could implement that
14 much easier because they could take current run, copy
15 it over and change the parameters of that, so we have
16 gone through to talk to them to make sure we can
17 implement this stipulation on a timely basis.
18 Depending on rate design and things like that, some
19 things are very difficult to implement.

20 Q. Do you know of any cost estimates what it
21 would cost to adopt the two-tier approach versus just
22 a single customer charge?

23 A. When you say the two-tier, like the 50
24 CCF and then above?

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1 Q. Yes.

2 A. I did not get a cost estimate. It was
3 more a concern about how long it would take to
4 implement.

5 EXAMINER BULGRIN: Okay.

6 Any other questions?

7 MR. SAUER: I have a couple of follow-up
8 questions for recross.

9 - - -

10 RECROSS-EXAMINATION

11 By Mr. Sauer:

12 Q. Mr. Storck, Mr. Finnigan was asking you
13 some questions about a Missouri study.

14 A. Yes.

15 Q. Can you tell me what that was?

16 A. I am not sure I understand the question.

17 Q. What was the Missouri study that you were
18 discussing? What were they studying?

19 A. It was a Missouri Gas case and basically

20 a Philip Thompson prepared the study and it was to
21 try to understand the relationship between income and
22 gas usage, and so he prepared this for Missouri Gas
23 to be used in the testimony.

24 Q. And is it possible that customers in

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1 Missouri have different demand -- natural gas demand

2 concerns?

3 A. It's possible, yes.

4 Q. And possible that they are served by

5 different pipelines?

6 A. It's possible, yes.

7 Q. They are faced with different volumetric

8 rates?

9 A. Yes.

10 Q. So the study may not have the same

11 applicability to consumers in Ohio?

12 A. I think the basic premise of the study

13 has a lot of applicability to Ohio.

14 Q. The study was on Missouri gas customers,

15 not Ohio gas customers, correct?

16 A. That is correct.

17 MR. SAUER: Thank you. No further

18 questions.

19 EXAMINER SEE: Mr. Sauer --

20 MR. RINEBOLT: Your Honor, I have a

21 couple more along the same line.

22 EXAMINER SEE: Go ahead.

23 - - -

24

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1 REXCROSS-EXAMINATION

2 By Mr. Rinebolt:

3 Q. Do you know if the Missouri Gas service
4 which Mr. Thompson's study focused on has comparable
5 heating degree days to the Duke service territory?

6 A. I do not know that.

7 Q. Do you know whether the housing stock in
8 Missouri is comparable to the housing stock in the
9 Duke service territory?

10 A. I do not know that.

11 Q. Do you know whether the low income is
12 defined the same way in that study as it is in Ohio?

13 A. I am not sure what definition of low
14 income you are using.

15 Q. Would you -- is it 175 percent of poverty
16 line, 150 percent of the poverty line, 135 percent of
17 the poverty line, 80 percent of median?

18 A. The study didn't do that. What the study
19 did, it looks at zip codes and says what's the median

20 income in the zip codes. And then once it did those,
21 it plotted the usage against those areas to see,
22 well, what happened to usage based on a zip code with
23 a higher income versus one with a lower income. It
24 didn't really determine what a definition of low

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1 income is.

2 Q. And it didn't look at this square footage
3 of the structures or compare the structures in any
4 way? It was just zip codes?

5 A. That is correct.

6 MR. RINEBOLT: All right. Thank you.
7 That's all the questions.

8 EXAMINER SEE: Okay. Mr. Sauer, would
9 you like to move for the admission?

10 MR. SAUER: Yes. OCC would move for the
11 admission of Exhibits 7, 8, 9, and 10.

12 EXAMINER SEE: Are there any objections
13 to the admission of those exhibits?

14 Hearing none, OCC Exhibits 7 through 10
15 should be admitted into the record.

16 (EXHIBITS ADMITTED INTO EVIDENCE.)

17 EXAMINER SEE: And Mr. Rinebolt.

18 MR. RINEBOLT: I would move for the
19 admission of OPAE Exhibit 1.

20 EXAMINER SEE: Are there any objections

21 to the admission of the exhibit?

22 If there are none, OPAE Exhibit 1 should

23 be admitted into the record.

24 (EXHIBIT ADMITTED INTO EVIDENCE.)

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1 EXAMINER SEE: Thank you, Mr. Storck.

2 Let's go off the record for a minute.

3 (Discussion off the record.)

4 (At 11:47 a.m. a lunch recess was taken

5 until 1:00 p.m.)

6 - - -

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1 Wednesday Afternoon Session,

2 March 5, 2008.

3 - - -

4 EXAMINER BULGRIN: Let's go back on the
5 record then.

6 Mr. Sauer.

7 MR. SERIO: Mr. Idzkowski, actually.

8 MR. IDZKOWSKI: Thank you, your Honor
9 Mr. Riddle, my name is Mike Idzkowski with Ohio
10 Consumers' Counsel. We haven't met, but it's nice to
11 meet you. I was not present --

12 MR. FINNIGAN: Excuse me, should the
13 witness be sworn?

14 EXAMINER BULGRIN: Oh, I'm sorry, yes.

15 - - -

16 CROSS-EXAMINATION

17 By Mr. Idzkowski:

18 Q. Mr. Riddle, do you have a copy of your
19 testimony with you today?

20 A. Yes.

21 Q. And your supplemental testimony?

22 A. Yes.

23 Q. You also have that? How about your

24 deposition?

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1 A. No, I don't.

2 Q. Okay. If we need that, I will give you a
3 copy of that if we need to refer to that. Now, you
4 have been Duke's manager of load forecasting for 12
5 years, correct?

6 A. Approximately, yes.

7 Q. And your background is in agriculture and
8 agricultural economics, and farm lending and economic
9 research and economic analysis, correct?

10 A. That's correct.

11 Q. Did I leave anything out?

12 A. I don't believe so. Well, forecasting.

13 Q. Well, weather forecasting as it relates
14 to rate cases, correct?

15 A. Forecasting of normal weather for the
16 purposes of forecasting energy, yes.

17 Q. You are not a scientist, though, are you
18 or a meteorologist?

19 A. No, I am not.

20 Q. And you have previously worked on just

21 one rate case, the Duke rate case in 2003?

22 A. I have been involved in other rate cases,

23 yes.

24 Q. Okay. What other rate cases?

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1 A. Rate cases in Ohio and Indiana.

2 Q. Did you do weather forecasting for those
3 cases?

4 A. I do the load forecast for those
5 jurisdictions and the weather normals are part of
6 that forecast.

7 Q. A part of that. Who did the weather
8 normals for those cases?

9 A. I did.

10 Q. You did for those cases. Now, the
11 principal purpose of your testimony is to explain
12 Duke's process of weather normalizing test period gas
13 sales as those relate to decoupling, correct?

14 A. As they relate to this case.

15 Q. And the decoupling portion of this case?

16 A. Yes.

17 Q. And you state in your testimony, page 3,
18 line 6 through 8, "Establishing rates based on an
19 unrepresentative level of sales due to unseasonably

20 warm or cold weather during the test period could

21 result in DE-Ohio either over-earning or

22 under-earning its allowed rate of return." Correct?

23 A. Yes.

24 Q. Would you agree that if your calculations

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1 of weather normalization are off in any way, Duke's
2 test period natural gas sales forecast provided in
3 this case would also be off?

4 A. I'm sorry, repeat the question.

5 Q. Certainly. Would you agree that if your
6 calculations of weather normalization are off, Duke's
7 test period natural gas sales forecast provided in
8 this case would also be off?

9 A. One would follow from the other.

10 Q. Yes, it would, which then could cause
11 Duke to have misstated its revenue projections,
12 correct?

13 MR. FINNIGAN: Excuse me, your Honors. I
14 am going to object to this line of questioning. We
15 have a settlement in this case where we agreed on an
16 amount of revenue increase so I think any questions
17 going to whether the forecast that Mr. Riddle
18 prepared that supports the amount of the revenue
19 increase that everybody settled on are irrelevant and

20 improper.

21 EXAMINER BULGRIN: OCC's counsel.

22 MR. IDZKOWSKI: Yes, your Honor. This

23 case has a placeholder for decoupling and weather

24 normalization is an important part of that, and my

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1 question just relates to.

2 I guess it's not only -- well, I will
3 strike the part that. It would relate to the part we
4 stipulated to, Mr. Finnigan, but it just relates to
5 the calculations that we'll be needing from Duke in
6 the future regarding decoupling.

7 MR. FINNIGAN: I have no objection to
8 that.

9 MR. IDZKOWSKI: All right. Why don't I
10 strike that and go on from there.

11 EXAMINER BULGRIN: Okay.

12 Q. Now, you state the heating degree day is
13 based on a base temperature that occurs when the
14 daily temperature is below -- below the base,
15 correct?

16 A. For heating degree days, yes.

17 Q. Now, is that your definition or did you
18 take that definition from another source?

19 A. It is consistent with the way that NOAA

20 and the National Weather Service calculates heating

21 degree days.

22 Q. And NOAA is what, Mr. Riddle?

23 A. The National Oceanic and Atmospheric

24 Association, I believe.

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1 Q. Administration, correct. Now, getting to
2 your calculating of heating degree days, your job is
3 to forecast load by making a judgment about weather
4 conditions over the forecast period and then come up
5 with what we would call normal weather, correct?

6 A. That's correct.

7 Q. And in this case you calculated heating
8 degree days based on a base degree of 59 degrees,
9 correct?

10 A. Yes, for heating degree days the base
11 temperature I use is 59 degrees.

12 Q. And was the decision to use the 59-degree
13 base your decision?

14 A. Mine, along with Duke Energy management.

15 Q. Okay. At this time -- or rather at the
16 same time you calculate or we would calculate cooling
17 degree days, using what base degree do you use for
18 that?

19 A. For cooling degree days I use a base

20 temperature of 65 degrees.

21 Q. 65 degrees. Are you aware that the

22 Climate Prediction Center for the National Weather

23 Service calculates heating degree days and cooling

24 degree days using that 65-degree day base and not a

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1 59-degree day base?

2 A. Yes, I am.

3 Q. Now, in Duke's 2001 case Duke used the

4 65-degree day as its basis for degree day as its

5 base, correct?

6 A. That is correct.

7 Q. And the Commission approved that

8 65-degree base, correct?

9 A. I don't know if they addressed the base

10 temperature for degree days in that case or not.

11 Q. In any way they didn't say 65 was

12 inappropriate, correct?

13 A. Not to my knowledge.

14 Q. Right. Now, they didn't recommend a

15 59-degree day vector, did they?

16 A. No, I don't believe so.

17 Q. No. What companies besides Duke uses a

18 59-degree day vector?

19 A. I don't know of any.

20 Q. I don't know of any either. What
21 companies use a degree day greater than 59?

22 A. I know that Columbia Gas uses 62. Other
23 utilities use 65.

24 Q. Okay.

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1 A. And others in between.

2 Q. Now, a result of using 59 as your base is
3 that Duke's calculations of base heating load
4 produces an HDD level, or heating degree day, if you
5 will, HDD level of 4,857 as normal, while NOAA, the
6 National Oceanic and Atmospheric Administration
7 considers the normal HDD level to be 5,148, 5,148,
8 correct?

9 A. Yes, that's correct.

10 Q. All right. Now, in your testimony you
11 don't mention or point out in any way the fact that
12 since the 2001 case Duke switched to 59 degrees as
13 its base, do you?

14 A. I'm sorry?

15 Q. In your testimony that you filed, the
16 direct --

17 A. In the direct testimony.

18 Q. And supplemental testimony, you don't --
19 you don't point out the fact that Duke switched to

20 59 degrees in calculating heating degree days,

21 correct?

22 A. It is in the supplemental testimony. It

23 also was in the LTFRs that we filed with the Ohio

24 commission, LTFR being a long term forecast report.

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1 Q. Do you have your supplemental testimony?
2 Can you show me where you point that out to the
3 Commission? To save you the time for looking for it,
4 let me just stipulate you did that. But did you do
5 that, point that out in your supplemental in response
6 to testimony provided by Mr. Yankel of OCC?

7 A. I believe he asked what base I used.

8 Q. Okay. So Columbia Gas uses 62, I think
9 you said. Are they in error using a 62-degree base?

10 A. I don't know.

11 Q. And I think in your testimony, either in
12 the direct or supplemental you referred to, I think
13 it's in your supplemental, you say 16 percent of
14 utilities, and this is, yes, in your supplemental
15 testimony in Exhibit JAR-2, you say 16 percent use a
16 base temperature other than 65 degrees, correct?

17 A. Yes, that's correct.

18 Q. But nobody else uses 59, correct?

19 A. Not that I am aware of.

20 Q. Right. And so that means the vast

21 majority of the utilities use 84 -- in other words,

22 84 percent use a base -- a degree base of 65 degrees,

23 correct?

24 A. That is correct.

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1 Q. And of the 16 percent that use other than
2 65 degrees as a base, all of them use over 59, don't
3 they?

4 A. No. One utility uses 50.

5 Q. One utility out of how many utilities
6 that you surveyed?

7 A. I believe -- I don't recall the total
8 number of utilities that participated in that survey.

9 Q. Now, the figure that you gave in your
10 testimony regarding NOAA's normal degree days, that
11 figure was incorrect; am I right?

12 A. Yes. I believe I reported 5,248 at one
13 point instead of 5,148.

14 Q. So that 5,248 was in most -- or several
15 of your graphs and charts, your supplements?

16 A. I know it was in at least one or two.

17 Q. Okay. Now, if you can look at your
18 testimony, I am going to talk about your Exhibit
19 JAR-4. And in your testimony you state that since

20 1971 or rather from '71 to 2006 heating degree days

21 have been experiencing a downward trend, correct?

22 A. Yes.

23 Q. Did you come up with that trend by

24 yourself, or did you rely on somebody else to make

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1 that determination for you?

2 A. I made that determination.

3 Q. Okay. And you state that JAR-4, this
4 attachment JAR-4 in your direct testimony, is visual
5 evidence of this trend, right?

6 A. Yes.

7 Q. Did you create this graph?

8 A. Yes, I did.

9 Q. And what's the source of the information
10 that's on -- that's plotted on the graph?

11 A. The heating degree days on this graph,
12 the source is NOAA.

13 Q. Did you use weather normalized -- well,
14 did you use NOAA's 65 or did you use your 59 base?

15 A. I believe these are NOAA's with the base
16 65. The trend with the base 59 would be the same.

17 Q. Now, let's look at the next chart, JAR-5.
18 Where is the pre-1997 data that went -- that would
19 have gone into JAR-4? It's not on JAR-5, is it?

20 A. JAR 5 begins with 1997.

21 Q. So we don't have any data points or any

22 data calculations -- figures for prior to '97,

23 correct?

24 A. Not in attachment JAR-5.

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1 Q. Are they anywhere in your testimony?

2 Have they been given to the Commission in any way?

3 A. Through data requests they have.

4 Q. Data requests to who or by who?

5 A. By the OCC.

6 Q. Okay. But did you provide them in your

7 testimony to the Commission?

8 A. No.

9 Q. Now, you state in your testimony page 7,

10 you state -- page 7 in your testimony, do you have

11 that page found, Mr. Riddle?

12 A. Page 7.

13 Q. Okay. You state: 'Importantly, the

14 'normal' weather must be representative of current

15 weather trends since it is used to predict the level

16 of weather expected to occur in the future. Clearly,

17 there is" --

18 A. Can I ask which line you are reading

19 from?

20 Q. I'm sorry, the top of the page.

21 A. Okay. Thank you.

22 Q. Yep. Sorry about that. You state -- did

23 you find that?

24 A. Yes.

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1 Q. Can you read from the top of the page,
2 please?

3 "Importantly, the 'normal' weather must
4 be representative of current weather trends since it
5 is used to predict the level of weather expected to
6 occur in the future. Clearly, there is evidence of a
7 downward trend in HDD while the trend in CDD is
8 slightly upward." Keep going?

9 Q. Please.

10 A. " The objective is to use a level of
11 normal degree days that provides an unbiased estimate
12 of the expected weather conditions; therefore, I
13 concluded that it would be reasonable to use normal
14 HDD and CDD derived from the actual weather
15 experienced over a recent ten-year period to capture
16 the current trend."

17 Q. Okay. Thank you. So your conclusions in
18 this testimony are based on -- regarding trends and
19 weather are based on the most recent 10-year period?

20 A. Actually, the normal weather is based on
21 the recent trend -- 10-year period. The downward
22 trend is based as shown in JAR-4 on data since 1971.

23 Q. '71, you are right. Okay. You're right.

24 So JAR-4 is a summary or a graph showing

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1 summary of data -- you summarize from monthly data
2 that you looked at monthly and daily data?

3 A. Well, as I said earlier, the data came
4 from NOAA, and I believe, yes, that they take daily
5 temperature data to calculate the degree days and
6 aggregate it to an annual level.

7 Q. And you said you testified -- strike
8 that.

9 Now, NOAA is currently using a 30-year
10 period to calculate its trends in weather to forecast
11 its trends in weather, is it not?

12 A. The official NOAA normals for degree days
13 are based on a 30-year time period.

14 Q. 1971 through 2000 presently?

15 A. Yes; that's the most current.

16 Q. And then in 2010 they plan to change that
17 to reflect the period from 1980 to 2010, correct?

18 A. They typically do that on a 10-year
19 period. However, they are looking at the process and

20 evaluating whether that is appropriate anymore. In
21 fact, they have conducted a series of meetings with
22 utility -- well, customers, industry customers and
23 the scientific community reassessing the
24 appropriateness of a 30-year normal updated every 10

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1 years.

2 Q. But they haven't gone to a 10-year
3 period; they are still at 30, correct?

4 A. NOAA is, yes.

5 Q. Yes.

6 A. Other areas of the government have
7 switched to a 10-year normal. The Department of
8 Energy in particular, the Energy Information
9 Administration just switched to normals based on a
10 10-year time period on their Energy Outlook 2008.

11 Q. Well, that's curious because in -- I
12 think in Mr. Yankel's testimony he seemed to refute
13 that. Didn't you get an e-mail from a gentleman at
14 the Energy Information Administration that said they
15 hadn't yet gone to a 10-year base?

16 A. No. It's being used in the annual Energy
17 Outlook 2008. I talked with John Zimbalski, who
18 works for the EIA, and he confirmed that.

19 Q. Now, if you were to look at JAR-4 again

20 or in your direct testimony --

21 A. JAR-4?

22 Q. Yeah, that graph.

23 A. Yes.

24 Q. You don't have any pre-1971 data graph,

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1 do you?

2 A. No, I don't.

3 Q. Isn't it possible if you had a pre-1971

4 data graph, that the graph could have a flat line or

5 maybe even an upward sloping line demonstrating an

6 increase in heating degree days?

7 A. That's entirely possible. However, the

8 purpose of JAR-4 is to show the current trend and

9 degree days, not the trend that existed over 30 years

10 ago.

11 MR. IDZKOWSKI: May I approach, your

12 Honor?

13 EXAMINER BULGRIN: Yes.

14 Q. I am going to have you take a look at a

15 document that NOAA produced.

16 EXAMINER BULGRIN: Are we going to mark

17 this as an exhibit?

18 MR. IDZKOWSKI: This will be marked as

19 Exhibit 11, thank you, OCC Exhibit 11.

20 EXAMINER BULGRIN: Okay.

21 (EXHIBIT MARKED FOR IDENTIFICATION.)

22 Q. It's hard to read, I know but can you see

23 that this is from the Greater Cincinnati Airport data

24 taken in 1975.

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1 A. I see greater Cincinnati -- oh, there's
2 the year, 1975.

3 Q. And look at the chart. It says Normals,
4 Means and Extremes. Can you look at that and find
5 that, please?

6 A. The bottom half?

7 Q. Yes, the bottom half.

8 A. Okay.

9 Q. And it gives a column about the third
10 column, says Normal Degree Days. This is for a
11 total, it gives several -- it has several data lines,
12 but at the bottom there's a total normal degree days
13 in 1975. Can you read that number?

14 A. Heating degree days?

15 Q. Yeah, heating degree days, I'm sorry.

16 A. Either 5070 or 3070.

17 Q. Well, if you would add up the table of
18 numbers above, it appears it -- it is difficult to
19 read, but subject to check, would you agree it's 5070

20 based on those numbers?

21 A. As I said, it's either a 5 or a 3.

22 Q. Would you like to add those numbers up?

23 I have a calculator.

24 A. Sure. You may have to read the numbers

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1 off to me because the rest of them are practically

2 unreadable themselves.

3 Q. Yeah, they are hard. Would you agree the

4 top line is 1081?

5 A. It could be a 5, a 9 or an 8.

6 Q. Just from going through a few of the

7 larger totals, 1,000 something, 800 something, 700

8 something, there is 970, 636, 271, that's well above

9 3,070, isn't it?

10 MR. IDZKOWSKI: I'm sorry for the quality

11 of this document, your Honor.

12 A. Okay.

13 Q. So then it appears the number is 5,070

14 for a normal heating degree day base in 1975,

15 correct?

16 A. It does appear to be 5,070.

17 Q. So according to NOAA in 1975, the

18 level -- well, since then in 1975 it's gone up. We

19 have more heating degree days, correct? I think we

20 are at 51 -- the total is 5,148 now?

21 A. Yes. I believe that's their new normal.

22 Q. That would mean it's getting colder,

23 correct?

24 A. One number is higher than the other.

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1 Q. 5,148 is higher than 5,070, correct?

2 A. Yes.

3 Q. Okay. Good. So it appears if you
4 take -- if you start with '75, it may be getting
5 colder; do you agree?

6 A. NOAA's normals aren't based on a time
7 period starting in 1975.

8 Q. No, of course. They are based on a prior
9 time period.

10 A. Those normals are -- 5,070 is probably
11 based on 1961 through, what, 1990.

12 Q. Can you take a look at JAR-4, please. I
13 had a question. I am not a scientist. But just to
14 clarify something, if we start at the data in 1971,
15 why doesn't the trend line start in -- at the data
16 point in 1971, data point of about 4,800 heating
17 degree days.

18 A. I'm sorry?

19 Q. Why didn't you start, if the data -- if

20 the line is a trend and you are trending from 1971,

21 why doesn't your line start at the data point about

22 4,800 in 1971?

23 A. The trend line is based on all the data

24 in from 1971 to 2006.

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1 Q. Okay. So it just fit better that way?

2 A. The trends line does not have -- you do
3 not start it at an actual data point.

4 Q. If it's a trends from 1971, you would
5 not?

6 A. It's an indication of the overall trend
7 and degree days over a 30-year time period.

8 Q. Okay. Just looking at your graph, it
9 appears to me that 23 years out of 36 years that are
10 shown are clearly above the starting point of 4,800
11 and 10 are clearly below 4,800 and three are about
12 approximately at 4,800, correct?

13 A. I would have to look at the numbers and
14 check them.

15 Q. Well, I am just looking at your points.
16 Can you count the points?

17 A. Above and below the line?

18 Q. Above and below 4,800.

19 A. 20, maybe 21.

- 20 Q. You got about 21 that are above 4,800.
- 21 Now, looking at the same graph, wouldn't you agree
- 22 regarding the points below the line there's two deep
- 23 troughs below the line and several -- several peaks
- 24 above the line or above the 4,800 figure, correct?

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1 A. Yes.

2 Q. And those two exceptional years, 1990 and
3 '98 where there were deep troughs, how do we know
4 those aren't anomalies that throw off the
5 interpretation of the graph?

6 A. It's actual data. How can actual data be
7 an anomaly?

8 Q. Now, the graph shows that we are over
9 4,800 -- 700 heating degree days over 4,800 for
10 several periods of time, several long stretches of
11 time. If you are tracking trends, wouldn't you rely
12 more on longer periods of time being more -- you know
13 interpreting those to be more significant than spikes
14 downward?

15 A. This is a trend based on 30 years worth
16 of data. How much longer do you want?

17 Q. No. I am just saying wouldn't you give
18 more credence, if you will, to periods when you have,
19 say from '75 to '82, you have about five, six years

20 where you are above 4,800?

21 A. The trend line doesn't give any more

22 importance to one data point than any other data

23 point.

24 Q. Now, if we were to take off 1971 or 2006,

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1 would that affect the trend line if we were to just

2 remove one data point?

3 A. Yes. It would move the line.

4 Q. Okay. And if we were to add a data

5 point, say 2007, would that affect the graph, the

6 trend line?

7 A. Sure.

8 Q. Okay. And is it unreasonable to think

9 that we could have a spike upward in 2007 in heating

10 degree days?

11 A. Well, as obvious from the graph, heating

12 degree days fluctuate largely from one year to the

13 next.

14 Q. Yeah. So it could be that if it spiked

15 in 2007, we would have a -- we would have a little

16 trend upward or downward. We might even have a flat

17 line or maybe an upward trend depending upon the

18 spike; is that right?

19 A. Yes. It would depend on the magnitude of

20 the difference.

21 Q. Okay. Do we know what it was in 2007?

22 A. Heating degree days?

23 Q. Uh-huh.

24 A. Yes. That data is available.

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1 Q. Do you have it?

2 A. I don't believe so, no.

3 Q. You didn't bring it or you don't know it?

4 A. Not off the top of my head.

5 Q. Okay. Now, what if it went up 500

6 heating degree days; that would affect the trend

7 quite a bit, wouldn't it?

8 A. I wouldn't know without doing the

9 calculation.

10 Q. Well, it would take it over -- let's just

11 take a look at where we think we might -- it might

12 be.

13 MR. IDZKOWSKI: I think we had a document

14 before and I don't know if it was entered as an

15 exhibit so I will enter it as an exhibit, OCC Exhibit

16 12. The parties should all have this document, and I

17 am going to mark this as Exhibit 12, OCC.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 Q. Can you take a minute to familiarize

20 yourself with that chart.

21 A. Okay.

22 Q. Okay. Have you seen this chart before,

23 and it's titled Schedule C-12.3, Witness Responsible

24 says W. D. Wathen. He is a Duke Energy witness. And

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1 this is called a Sales Statistics - Total Company

2 Gas Sales 2002 to 2012. So it has historical data

3 and forecasts, correct?

4 A. Yes.

5 Q. Are you familiar with the data? Have you

6 seen this data before?

7 A. Yes, I have.

8 Q. Okay. Just ask you a few questions about

9 this. In 2002 on your JAR-4, if we can look back at

10 that, and on JAR-5, can you tell me what the heating

11 degree day level was for 2002?

12 A. For Duke Ohio?

13 Q. Yes.

14 A. 2002 on JAR-5 the number is 4,938.

15 Q. Okay. And look at the chart I just

16 passed out, did it say 2002 or 2004?

17 A. I believe 2002.

18 Q. Let's look at 2004. What's our heating

19 degree level for that year?

20 A. On JAR-5 it is 4,847.

21 Q. So it's roughly normal, correct?

22 A. Yes.

23 Q. Based on NOAA calculations, correct?

24 A. Actually, based on mine.

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1 Q. Based on your 10-year calculations.

2 A. Yes.

3 Q. But based on the 65-degree day base,
4 correct?

5 A. Based on NOAA's -- it's below normal.

6 Q. How much below normal?

7 A. Whatever the difference in 5,148 and
8 4,847 is.

9 Q. Are the figures on the tables that I
10 just -- exhibit I just handed out, are these weather
11 normalized to Duke's degree day 59 base?

12 A. It's my understanding these are actual
13 numbers. There are no weather normal numbers on here
14 other than the forecast numbers.

15 Q. So the test year in 2008 --

16 A. That is a mixture of forecast and actual.

17 Q. Let's look back then at 2002. Maybe I am
18 mistaken. What was that in terms of a -- in terms of
19 a heating degree day? Is that a normal year?

20 A. Using Duke Ohio it was above normal.

21 Using NOAA it was below normal.

22 Q. Are they considerably above normal or

23 below normal? How is it that Duke Ohio and NOAA had

24 two different -- I know they base it on two different

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1 calculations but that hopefully they say the same
2 thing. They were all normal heating degree days
3 here, if it was?

4 A. I'm sorry, I don't understand your
5 question.

6 Q. You say that NOAA said it was a --

7 MR. IDZKOWSKI: Go ahead and can you read
8 back his last answer.

9 (Record read.)

10 MR. IDZKOWSKI: If I may have just a
11 minute, please.

12 Q. I am just trying to look, if we can, at
13 how HDDs compare to residential sales, Mr. Riddle,
14 and so in 2002 you said that was, according to your
15 calculations, a normal heating degree level year,
16 correct?

17 A. Yes. The actual is close to the normal.

18 Q. Okay.

19 A. Actually, that was 2004 I said that.

20 Q. Was a normal year?

21 A. I'm sorry?

22 Q. Let's look at the sales prediction for

23 the test year. Residential sales in --

24 A. You are back to your second exhibit,

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1 correct?

2 Q. Yes. Exhibit 12. Does it say under
3 Residential Sales in the test year 28,040,070 for
4 residential sales units, correct? Do you see that?

5 A. Yes, I see that number.

6 Q. Okay. And transportation residential
7 sales of 4,234,967?

8 A. Yes.

9 Q. So that totals, subject to check, and you
10 have a calculator if you want to use it, 25
11 million -- I'm sorry, 32,275,967?

12 A. That can't be right.

13 Q. 28 and -- excuse me, 28,040,070 plus
14 4,234,987, that's not 32,275,967? If you want to
15 check that, you can use the calculator.

16 A. Quick math, 7 and 8 is 15, so for your
17 second digit --

18 Q. The second -- I think maybe you are
19 looking at a different line. I am looking at lines 4

20 and 10.

21 A. Well, 4,234,987, right? Line 10, or 967.

22 Q. 967.

23 A. 967. According to your calculator,

24 that's 32,275,037.

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1 Q. Okay, but it's 32,275,000, correct?

2 A. Yes.

3 Q. Okay. I don't know if we have the
4 numbers added up, but it's close enough for what we
5 are trying to say. So for 2007 was Duke assuming a
6 cold year and a high heating degree day total based
7 on those numbers?

8 A. No. We assumed normal weather in those
9 calculations.

10 Q. Okay. And then in 2008 duke flip-flops
11 and goes to sales totaling -- and it's the two
12 figures for lines 4 and 10, total -- well, regulated
13 residential sales are 25 million, transportation
14 residential sales are 4 million. So in one year we
15 have dropped 7.6 approximately, the residential sales
16 total, correct?

17 A. I would have to calculate the difference
18 between the two, but they -- they do go down, yes.

19 Q. Subject to check, would you agree they go

20 down 7.6 percent?

21 A. Subject to check.

22 Q. And that's a fall in one year, and then

23 it seems to flatten out, residential sales flatten

24 out and go largely unchanged from 2008 to 2012. In

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1 fact, they change about a percent so they change an
2 average of about a quarter percent. Does it appear
3 to be that to you, Mr. Riddle? I know --

4 A. I would have to do the calculations.

5 Q. Right. Why would they drop precipitously
6 in 2008?

7 A. The residential forecast model has
8 various drivers which influence the forecast, weather
9 being one of those, but the forecast is also driven
10 by prices and economic activity. The weather used to
11 produce the test year numbers and that forecast is
12 consistent year to year. It's the same normals.

13 Q. But then why would the sales drop as they
14 do in your projection?

15 A. Well, as I stated, you know, sales are
16 not only influenced by weather but by economic
17 activity as well as prices that people have to pay
18 for their energy, income levels, population levels.

19 Q. Do you put any of that information in

20 your supplemental -- or in your direct and

21 supplemental testimony? Where is that?

22 A. An explanation of the models, the data

23 behind them, and then the assumption is filed with

24 the Commission each year in the long-term forecast

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1 report.

2 Q. Okay. But where is it in this rate case?

3 Where we are talking about decoupling and we are
4 making predictions about for -- about sales?

5 A. It's in an OCC data request.

6 Q. It was given to the -- it was given to
7 OCC, but it wasn't submitted to the Commission,
8 correct, if it, in fact, was given to OCC?

9 A. It was not part of my testimony, the
10 actual data, economic drivers, specific models, et
11 cetera. But all that information was provided to the
12 OCC in their data request.

13 Q. Okay. But you would agree it's not been
14 given to the Commission, correct?

15 A. Not directly, no, other than the LTFR.

16 Q. You state in your testimony that what you
17 weather normalized historical Duke residential gas
18 sales from 1996 to -- rather 1990 to 2006, correct?
19 That was on pages 4 and 5 of your testimony.

20 A. Yes. I state that on page 5.

21 Q. You didn't just take the last 10 years of

22 weather normalized gas sales, did you?

23 A. I'm sorry?

24 Q. You didn't -- you used 16 or 17 years of

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1 data there and didn't use just 10 years in that

2 calculation, correct?

3 A. The weather normalized sales that I refer

4 to on page 5 were weather normalized using the

5 10-year normals consistent with the forecast numbers

6 on your exhibit.

7 Q. You didn't start using data from 1990 and

8 continue with data into 2006?

9 A. Weather normalized residential gas sales

10 starting in 1990 through 2006.

11 Q. Right.

12 A. For the purposes of Mr. Storck's

13 attachment, I could go back and weather normalize

14 more years if someone wanted that.

15 Q. I am just trying to determine if you did

16 not use 10 years to make that.

17 A. I did use the 10-year normal consistent

18 with the test year and the projections on C-12 to

19 weather normalize the residential gas sales

20 historically from 1990 to 2006.

21 Q. Okay. The figures that you looked at,

22 the figures in time showed a consumption decline

23 since 1996, correct?

24 A. That's correct. Used the same models,

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1 the same weather data.

2 Q. In fact, you state -- on page 5 you
3 state -- this is line 21 to about the top of page 6,
4 you state: In fact, consumption had declined since
5 1996 as furnaces have become more efficient, homes
6 have become better insulated, and customers have
7 responded to increases in the price of natural gas,
8 correct?

9 A. Yes.

10 Q. Okay. Now, furnaces have become more
11 efficient because customers have replaced furnaces
12 with more efficient models, correct? They haven't
13 just suddenly starting working better?

14 A. That's correct.

15 Q. And homes have become better insulated
16 because customers have installed insulation or they
17 have demanded more energy efficient homes with modern
18 insulation levels, correct?

19 A. Yes.

20 Q. So you -- and you state customers have
21 responded to increases in the price of natural gas.

22 You state that, correct?

23 A. Yes, I do.

24 Q. So customers have responded in an attempt

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1 to keep their natural gas bills down, correct?

2 A. Yes.

3 Q. Less gas burned, more savings for the
4 customers.

5 A. Given that the price of gas stays the
6 same.

7 Q. Right. Now, Mr. Storck similarly
8 testified, and I will just read you his testimony,
9 was on page 9 of his testimony, "The declining
10 throughput occurs primarily because furnaces are
11 increasingly more efficient, customers increasingly
12 have better insulated homes and customers have
13 responded to natural gas prices."

14 So you and Mr. Storck apparently agree
15 that the cost of natural gas service has caused
16 customers to respond as you state in your testimony,
17 by replacing furnaces with more efficient ones, by
18 installing insulation, and by installing things like
19 more energy efficient windows and demanding more

20 energy efficient homes. You would agree with that,

21 correct?

22 A. Yes.

23 Q. Okay. And if natural gas prices had been

24 generally stable since 1990 to 1996, customers would

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1 have had no incentive to spend money on new
2 insulation or better furnaces or better windows?

3 A. Since I don't know the customer's
4 individual situation, I am not sure about that.

5 Q. You don't think generally they would have
6 had little or no incentive if the prices had stayed
7 stable?

8 A. If other costs to their household
9 increased, for whatever reason, they may have been
10 incentivized to cut corners anywhere they can.

11 Q. Did you read Mr. Puican's testimony
12 before the hearing?

13 A. No, I didn't.

14 Q. Well, in his testimony he -- I will read
15 you a statement from him. He says: "OCC's and
16 OPAE's argument that customers will conserve
17 significantly less at a variable rate that differs
18 only by the relatively small distribution component
19 is speculative. It also assumes that customers

- 20 conduct an explicit cost/benefit analysis based
- 21 solely on the variable portion of rates instead of
- 22 the total bill. Even assuming customers conduct this
- 23 type of payback analysis, including fixed costs in a
- 24 variable rate -- including fixed costs in a variable

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1 rate distorts the price signals customers face."

2 And now, in your testimony, if you have
3 it there, can you turn in your supplemental testimony
4 page 6, line -- excuse me, page 14, line 6.

5 A. Page 14. I think I have it. My copy
6 isn't numbered.

7 Q. Isn't numbered?

8 A. I can count down six lines.

9 Q. Okay, yes, they are not numbered. Can
10 you see the line that starts with the sentence
11 "Mr. Yankel also"?

12 A. Yes.

13 Q. Can you read from there, please, until I
14 tell you to stop?

15 A. "Mr. Yankel also assumes that
16 conservation is only accomplished through the
17 purchase of higher efficient appliances and
18 insulation." Keep going?

19 Q. Please.

20 A. "While these items play a key role in
21 customer conservation, customers can conserve (or not
22 conserve) simply by adjusting their thermostat.
23 Customers can even change their thermostat setting
24 from one year to the next. If customers believe that

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1 gas is more expensive relative to electric, they can
2 use portable electric space heaters in lieu of the
3 gas furnace. And if that gas/electric price
4 relationship changes the next year, customers could
5 put the electric heaters away and go back to using
6 the gas furnace. The point is that there could be
7 several reasons why weather normalized sales could
8 fluctuate from year-to-year."

9 Q. Okay. Thank you. So according to your
10 statement and your testimony, Duke's customers are
11 pretty sophisticated, at least enough to conduct a
12 cost/benefit analysis and interpret their gas, or
13 otherwise why would they turn off their furnaces and
14 plug in electric space heaters, correct?

15 A. Speaking from my own experience and based
16 on my forecasting models, customers respond to price.

17 Q. And they seem to have the ability to
18 interpret when to make changes in their heating
19 systems, correct, according to your testimony?

20 A. Especially when we tell them price

21 increases are coming.

22 Q. Okay.

23 MR. IDZKOWSKI: If I may have just a

24 moment, please.

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1 Q. Just a couple more questions. Look in
2 your supplemental testimony, Mr. Riddle, please, page
3 15. You testify about specific information Duke
4 had -- this is in response to supplemental testimony
5 by Mr. Yankel, OCC witness. On that page 15 you
6 testify about specific information Duke had about
7 customer residential dwelling square footage. You
8 state that Duke had conducted residential saturation
9 surveys in four years, '97, 2000, 2004, and 2007. Do
10 you find that testimony?

11 A. Yes.

12 Q. Okay. In which the surveys asked
13 respondent to identify the square footage of their
14 residence, their dwellings, correct?

15 A. That's correct.

16 Q. Okay. Can you --

17 MR. IDZKOWSKI: May I approach, please?

18 EXAMINER BULGRIN: Yes.

19 MR. IDZKOWSKI: This is Duke's response

20 to discovery requests, that's request for production

21 OA-119.

22 EXAMINER BULGRIN: Are you having this

23 marked as an exhibit?

24 MR. IDZKOWSKI: This would be Exhibit 13.

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1 EXAMINER BULGRIN: It will be so marked.

2 (EXHIBIT MARKED FOR IDENTIFICATION.)

3 EXAMINER SEE: Can you provide the Bench
4 with another copy, please?

5 MR. IDZKOWSKI: Sure.

6 Q. Can you take a moment to familiarize
7 yourself with that document, Mr. Riddle. It says at
8 the bottom, doesn't it, Mr. Ziolkowski was the
9 witness responsible for that?

10 A. Yes, it does.

11 Q. Okay. Can you read -- well, the request
12 says, "Please provide a copy" -- this is to Duke.
13 "Please provide a copy of any reports of surveys in
14 the Company's possession over the last 25 years that
15 contains information regarding the number of
16 residential customers by housing unit (single family,
17 apartment, multi-family, etc.) and sized (square
18 foot) of dwelling." And what's the Duke's response?
19 Can you read that, please?

20 A. It says: "Duke Energy Ohio does not
21 routinely perform such surveys and does not have any
22 such surveys in its current files. The Company has
23 not performed a search of all closed files for such
24 customer surveys because it would be extremely

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1 time-consuming and unduly burdensome to do so."

2 Q. So they deny doing square footage

3 surveys, correct?

4 A. No. It just says it does not routinely

5 perform such survey.

6 Q. Okay. Then where did we get the

7 information you discuss and make a chart from in your

8 answer on page 15 in your supplemental testimony?

9 A. The data, my testimony comes from

10 residential saturation surveys conducted by the

11 company.

12 Q. Conducted by Duke?

13 A. Yes.

14 MR. IDZKOWSKI: One moment, please. Your

15 Honors, to the extent Duke's answer was nonresponsive

16 in their discovery request, and I agree it doesn't

17 specifically relate to single family, apartment, and

18 multi-family dwellings, but it specifically relates

19 to the size in square footage of residential

20 dwellings, I believe -- and I would motion the

21 Commission to strike the answer on page 15 given in

22 Mr. Riddle's supplemental testimony.

23 EXAMINER BULGRIN: Mr. Finnigan.

24 MR. FINNIGAN: I don't see any basis for

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1 striking an answer. Certainly I think the Commission
2 should consider both pieces of evidence in deciding
3 what weight to give the evidence, but the testimony
4 on page 15 speaks for itself in terms of the source
5 of the information for the point he was making.

6 EXAMINER BULGRIN: I will deny that then.

7 Go ahead.

8 MR. IDZKOWSKI: Thank you. One moment,
9 please. That's all the questions we have at this
10 time. Thank you.

11 EXAMINER BULGRIN: Mr. Rinebolt.

12 MR. RINEBOLT: Thank you, your Honor.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Rinebolt:

16 Q. Good afternoon, Mr. Riddle.

17 A. Good afternoon.

18 Q. We can stay on just the same page.

19 A. Page 15.

20 Q. It's a good thing he lost his motion to

21 strike. I wouldn't have had any questions.

22 A. Darn.

23 Q. So your analysis in the data from '97 to

24 2007, is the square footage of housing increasing?

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1 A. Yes.

2 Q. And that would be driven by new houses
3 primarily?

4 A. I would assume so, yes.

5 Q. Yeah, yeah. Now, isn't it a rule of
6 thumb that the bigger the house you have, the more
7 natural gas you are going to use, all things being
8 equal, the shell, the heating appliances, and their
9 relative efficiency? Isn't a bigger house going to
10 use a bigger amount than a small house?

11 A. There's more space to heat.

12 Q. That's right. So in a sense a rate
13 design that produces lower rates for large use
14 customers would, in fact, subsidize the construction
15 of larger houses, wouldn't it?

16 A. I can't speak to that.

17 Q. Oh, okay. Well, but the bigger the
18 house, the more gas you are going to use, so it's
19 reasonable to assume that -- that if you are at the

20 top end of the scale with a SFV rate design, that you
21 are going to get an advantage under what's going on
22 in this case?

23 A. Again, I don't know enough about the rate
24 design issues.

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1 MR. RINEBOLT: All right. We will finish
2 right there. Thank you, Mr. Riddle.

3 THE WITNESS: Thank you.

4 EXAMINER BULGRIN: Mr. Wright.

5 MR. WRIGHT: Maybe a question or two.

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Wright:

9 Q. Good afternoon, Mr. Riddle.

10 A. Good afternoon.

11 Q. Just a short while ago do you recall
12 responding to a question saying that customers
13 respond to price?

14 A. Yes.

15 Q. By price were you referring to total
16 bill?

17 A. In our models we look at price at the
18 margin.

19 Q. Okay. You have been asked -- you were

20 asked a number of questions this afternoon about
21 weather normalization methodology, heating degree
22 days, and that sort of thing, correct?

23 A. Yes.

24 Q. Is this not a prime example as to why the

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1 staff's proposed rate design is preferable to the
2 company's proposed decoupling, to avoid a lot of
3 these getting -- having to get into a lot of these
4 issues on an annual basis?

5 A. If I don't have to calculate weather
6 normalization, it's easier for me, yes.

7 MR. WRIGHT: One second.

8 I think that's all the questions I have.

9 Thank you.

10 THE WITNESS: Thank you.

11 EXAMINER BULGRIN: Mr. Well, did you have
12 any?

13 MR. WELL: No questions, your Honor.

14 EXAMINER BULGRIN: Any redirect?

15 MR. FINNIGAN: Thank you, your Honor.

16 - - -

17 REDIRECT EXAMINATION

18 By Mr. Finnigan:

19 Q. Mr. Riddle, you were asked some questions

20 about your use of 59 degrees Fahrenheit as the base

21 temperature for calculating HDDs.

22 A. Yes.

23 Q. How did the company determine that

24 59 degrees was the proper temperature to use as the

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1 base temperature for calculating HDDs?

2 A. I performed essentially two sets of
3 analyses plotting usage against temperature, and from
4 those plots it's clear to see that usage starts
5 increasing around the temperature of 59 degrees. I
6 also ran a series of equations where I used degree
7 days calculated with a base 65 all the way down to
8 55, I believe, and based on R-squared, which is a
9 measure that fit, the highest R-squared value was
10 that 59 degrees.

11 Q. And what does that mean when the highest
12 R-squared value is 59 degrees?

13 A. It means the model is fitting in
14 explaining the data better than any of the other
15 ones.

16 Q. Could you please turn to Exhibit JAR-4.

17 A. Okay.

18 Q. What is the best fit line?

19 A. The best fit line is the line that if you

20 look at the differences between the data points in
21 that line, it's the one that has the least amount of
22 error between that difference.

23 Q. What is the line in the graphs on JAR-4
24 intended to represent?

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1 A. It's the trend -- overall trend in the
2 data and a best fit of a straight line to that data.

3 Q. Thank you. Could you please take a look
4 at OCC Exhibit 12.

5 A. Is that this one or this?

6 Q. Yes, that's correct. You were asked what
7 information the projected sales were based on, and
8 you mentioned that it was based on not only weather
9 but also economic -- econometric modeling data.

10 A. That's correct.

11 Q. And you were asked whether the company
12 filed the information on the econometric data with
13 your testimony in the case, correct?

14 A. Yes.

15 Q. Could you please turn to JAR-Exhibit 1.

16 A. Okay.

17 Q. What is that?

18 A. JAR-Exhibit 1 is a series of model
19 specification for the econometric models used in the

20 forecasts in the test year. It shows the dependent
21 variable and the independent variables which drive
22 the energy forecast.

23 Q. So did you provide that with your
24 testimony when you filed your application?

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1 A. Yes.

2 Q. Now, taking a look at OCC Exhibit 12, you
3 mentioned that the sales are projected to decline in
4 2008 as compared to 2007 levels?

5 A. Test year levels, yes.

6 Q. Yes. And you said that it's based on
7 econometric factors in addition to weather. Would
8 one econometric factor in this projection be the
9 price of gas?

10 A. Yes, it is.

11 Q. In this case is the company seeking a
12 rate increase?

13 A. Yes.

14 Q. Would the fact that there would be a rate
15 increase in 2008 factor into this lower level of
16 sales?

17 A. A higher price would produce lower sales,
18 yes.

19 Q. Could you please take a look at OCC

20 Exhibit 11.

21 A. Okay.

22 Q. You were asked several questions about

23 this being based on data from 1975.

24 A. The date of the exhibit is 1975, yes.

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1 Q. Right. Now, take a look at -- down at
2 the bottom of the page in the footnotes, do you see a
3 footnote in the columns there, the column to the
4 right that says "Normals"?

5 A. Yes.

6 Q. That says based on the record for the
7 1941 to 1970 period, doesn't it?

8 A. Yes, it does.

9 Q. Thank you. Now, taking a look back at
10 OCC Exhibit 12, page 2 of 2, do you see that?

11 A. Yes.

12 Q. On line 19 of page 2 that has the -- the
13 usage for residential customers on a per customer
14 basis.

15 A. Yes.

16 Q. What is the trend?

17 A. The trend is downward.

18 Q. Over the entire time period?

19 A. Pretty much so, yes.

20 Q. From 2002 through 2012.

21 A. Yes.

22 MR. FINNIGAN: No further questions.

23 Bull.

24 MR. IDZKOWSKI: If I may just one moment,

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1 please.

2 - - -

3 RECROSS-EXAMINATION

4 By Mr. Idzkowski:

5 Q. Mr. Finnigan asked you about this
6 exhibit -- I apologize for not having the number, but
7 it's the second-to-last exhibit you just discussed
8 with the meteorological data and the normals and
9 means and extremes.

10 EXAMINER BULGRIN: 11.

11 MR. IDZKOWSKI: Yes, thank you.

12 Q. So he clarified, I guess, this is base --
13 this 1975 normal of 5,070, which is below the current
14 normal, he said that was based on 1941 to 1970,
15 correct?

16 A. That's what's on this exhibit, yes.

17 Q. Which is what you would expect to find on
18 an exhibit from 1975 rather, correct?

19 A. Yes. Because that would have been the

20 last -- 1970 would have been the last year NOAA

21 prepared new normals.

22 Q. Right. You want to know that they took a

23 30-year period and calculated a normal HDD level,

24 correct?

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1 A. That's what they do, yes.

2 MR. IDZKOWSKI: Right. Okay. Thank you.

3 No further questions at this time.

4 EXAMINER BULGRIN: Okay. Thank you.

5 MR. RINEBOLT: Could I ask a question?

6 EXAMINER BULGRIN: I'm sorry,

7 Mr. Rinebolt.

8 MR. RINEBOLT: No problem.

9 - - -

10 RE CROSS-EXAMINATION

11 By Mr. Rinebolt:

12 Q. The last document Mr. Finnigan drew your
13 attention to, OCC Exhibit 12.

14 A. Yes.

15 Q. Down at the bottom of the first page,
16 line 33, Total Retail Customers, is it safe to assume
17 that other than 2003, the number of the customers has
18 increased annually, and the test year projects an
19 increase above 2002?

20 A. Yes, the number of customers is going up.

21 Q. And your projections for the five

22 following years are also for an increase in

23 customers.

24 A. Yes, that's correct.

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1 MR. RINEBOLT: Thank you very much, sir.

2 EXAMINER BULGRIN: I think you can be
3 excused. Thank you.

4 THE WITNESS: Thank you.

5 MR. IDZKOWSKI: Yes, your Honor, at this
6 time we move to admit OCC Exhibits 11 through 13.

7 EXAMINER BULGRIN: Any objections?

8 Those will be admitted.

9 (EXHIBITS ADMITTED INTO EVIDENCE.)

10 MR. IDZKOWSKI: Thank you, your Honor.

11 EXAMINER BULGRIN: Let's go off the
12 record for a minute.

13 (Discussion off the record.)

14 EXAMINER BULGRIN: Mr. Serio.

15 MR. SERIO: Thank you, your Honor.

16 - - -

17 PAUL G. SMITH

18 being first duly sworn, as prescribed by law, was
19 examined and testified as follows:

20 DIRECT EXAMINATION

21 Q. Good afternoon, Mr. Smith.

22 A. Good afternoon.

23 Q. Your supporting testimony, settlement

24 supporting testimony, I believe that's Duke Exhibit

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1 No. 29, the bulk of that supports the settlement that
2 the parties all agreed to, and then there is parts of
3 it that further support the company position on the
4 rate design customer charge, correct?

5 A. Right. The settlement addresses most but
6 not all issues, does not resolve all issues in this
7 case.

8 Q. Page 10 of your testimony, line 22, you
9 use the term "relatively fixed charge rate design."
10 What do you mean by that?

11 A. Well, I use the term "relatively" because
12 the entire cost recovery is not through a fixed
13 charge. A true fixed charge would have been in
14 excess of \$30 per customer per month. The \$20
15 recommended for year one, the \$25 in year two
16 obviously are less than the entire fixed costs
17 incurred by the company, so it is a relatively fixed
18 charge.

19 Q. On page 11 of your testimony, line 17

20 through 19, you indicate that the company's cost to
21 serve two customers is identical, therefore, there is
22 no practical reason that their monthly bills should
23 differ. Do you see that?

24 A. I do.

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1 Q. Is conservation a practical reason why
2 one bill might be higher than the other?

3 A. The cost to serve those two customers is
4 no different regardless of conservation methods, no.

5 Q. On lines 22 and 23 of the same page you
6 indicate that PIPP customers -- the average PIPP
7 customer consumes approximately 1,000 CCF per year,
8 which is approximately 25 percent more than the
9 average non-PIPP customer. Do you see that?

10 A. I do.

11 Q. PIPP customers don't include all low
12 income customers, correct?

13 A. They would not include all low income.
14 They could be representative of all low income,
15 though, that is correct.

16 Q. Do you know if the pool of low income
17 customers -- do you have any idea what the size of
18 that is in the Duke territory?

19 A. No. This statement was asserting that

20 PIPP could be representative and perhaps most likely

21 is representative of low income customers.

22 Q. And in saying that it's your belief that

23 PIPP customers and low income customers usage levels

24 is the same?

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1 A. No. I think the intention of this was to
2 say low income would be more closely aligned with
3 PIPP customers than other residential customers on
4 average --

5 Q. I'm sorry, as far as their usage goes.

6 A. -- and then using pursuant to what
7 Mr. Storck was referring to with the Missouri Gas
8 case, that's been found in other studies to be true.

9 MR. SERIO: May I approach, your Honor?

10 EXAMINER BULGRIN: Yes.

11 MR. SERIO: I would like to have marked
12 for purposes of identification OCC Exhibit No. 14.

13 EXAMINER BULGRIN: It will be so marked.

14 (EXHIBIT MARKED FOR IDENTIFICATION.)

15 Q. I think it is a three- or four-page
16 document. It says Duke Energy News Release dated
17 February 28, 2008. Have you seen this document
18 before?

19 A. I have.

20 Q. Were you involved in providing
21 information to your information folks to put this
22 together?

23 A. I was.

24 Q. On the second page of the document it

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1 indicates in the second full paragraph for a
2 residential customer using 10,800 cubic feet of
3 natural gas, the proposed movement of the fixed
4 charges out of the usage rate results in no increase
5 to the current billing. Do you see that?

6 A. Yes. That's one of the reasons why we
7 are surprised and perhaps disappointed that the OCC
8 doesn't support the relatively fixed charge proposed
9 by the settlement.

10 Q. The 10,800 cubic feet would be 10,800
11 CCF, right?

12 A. It would be 108 CCF.

13 Q. 108 CCF or 10.8 MCF.

14 A. Correct.

15 Q. And how did the company determine that
16 the 10,800 cubic feet was the cutoff point?

17 A. That's been a longstanding typical winter
18 bill that our public relations folks refer to. I
19 understand it's been in use for almost 20 years now.

20 Q. That's a number that the company uses,

21 correct?

22 A. Our media relation folks use, correct.

23 Q. Do you know how many PIPP customers'

24 usage is above the 10,800 a month?

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1 A. Almost all of them.

2 Q. Almost all of them.

3 MR. SERIO: Can I approach, your Honor?

4 EXAMINER BULGRIN: Yes.

5 MR. SERIO: I would like to mark this one

6 as OCC Exhibit 15. It's a multiple-page document,

7 Staff Data Request 17-075.

8 EXAMINER BULGRIN: It will be so marked.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 Q. Are you familiar with this document,

11 Mr. Smith?

12 A. I am familiar with the attachment, yes.

13 Q. And the attachment is a nine-page

14 document from the company that provides a breakdown

15 of usage by different customer classes and customer

16 usage, correct?

17 A. This is the 2006 study. We have since

18 done a 2007 study as well but similar results were

19 found.

20 Q. If you look on page 1 of 9, the column to
21 the far left where it says "Size," that's for the
22 usage of -- for each -- for customers, correct? Less
23 than 50 would be less than 50 CCF?

24 A. That's correct.

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1 Q. And so on down the line.

2 A. That's correct.

3 Q. And your 10,800 from the press release
4 that's in OCC Exhibit 14, that would be in the third
5 block where it says 500 to 1,000?

6 A. No, it would not.

7 Q. So it's in the fourth block, 1,000 to
8 1,500?

9 A. No, it is not.

10 Q. Okay. Where would the 10,800 fit?

11 A. You misinterpreted the data. The press
12 release 10,800 cubic feet is a monthly bill. These
13 are annual amounts. They are not correlated
14 whatsoever. There is no relationship between the
15 two.

16 Q. If I look on OCC Exhibit 15 and I look in
17 the third column where it says "Residential," do you
18 see that?

19 A. I do.

20 Q. The number under "Summary of NUM

21 Accounts," I think, that's the number of customers?

22 A. The number of accounts, correct.

23 Q. And it's -- one account is for each

24 customer, there could be multiple people in that

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1 household.

2 A. Correct. Not always one account for one
3 customer but frequently that's the case.

4 Q. If 10,800 CCF per month is your
5 break-even point on the press release, what's the
6 annual break-even point?

7 A. 10,800 CCF isn't the normal. That's not
8 what the press release says.

9 Q. I didn't say it was normal. I said if
10 that's the break-even point, what's the break-even
11 point if I am looking on OCC Exhibit 15 where -- what
12 size, annual size, would be the break-even point
13 between a customer benefiting under the SFV in one
14 and not benefiting?

15 A. The average customer, gas customer, takes
16 right around 800 CCF a year. So the break even point
17 is roughly in that area, plus or minus a little bit.
18 We will give you very little difference in bill under
19 either of the proposed methods.

20 Q. So would it be safe to say that the first
21 two blocks, less than 50 and 50 to 500, would be
22 significantly lower, and then the blocks 1,000 to
23 1,500 and down would be higher with the break-even
24 point occurring somewhere in that third block?

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1 A. The break even would mostly occur in that
2 third block, that's correct. Now, I will say you
3 have to keep in mind the press release is talking
4 about a monthly bill so many customers even in that
5 second block would have a monthly bill in excess of
6 10.8 CCF so they would have months where they had a
7 lower bill. Keep in mind one is talking annual and
8 one is talking monthly.

9 Q. If I look in the fifth column, it says 12
10 bills PIPP. Under Residential is the first number
11 there the number of PIPP accounts in each of those
12 blocks?

13 A. Correct. This goes to our point, PIPP
14 customers take less than the average customer, and in
15 this case less than all of our -- approximately 1/10
16 of 1 percent of our customers -- PIPP customers take
17 in that first block, that's correct.

18 Q. So, again, if I am looking at the break
19 with PIPP customers, the ones that benefit versus the

- 20 ones that don't under a straight fixed variable rate
- 21 design, it would occur somewhere in that third block
- 22 on an annual basis?
- 23 A. That's correct. It happens right around
- 24 800 CCF a year.

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1 Q. Okay. So in the blocks below that I
2 think it has 2,500, 900, 300, 130, so on, so PIPP
3 customers that fall in those blocks would not be
4 better off under the straight fixed -- would be
5 better off under the straight fixed variable.

6 A. They would be better off, that's correct.

7 Q. And the customers in the first two blocks
8 and some of the third block would not?

9 A. They would benefit in some months, that's
10 true.

11 Q. But those being low usage customers would
12 generally see either less benefit because their bill
13 doesn't go up as fast or would see a detriment
14 compared to the high usage customers, correct?

15 A. Well, again, one of the benefits of the
16 relatively fixed charge rate, the higher relative
17 fixed charge rate, is the fact that it spreads the
18 bill throughout the year so these customers see
19 benefits in other ways.

20 Q. But that wasn't my question. My question
21 was if we are looking at low usage PIPP customers to
22 get some idea of count, it would be some combination
23 of the customers in those first three blocks would be
24 the customers that fall on the low usage side of the

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1 straight fixed variable, correct?

2 A. Some of them would benefit; some of them
3 would be adversely affected. I think you have to
4 keep in mind the straight fixed variable is the
5 appropriate pricing signal. When we talk about
6 better off or worse off, it's relative to where they
7 were before. The extent they have been subsidized
8 with past rate designs means they have benefited for
9 years. This rate design is improving in providing a
10 better price signal, so maybe it is correcting the
11 subsidy they shouldn't have received in the past.

12 Q. The Commission has used the rate design
13 other than straight fixed variable for at least the
14 last 20 years, correct?

15 A. And we are proposing other than a
16 straight fixed variable in this case.

17 Q. I understand that. But you are
18 indicating that there was a subsidy so you are saying
19 the Commission's use of the other rate design over

20 the last 25 years was consistently a subsidized rate

21 design?

22 A. Given the cost of service provided in

23 this case, there would be a subsidy if we don't

24 approve the proposed rate design as stipulated by 10

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1 of the 12 parties.

2 Q. Do you know if the Commission has ever
3 identified that as a subsidy in any of its orders?

4 A. I am not aware of that.

5 Q. That's a subsidy according to the
6 company's position?

7 A. It's a subsidy according to the -- it's a
8 subsidy that 10 of the 12 parties believe should be
9 corrected in this case.

10 Q. Has the Commission ever identified that
11 as a subsidy in the past?

12 A. I am not aware of that.

13 Q. Okay. Now, you have indicated that the
14 company wants a straight fixed variable rate design
15 in part because of a concern that there -- they would
16 have an inability to recover fixed costs on a
17 going-forward basis, correct?

18 A. The company's costs are fixed, incurred
19 in a fixed manner throughout the year. The

20 relatively fixed charge rate, there is still a
21 volumetric charge, is a better matching for the costs
22 that are incurred by the company, that's correct.
23 Q. Okay. My question was the company
24 supports what the staff has identified as a fixed

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1 rated variable rate design because of your concern
2 that you can't recover your costs on a going-forward
3 basis in a timely manner.

4 A. That's true. I would disagree with the
5 connotation of a straight fixed variable. Straight
6 fixed variable would be in excess of \$30 a month. No
7 one is proposing that. That's not what's in the
8 stipulation.

9 Q. I understand, but that's what staff's
10 testimony calls it, correct?

11 A. They perhaps call it that. We do not.

12 Q. Okay. I understand, but it's their
13 testimony. I am using what they called it. Now, the
14 company has the ability to file a traditional rate
15 proceeding or an alternative rate proceeding at any
16 point where they think they are not recovering the
17 revenues that they are entitled to recover, correct?

18 A. Yeah. Frequently -- frequent,
19 time-consuming, expensive, administratively

20 burdensome rate cases can be filed at any point.

21 Q. Legal rate proceedings can be filed at

22 any point.

23 A. Correct.

24 Q. And there's nothing in Ohio regulatory

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1 policy that you are aware of that says that the
2 Commission has to take steps to make sure that the
3 company doesn't have to file a rate case from time to
4 time; is that correct?

5 A. I think it would be prudent on their part
6 to take steps to avoid those measures, yes.

7 Q. That's not my question. My question was
8 are you aware of anything in Ohio regulatory policy
9 that requires the Commission to do that?

10 A. Requirement, no.

11 Q. Yes.

12 A. Practical, yes.

13 Q. It's your position that the distribution
14 utility costs that are recovered in the customer
15 charge are predominantly fixed in nature, correct?

16 A. Almost entirely. I think we calculated
17 that perhaps only \$100 a year is expensed to incur
18 odorization costs that vary by the volume, so of the
19 \$217 million in this settlement, approximately \$100

20 is variable. Therefore, 99.99 percent of our costs

21 are fixed, that's correct.

22 Q. Is that the same as it's been with the

23 company over the last 20, 25 years? Is there

24 anything different today about the fixed nature of

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1 the costs to provide -- that are based on the
2 customer charge versus 20 years ago?

3 A. No. The return component, depreciation,
4 the operating costs are roughly the same, albeit they
5 are higher today and, unfortunately, with declining
6 sales we have a problem of not earning our return.
7 That hasn't been experienced over the past 20 years
8 but it's the current situation we face.

9 Q. But, again, all I am asking is there's
10 nothing different about the nature of the charges
11 today versus 20 years ago.

12 A. The costs are the same. Unfortunately,
13 the revenues are declining, that's correct.

14 Q. Would you agree with me that high gas
15 prices generally send a signal to customers that
16 encourage conservation?

17 A. I thoroughly agree with that. When we
18 started the case, our cost of gas was approximately
19 \$8.88 in MCF. It is now approximating \$10 in MCF.

20 That's a signal customers will respond to.

21 Q. Would you agree the flip side, a lower

22 cost gas, provides a signal to customers that perhaps

23 they don't need to conserve as much or they can be a

24 little freer with their use?

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1 A. Well, that would be nice, but the days of
2 \$2 per MCF gas are long gone. It's closer to \$9 to
3 \$10 per MCF today, and I think we expect that for the
4 foreseeable future.

5 Q. I understand that. Again, what I asked
6 you was if higher gas prices send a signal that
7 encourage conservation, do lower gas prices signal
8 less conservation or greater usage?

9 A. Well, I think I will go to perhaps my own
10 situation. If the price of gasoline drops a penny a
11 gallon, probably not going to do much, or increases a
12 penny a gallon, I am probably not going to do much to
13 conserve that gasoline. If the price of gasoline
14 increases to 10 or 11 dollars per gallon, I am
15 probably going to implement a lot of measures to save
16 gasoline.

17 Similarly to your question in a reducing
18 price environment, reducing the price from \$10 to
19 \$9.99 probably isn't going to gain much of a

20 response. So when you were looking for did a lower
21 price prompt a response, it depends on the magnitude
22 of the price change.

23 Q. And the flip side is the magnitude of the
24 increase is going to have a direct correlation as to

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1 how much conservation it encourages?

2 A. Exactly, thus the cost of gas being
3 around \$10 and the cost of the distribution service
4 being less than a dollar, you are talking about
5 switching or moving a dime for MCF in the
6 distribution charge. Customers aren't going to
7 respond to that dime or small de minimus amount.
8 They will respond to the commodity price more so than
9 the distribution charge.

10 Q. It's your -- am I correct it's your
11 position that right now PIPP customers are the best
12 readily available proxy for all low income customers?

13 A. They are a better proxy than the average
14 residential customer, yes.

15 Q. So you are saying that there is a better
16 proxy than PIPP customers for low income?

17 A. No. I am saying PIPP's better than the
18 other data that's available.

19 Q. Okay. Now, when you say it's the best

20 readily available, do you mean it's the best or it's

21 the best that we have available to us?

22 A. It could be a perfect correlation. I

23 have never heard that it's not.

24 Q. If we had United States Census data,

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1 would that be better data to use for low income

2 customers than PIPP as a surrogate?

3 A. Do you know them to be gas customers in

4 Cincinnati's territory?

5 Q. Are you talking about specific customers?

6 A. Well, you were talking about census data.

7 Q. My question to you is for low income

8 customers you have indicated that PIPP customers are

9 the best surrogate and what I am asking is if we had

10 U.S. Census data that shows income, would that be a

11 better use of data than PIPP customers?

12 A. Absolutely not. I don't understand how

13 census data could tell you whether they were a gas

14 customer or electric customer, whether they are in

15 our territory or supplied by another supplier.

16 MR. SERIO: Could I approach, your Honor?

17 EXAMINER BULGRIN: Yes.

18 MR. SERIO: I believe this will be OCC

19 Exhibit 16. This is a multiple-page document. It's

20 a report titled "Ohio Home Weatherization Assistance
21 Program Impact Evaluation prepared for Ohio Office of
22 Energy Efficiency." It's dated July 6, 2006.

23 Q. Do you see that on the front sheet?

24 A. I do.

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1 EXAMINER BULGRIN: Do you need this

2 marked as an exhibit?

3 MR. SERIO: Yes. I believe it was 16,

4 your Honor.

5 EXAMINER BULGRIN: It will be so marked.

6 (EXHIBIT MARKED FOR IDENTIFICATION.)

7 Q. If you could turn to page 2 of this

8 document.

9 A. I have it.

10 Q. Under "Major Findings," second heading

11 below that says "Natural Gas Savings." Do you see

12 where it says "gas savings were determined by

13 analyzing gas usage data from for utilities," and it

14 lists Columbia Gas, Dominion, Cincinnati Gas &

15 Electric, and Vectren?

16 A. I do.

17 Q. Cincinnati Gas & Electric would have been

18 your predecessor.

19 A. That's correct.

20 Q. Duke and CG&E are one and the same. If

21 you would turn --

22 MR. SERIO: -- your Honor, I noticed

23 after I copied this that on page 36 of the document

24 on the bottom of the page, there is some notes that

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1 someone took. I will stipulate that those were
2 written in, and they have absolutely no meaning to
3 the document, and for purposes of the document they
4 should be ignored, but I discovered that after I had
5 copied all these, and I didn't want to waste 10
6 copies so.

7 EXAMINER BULGRIN: Okay.

8 A. Conservation is a good thing. We endorse
9 conservation so that's a good thing.

10 Q. I am doing my best. If you could turn to
11 page 29 of this document, under the heading there
12 "PIPP Usage and Savings."

13 A. Yes, I have it.

14 Q. Do you see the sentence that says: "PIPP
15 participants saved 35 percent more and used 20
16 percent more energy than non-PIPP participants"?

17 A. That's consistent with our findings, yes.

18 Q. That PIPP customers use more energy than
19 other non-PIPP low income customers.

20 A. Yes. We would say 25 percent. The

21 report is saying 20. That's very consistent.

22 Q. Mr. Smith, just so we are clear, where it

23 says non-PIPP participants on page 29 of OCC Exhibit

24 16, what is your understanding of what non-PIPP

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1 participants is?

2 A. Someone that's not participating in the
3 PIPP program.

4 Q. Okay. Do you understand that to mean
5 just low income or all residential non-PIPP
6 participants?

7 A. I take that to mean all non-PIPP.

8 Q. If you look at page 1 of this document,
9 see the "Executive Summary" there?

10 A. "Executive Summary"?

11 Q. On page 1.

12 A. Yes.

13 Q. It talks about that this is an impact
14 evaluation on HWAP programs, Home Weatherization
15 System Programs.

16 A. I see that.

17 Q. And those are generally only available to
18 low income customers, correct?

19 A. That is correct.

20 Q. So understanding that this study was done
21 for low income HWAP eligible customers, if you go
22 back to page 29, is it still your understanding that
23 the non-PIPP participants are all residential or just
24 low income?

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1 A. I am not familiar that they are all

2 CG&E -- formerly CG&E customers.

3 Q. No. It was as indicated 98 percent of

4 the gas customers in Ohio.

5 A. So it could be Vectren, Columbia,

6 Dominion customers as opposed to Duke Energy

7 customers.

8 Q. Would it be safe to assume in the four

9 major companies that were used that the customers

10 have some correlation to the number of customers each

11 of those companies have in relation to the whole for

12 the Ohio customers that they looked at?

13 A. That's a possibility, but I don't see

14 that stated in the report, no. I think the -- what

15 we might find is Cleveland's weather is significantly

16 more severe than Cincinnati's, and I would expect to

17 find a problem in Cleveland you may not find in the

18 Cincinnati area, other than flooding and other

19 issues.

20 Q. The company data for PIPP customers, do

21 you know if that includes master meters?

22 A. There are a few master metered companies

23 in the PIPP data, that's correct.

24 Q. So if a master meter is used, that means

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1 you may have multiple customers off of the one meter,

2 correct?

3 A. That is correct for both categories, PIPP

4 and non-PIPP.

5 Q. To the extent you have master meters in

6 the PIPP information, wouldn't that tend to show some

7 PIPP accounts having significantly greater usage and

8 it not necessarily being related to a single family

9 but it could be related to multiple families?

10 A. No. I would say the opposite of that. I

11 would say we have more master metered non-PIPP

12 customers than we have master metered PIPP customers;

13 therefore, I would say the residential is skewed

14 higher than the PIPP customers, so if I was to

15 levelize or take out the master meter, I think

16 residential would actually go down further than the

17 PIPP would.

18 Q. If I look on OCC Exhibit 15, the last

19 three or four usage blocks, there is 12 customers or

- 20 8 or 1 or 3 with the size of anywhere from 3,500 to
- 21 4,500 to even 5,000 CCF a year. Do you know if those
- 22 are master meters or if those are individual
- 23 dwellings or --
- 24 A. I do not know.

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1 Q. Now, I believe in Mr. Storck's testimony
2 it indicates there is approximately 5,800 customers
3 that use less than 50 CCF a year.

4 A. Again, depending on the year you choose,
5 we would see roughly between 5 and 9 thousand
6 customers using less than 50, less than 10,000
7 customers used 100 in both 2006 and 2007.

8 Q. Do you conclude customers with that low
9 an annual usage probably are not using natural gas to
10 heat their home?

11 A. I would.

12 Q. So they are probably using natural gas
13 for maybe a stove or outdoor fire pit?

14 A. I agree. I tend to find those are more
15 affluent customers. They tend to be customers that
16 have a single gas light, a commercial-style stove in
17 their kitchen, that type thing, and that usage,
18 therefore, is representative of a very low line.

19 Q. Those customers currently pay a customer

20 charge of \$6?

21 A. They currently pay \$12 in the total fixed

22 charge, that's correct.

23 Q. But the customer charge is \$6. The other

24 charge is for the ARMP.

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1 A. Sure. But if a post line or a stove,
2 they are paying the entire fixed charge of \$12 a
3 month, so when they made that relatively expensive
4 investment decision, they would have done that
5 knowing the cost per month was about \$12 even if they
6 took no volume of gas.

7 Q. Unless they put in an appliance before
8 the AMRP program began.

9 A. They could have, but then they would have
10 maintained it throughout the AMRP program, and this
11 data would have included this as paying \$12 a month
12 and still taking the service.

13 Q. But they are currently paying a customer
14 charge of \$6, correct?

15 A. They are paying a \$12 fixed charge,
16 that's correct.

17 Q. They are paying the \$6 customer charge on
18 the bill; the customer charge is \$6, correct?

19 A. A customer that takes no volume pays

20 \$11.77, approximately \$12 a month.

21 Q. Does the bill indicate that the entire

22 \$11.96 is the customer charge?

23 A. The 11.77 is a fixed charge they pay

24 before they take a single volume, a single CCF or MCF

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1 in a month.

2 Q. Is that a customer charge? Is it listed
3 as a customer charge?

4 A. I do not know how it's listed on the
5 bill.

6 Q. In the company tariffs is the customer
7 charge listed as \$6?

8 A. You would have to ask Mr. Ziolkowski.

9 Q. Subject to check, would you agree that
10 the current company tariffs show a customer charge of
11 \$6?

12 A. I believe so.

13 Q. To the extent it currently says a \$6
14 customer charge and the staff proposed rates went
15 into effect, that increase would be over \$20 in the
16 first year, correct?

17 A. I disagree.

18 Q. So --

19 A. \$20 the first year.

20 Q. It's over \$20, correct? I'm sorry

21 \$20.25.

22 A. Is the first year fixed charge, that's

23 correct, per month.

24 Q. Per month, so that 20.25 per month times

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1 12 would be over \$240 a year, correct?

2 A. Right. Which was -- is considerably less
3 than the \$360 a month it costs us to serve that
4 customer.

5 MR. SERIO: Your Honor, I asked pretty
6 specific questions, and we keep going afield. I can
7 start making a motion to strike the editorial that's
8 added onto every answer. I am not asking broad,
9 open-ended questions. I am trying to ask specific
10 questions trying to get a specific response.

11 EXAMINER BULGRIN: Well, how much more do
12 you have for this witness?

13 MR. SERIO: I have a few more questions.

14 EXAMINER BULGRIN: Okay. Let's see if we
15 can wrap it up.

16 Q. The \$240 in customer charge that a
17 customer would pay is significantly greater than the
18 \$6 times 12 months, \$72 they pay today, correct?

19 A. Correct.

20 Q. Is it possible that that significant
21 increase could cause some of those customers to no
22 longer stay on the system since they are probably
23 using natural gas for a non-vital use?

24 A. Again, I would call those, and I think

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1 you had agreed at one time, those tend to be more
2 affluent customers. I do not think they would
3 switch. Further, I would say that would not be a
4 concern to the utility. We are not concerned about
5 that particular --

6 Q. So you are not concerned if all those
7 customers were to leave the gas system?

8 A. I think we need to talk about how many
9 customers there are. There's roughly a percent or 2
10 of our customers that are in that particular block.
11 Our customer growth, Mr. Yankel called it several
12 percent, I don't agree with that number, but if he is
13 correct, that would far exceed these customers
14 leaving our system so actually those customers could
15 leave and we would replace them in less than a year.
16 I don't think that's the case, but I think ultimately
17 we would replace those customers, yes.

18 Q. Duke is a combination gas and electric
19 utility, correct?

20 A. It is gas and electric, that's correct.

21 Q. To the extent those customers quit taking

22 gas, they might increase their electric usage,

23 correct?

24 A. To the extent it was for a gas fire pit,

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1 can't help; gas post line, post light doesn't work

2 with electricity so, no, I don't think so.

3 Q. But there is other appliances, stove,

4 dryer that they could switch over.

5 A. To the extent somebody had chose a

6 several thousand dollar investment in a big

7 commercial-style stove, they are not going to switch

8 to an electric stove, no. I don't agree with that.

9 Q. But it's your position even if all 5,800

10 customers would decide to leave, the company is not

11 concerned because you could replace them through new

12 growth, correct?

13 A. Mr. Yankel supports higher growth numbers

14 than that. I don't agree with that, but that's in

15 his testimony.

16 Q. I thought about 2 minutes ago you said

17 you weren't concerned; even if you lost those

18 customers, you could still replace them with new

19 growth.

20 A. Yes. Mr. Yankel supports several percent
21 a year. I say it's closer to a percent a year,
22 therefore, in roughly two to three years we will have
23 replaced, and that's assuming all customers decide to
24 leave day one these rates are implemented. That

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1 won't happen. That's unrealistic.

2 Q. Whether it happens day one or not, your
3 position is that the company's indifferent if they
4 leave because they could be replaced by new growth.

5 A. I would say if a half a percent of our
6 customers left this year and we had new customers of
7 a half a percent, there would be no impact on the
8 company, that's correct.

9 Q. Now, the investment associated with
10 providing those customers service would still be in
11 the ground, correct?

12 A. That's correct.

13 Q. And the company would have lost the
14 revenues associated with the customers that would
15 leave, correct?

16 A. If they chose to leave.

17 Q. If they --

18 A. I am not sure I would agree "would
19 leave."

20 Q. If they left, you would lose any revenues

21 they would pay in their customer charge, correct?

22 A. On the gas side, yes.

23 MR. SERIO: That's all I have, your

24 Honor. Thank you.

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1 EXAMINER BULGRIN: Mr. Rinebolt.

2 MR. RINEBOLT: Thank you, your Honor.

3 - - -

4 CROSS-EXAMINATION

5 By Mr. Rinebolt:

6 Q. Good afternoon, Mr. Smith.

7 A. Mr. Rinebolt.

8 Q. Let's start on page 6 of your testimony

9 in support of the stip. You walk through a number of

10 benefits provided by the relatively fixed residential

11 rate design. Now, when economists use the term price

12 signal, they are normally alluding to the fact that

13 the higher the price or the higher the bill, the more

14 steps that a customer will take to avoid that cost.

15 A. A change of higher amount will typically

16 drive a response, that's correct.

17 Q. Okay. And so it's basically the higher

18 the price, the more likely you are to conserve.

19 A. The higher the change in price, again, I

20 will go to a very expensive car, a very expensive car
21 that initial price people choose not to buy that car
22 to begin with. If you -- well, so it's the change in
23 price that matters to customers to make a change in
24 their decision or buying habits.

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1 Q. I mean, but a customer doesn't have a
2 whole lot of choice as to whether or not to buy
3 natural gas if their home has a natural gas furnace,
4 now do they?

5 A. That's correct. Electric and gas and
6 propane are typically the three.

7 Q. You talk about a price signal that deals
8 with the -- this -- this is a better price signal,
9 this rate design, because it sends a signal that
10 there is a fixed cost structure for distribution and
11 this approach accurately reflects that.

12 A. I think there is no debate that the costs
13 incurred are fixed in nature and, therefore, the
14 pricing signal.

15 Q. Mr. Smith, with all due regard, we will
16 get to that. What I am asking you is is it your
17 testimony that a fixed -- a primarily fixed
18 distribution charge, customer charge, is an accurate
19 price signal relative to the cost of distribution

20 service?

21 A. No. I would say entirely fixed price

22 would be the appropriate cost signal.

23 Q. So essentially the price signal that you

24 are sending to the customer with this rate design is

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1 it doesn't matter if you -- if you save or not
2 because you are going to pay the same thing, at least
3 as far as the customer charge is concerned?

4 A. I agree. The example in my testimony is
5 if two neighbors both take gas service, you use
6 exactly the same pipelines, you have exactly the same
7 costs to serve those two customers. If one takes
8 99 -- takes 99 CFM in a month and the other takes
9 100, there is absolutely no difference to the company
10 in terms of the cost to serve those two neighbors.

11 Q. But actually when -- if you use more than
12 the break-even point on this rate design, it does
13 lower your cost relative on a per throughput basis.

14 A. Yeah. I think as part of the settlement,
15 we agreed to not a fully fixed charge. We agreed to
16 something less than that. That, therefore, makes
17 winners and losers.

18 Q. That's right. I signed that settlement.

19 A. And we thank you.

20 Q. Now, you are obviously asserting that all
21 residential customers are the same. Does a customer
22 living in a thousand square foot apartment in a
23 triplex cost the same to serve as somebody who lives
24 in a McMansion on 5 acres outside the city?

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1 A. Roughly the same but not entirely the

2 same.

3 Q. But not entirely. You would have more

4 distribution line associated with the McMansion. The

5 meter reader would have to go from house to house,

6 from 5 acres to 5 acres so there is a relative

7 difference in cost.

8 A. I agree one might be \$30 to serve; the

9 other might be 28-1/2.

10 Q. Are your natural gas call center volumes

11 the same all year round or natural gas-related call

12 centers primarily in the winter?

13 A. No. The wintertime is hit much heavier.

14 Q. Are repair costs for natural gas service

15 the same all year round? Are they predominantly in

16 the beginning of the winter heating season and

17 through the winter heating season?

18 A. No. Maintenance is throughout the year.

19 Maintenance I would say in the summer months because

20 those are the months we don't have concerns about
21 taking a pipe out of service, which would then
22 disrupt a customer during the heating season, so our
23 maintenance costs are actually perhaps higher in the
24 summertime than they are in the wintertime.

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1 Q. Do you know for a fact that they are
2 higher?

3 A. I think I do.

4 Q. Okay. And this is for gas.

5 A. For gas, that's correct.

6 Q. That's maintenance costs.

7 A. Correct. Gas leaks are --

8 Q. Do you have more disconnects in the
9 summer than the winter?

10 A. We have a moratorium on disconnects.

11 Q. Well, this would be an anomalous year so
12 on an average year.

13 A. I would agree.

14 Q. And as a result, you would also have more
15 disconnects during the heating period of the year?

16 A. Just prior to or in the beginning of the
17 heating season. We tend not to have many reconnects
18 towards the tail end, the middle or the tail end of
19 the heating season.

20 Q. Okay. Now, theoretically if every
21 customer used 500 CCF of gas a year, every
22 residential customer used 500, and all of a sudden
23 new homes started to blossom that were using 1,000 a
24 year, would that drive system costs higher? Would

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1 that mean you would have to have larger mains, larger
2 distribution pipes, bigger pumps?

3 A. No, that's not been the case.

4 Q. That's not been the case.

5 A. Correct.

6 Q. Because you have sized your system for a
7 much higher level of consumption than customers are
8 actually using now.

9 A. One of the unfortunate realities of an
10 economic downturn is we have lost a lot of industry;
11 therefore, the system is now capable to handle
12 extreme growth in the residential sector.

13 Q. Is that why you give discounts to large
14 customers?

15 A. I am not aware of any discounts.

16 Q. To keep them on the system.

17 A. I am not aware of any discounts to the
18 large customers.

19 Q. How do you define low income for your

20 purposes?

21 A. Lower than average --

22 Q. You talk in -- you talk in, let me see,

23 in No. 2 on page 6, this is on line 6, that the rate

24 design benefits lower income customers. So how do

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1 you define low income customers?

2 A. I use as a proxy the Percentage of Income

3 Payment Plan customers.

4 Q. Okay. And do you know what the

5 incremental eligibility for those customers is?

6 A. I do.

7 Q. And it is?

8 A. 150 percent.

9 Q. And do you know what the income

10 eligibility level for the Home Energy Assistance

11 Program is?

12 A. I believe it's 175 percent.

13 Q. All righty.

14 A. Which are roughly -- those are roughly

15 the same numbers.

16 Q. Right. When a customer gets a HEAP

17 payment in your CIS system, that's noted, isn't it,

18 it comes from an electronic file from the state and

19 goes into your system?

20 A. I apologize. I don't know that.

21 Q. Okay. Did you happen to do a random

22 sample of HEAP customer bills to attempt to validate

23 your PIPP numbers?

24 A. No. Again, we relied on a belief that

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1 PIPP customers were representative, as well as the

2 Missouri study which verified those beliefs.

3 Q. Well, I think we can disagree on the

4 conclusions of the Missouri study. Would you pick up

5 OCC 14.

6 A. I'm sorry. Which one?

7 Q. This is the real thick weatherization

8 study.

9 A. I have it.

10 Q. And would you turn to page 20.

11 EXAMINER BULGRIN: 16 or 14?

12 MR. RINEBOLT: It's 14, I think, or 16.

13 MR. SERIO: 16.

14 MR. RINEBOLT: I'm sorry. I lost count,

15 your Honor.

16 Q. Top of page 20 would you read the title

17 for figure 9?

18 A. "Figure 9, Distribution of Pre-Usage by

19 PIPP Status (Single-Family Participants)."

20 Q. All right. Now, let's look at the first
21 bar under 600. Would you say that the PIPP customers
22 are a fairly small percentage of that customer base?
23 A. I have to think about that. The PIPP
24 being the shady area looks to be 4 percent.

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1 Q. Uh-huh. And would you -- we will cut to
2 the chase here, would you agree that from 1,400
3 therms per year up through over 2,400 the percentage
4 of PIPP customers is higher than it is under 800
5 therms?

6 A. Yes.

7 Q. All right. So it looks like PIPP
8 customers are clustered in the high use area --
9 element, isn't it?

10 A. Well, I mean, if I look at over 2,400,
11 the size of the PIPP block looks the same as the low
12 usage block. 22 to 24 thousand PIPP actually looks
13 smaller than the low income 2,000 to 2,200, the same,
14 so I would say in the upper quartile it looks like
15 low income actually take more than PIPP customers.

16 Q. Did you sample any customers who are low
17 income but not receiving assistance for participating
18 in an assistance -- in a payment program?

19 A. No, we did not.

20 Q. So your global statement in No. 2 that
21 low income customers benefit isn't really true. It's
22 your -- you can -- can you support the fact that PIPP
23 customers would benefit?

24 A. I think the PIPP customers, to use of the

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1 Missouri study that Mr. Storck referenced, and I
2 would even go to say the document you just put in
3 front of me also gives me that same conclusion so I
4 think all three validate the same conclusion.

5 Q. Okay. Do you recall the series of
6 questions I asked about that Missouri study?

7 A. No.

8 Q. Okay. Are you aware whether the housing
9 size in the Missouri study mimics the housing size in
10 the Duke service territory?

11 A. I am not aware, but I don't know any
12 reason why they would be different.

13 Q. Do you have any idea, yes or no, whether
14 the heating degree days in the Missouri utility
15 service territory are the same heating days rough --

16 A. Latitude being the same, I think they
17 would probably be similar, yes.

18 Q. Do you know if they use the same
19 definition of low income customer in Missouri that

20 they use in Ohio?

21 A. That study was done off of income, not

22 necessarily low income so.

23 Q. Okay.

24 A. Their lower income obviously would be a

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1 similar definition as ours.

2 Q. Let's go to line 8.

3 A. Of my testimony?

4 Q. Of your testimony.

5 A. I have it.

6 Q. Does this rate design reduce distribution
7 costs for low users during the winter?

8 A. It definitely does for the low income
9 payment plan.

10 Q. I asked low users.

11 A. It's not for all, but for lower users in
12 the wintertime, yes, most definitely in the
13 wintertime.

14 Q. Okay. Does it raise their bills in the
15 summer?

16 A. Correct. It levelizes -- the good news
17 is it levelizes out over the course of a year. It
18 helps customers by providing more of the -- of
19 shaping it closer to evenly throughout the year as

20 opposed to disproportionately in the winter.

21 Q. If a customer desired a levelized bill,

22 don't you think they would sign up for budget

23 billing?

24 A. They certainly could.

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1 Q. Okay. Now, since customers pay both gas
2 and electric bills, do electric bills tend to be
3 higher in the summer?

4 A. The two months in the summer, again,
5 this -- this program spreads it out over 12 months.
6 If a low income customer, one, has an air
7 conditioner, I am not sure that would be the case. I
8 haven't done a study of electric usage for PIPP
9 versus residential, but the highest usage would be in
10 August and September, so two months probably high
11 electric. You spread the gas out over 12, so I would
12 say it probably levelizes both pretty well over the
13 course of a year.

14 Q. What about for nonlow income customers?

15 A. No. They would hit -- it would spread it
16 evenly. Again, the months of perhaps August and
17 September would be a little higher than in total, but
18 the good news is the months of January and February
19 gas costs are much higher than electric costs for the

20 average customer.

21 Q. At line 10 you indicate that customers

22 prefer fixed price for some common services. What

23 are the studies that you are relying on to assert

24 that a customer prefers a fixed price?

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1 A. I think the -- the correlation I was
2 making here is several services used to be priced
3 entirely on volumetric service, internet service,
4 cell phones, those types things used to be entirely
5 volumetric. They have now migrated, many of them, to
6 a fixed only price. They wouldn't have been driven
7 there by anything other than customer demand, so it
8 tells me that customers prefer or are accepting of
9 the higher fixed charge.

10 Q. My question is, Mr. Smith, did you look
11 at any studies, opinion studies, where customers
12 evidence a preference for fixed prices, yes or no?

13 A. Yes.

14 Q. Okay. And what was that study?

15 A. My own personal family use. I prefer
16 cell phones with fixed minutes, fixed charge, fixed
17 internet service.

18 Q. And you are, of course, representative of
19 all residential customers?

20 A. I am certainly a residential customer,

21 yes.

22 Q. I agree with you, and so am I. Oh, by

23 the way, cable T.V. and telephone and internet, those

24 don't involve commodity sales, do they? It's

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1 basically access to a system, a network?

2 A. That is correct.

3 Q. Okay.

4 A. Same as a distribution system, that's

5 correct.

6 Q. Now, the company agreed in this

7 stipulation to a revenue requirement or revenue

8 increase of 3.05 percent.

9 A. On average, that's correct.

10 Q. Yeah. So over the five-year period

11 between this -- six-year period between this case and

12 the last rate case, we are talking about an evolution

13 of about .5 percent per year. I mean, that would add

14 up to 3 percent, wouldn't it?

15 A. That's correct. Much higher than the

16 request we made in the application of this

17 proceeding.

18 Q. But since the revenue decline or the

19 sales decline that Mr. Storck testified to was

20 2.67 percent, you're clearly not increasing rates

21 equal to the percentage of reduction in sales.

22 A. Yeah. I do want to clarify one point as

23 taken in my deposition. The net overall revenue

24 decrease was \$6 million. The residential volumetric

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1 decline was right at \$10 million. We had residential
2 customer growth of about \$2 million, so to the
3 residential customers \$8 million of the increase was
4 driven by volume offset by customer growth in that
5 group.

6 Q. But as you pointed out before, many times
7 your system costs are fixed, so the incremental cost
8 of serving those additional -- to providing that
9 initial \$2 million of service, there isn't any.

10 A. Well, the good news we had a merger in
11 the middle of it. I think the cost savings from the
12 merger, which have been passed on, have been very
13 beneficial. I think that's a justification to show
14 that mergers ought to be encouraged by the Commission
15 and the intervenors to this proceeding.

16 MR. SERIO: Your Honor, I am going to
17 move to strike the last part of that answer. I
18 didn't hear anything in the question about anything
19 to do with mergers.

20 EXAMINER BULGRIN: Sustained.

21 Q. You note in No. 6 at line 14, that it

22 will provide the benefit of mitigating -- this rate

23 design provides benefit of mitigating persistently

24 declining average residential throughput without the

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1 time and costs associated with a periodic filing of a
2 decoupling tracker. To your knowledge does Duke have
3 five riders on the electric side that are adjusted at
4 least annually?

5 A. I got to five very easily, so, yes,
6 probably more than five.

7 Q. Actually, it's just five, but thank you.
8 So I suppose that doing one more rider filing a year
9 would be the straw that broke the camel's back, huh?

10 A. No, I disagree. But I do think the
11 weatherization -- the weather normalization
12 discussion earlier was one of the issues that you
13 have to take into serious consideration before you
14 implement a tracker where that debate will be held
15 each year.

16 Q. Well, Mr. Smith, you were around when we
17 did the 2003 case, correct?

18 A. I was with Duke Energy, yes.

19 Q. And weather normalization was an issue in

20 that case as well, are you aware?

21 A. No. I apologize.

22 Q. Do you know whether or not that case

23 settled?

24 A. 2003.

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1 Q. Gas.

2 A. I am not sure we had a 2003 gas case, or

3 I am not familiar with the 2003 gas case.

4 Q. It was a 2001 test year.

5 A. Yes. That one did settle, yes.

6 Q. Okay. Thank you. They tend to last a

7 long time sometimes.

8 Let's move to page 11, if we could. I am

9 looking at lines 5 to 7 where you discuss risk. Now,

10 given this case, you, as the company -- the company

11 saw revenue erosion and so you filed a rate case,

12 correct?

13 A. That is correct.

14 Q. And you've managed, and I think we can

15 all agree, managed to settle virtually all the

16 issues, haven't we?

17 A. Yes.

18 Q. And so the only issue that's extant is

19 the rate design.

20 A. I agree.

21 Q. So you got the revenue increase you
22 needed?

23 A. About half of what we asked for but
24 sufficient to for us to settle some of the other

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1 issues in the case, yes.

2 Q. Great. And you got the AMR -- Rider AMRP
3 extension?

4 A. That was a big issue, yes.

5 Q. So your real risk that you are talking
6 about is a risk associated with reduced volumes
7 and --

8 A. In this line you are correct, yes.

9 Q. Is there anything to prevent you from
10 filing a rate case if that -- if you saw revenues
11 erode over the next three, four years?

12 A. Other than my disdain for the process we
13 went through, no.

14 Q. Well, but you want to keep people like me
15 employed, Mr. Smith. Let me see, if all customers,
16 residential customers, used, say, a quarter of the
17 gas that they use now on average, would the system be
18 smaller? Would you -- could you have a smaller
19 system, a less capital intensive system because you

20 had -- because you were moving smaller volumes

21 through the system?

22 A. Possibly, but I don't know that it would

23 be much smaller.

24 Q. Okay. But we talked about, you know,

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1 some of the costs before. Would it be cheaper to
2 read meters in a garden apartment complex of 100
3 units than in a suburb?

4 A. We don't know. Again, some of the
5 downtown areas, one of the benefits of our utility of
6 the future initiative is being able to read those
7 meters remotely. We have 180,000 meters inside a
8 house.

9 MR. RINEBOLT: Your Honor, move to
10 strike. It's not responsive to the question.

11 EXAMINER BULGRIN: Granted.

12 A. If those meters are located in the
13 residence, no, absolutely not. It's cheaper to serve
14 something out with a larger plot.

15 Q. Let's just say they were apartments, 100
16 apartments with outside meters.

17 A. Those are definitely cheaper to serve.

18 Q. Okay. Page 12 at the top of the page,
19 you may not need to look at it, but what is the

20 median usage of PIPP customers?

21 A. Between 900 and 1,000 CCF.

22 Q. That's quite a range.

23 A. Not necessarily, no.

24 Q. Now, Mr. Storck testified that the

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1 average customer consumption was 820 CCF.

2 A. Across all customers.

3 Q. Will you accept that? I think you have
4 indicated that PIPP customer usage is around 100 --
5 or 1,000 CCF so that's 21 percent higher, 22 -- it's
6 21.951 percent, not 25.

7 A. Well, if the average is 800 and a PIPP
8 customer is 1,000, that 200 more is 25 percent more.

9 Q. Well --

10 A. I can check it with a calculator.

11 Q. I will base it on Mr. Storck's testimony,
12 that the average customer usage is \$820 -- or 820
13 therms. When a therm is going for 10 bucks, 20
14 matters, doesn't it?

15 A. 820 to 1,000 is less than 800 to 1,000, I
16 will agree with you.

17 Q. Okay. So you don't -- with the median
18 for PIPP customers is somewhere between 900 and
19 1,000?

20 A. That's correct.

21 Q. Do you know how many PIPP customers --
22 customers are above the median and how many are
23 below?

24 A. No. That was the median for the PIPP

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1 customers so it would be 50 percent.

2 Q. 50 percent on either side.

3 A. So more than half the PIPP customers

4 benefit from the rate design that 10 of the 12

5 parties support.

6 Q. On page 13 you indicate, I believe it's

7 at line 8, but that customers would prefer -- the

8 customer thinks current rates are forced

9 subsidization. Now, do you have any data, public

10 opinion surveys, polls to substantiate your opinion

11 that current rates are for subsidization and that

12 most customers perceive them that way?

13 A. I don't read that language in this

14 sentence. I don't interpret it that way. I

15 certainly believe it's forced subsidization, but I

16 didn't -- I did not intend to imply that customers

17 have implied that. They might once they see that,

18 but I don't -- I don't mean to imply they said that

19 to me yet.

20 Q. Have you done any research to determine
21 whether customers think a fixed rate is fair, a fixed
22 customer charge like you are proposing? Have you
23 done any studies?

24 A. No, I have not.

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1 MR. RINEBOLT: Okay. That's all the
2 questions I have. Thank you, Mr. Smith.

3 MR. WRIGHT: No questions.

4 EXAMINER BULGRIN: Any redirect?

5 MR. FINNIGAN: Yes, thank you.

6 - - -

7 REDIRECT EXAMINATION

8 By Mr. Finnigan:

9 Q. Mr. Smith, you were asked a couple of
10 questions about OCC Exhibit 16. Do you have that
11 handy?

12 A. I do.

13 Q. Please turn to page 29.

14 A. I have it.

15 Q. You were asked about the first sentence
16 under the heading "PIPP Usage and Savings," whether
17 the term "non-PIPP participants" referred to low
18 income customers that were participating in the HWAP
19 program or not. Do you recall that discussion?

20 A. Someone implied it was low income if

21 non-PIPP was the definition.

22 Q. Please turn to page 15.

23 A. I have it.

24 Q. Do you see the heading "Gas Savings" at

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1 the top?

2 A. I do.

3 Q. Take a look at the first sentence and

4 tell me whether that indicates to you whether

5 non-HWAP participants were also included in this

6 study.

7 A. Yeah. The second line here says, "and a

8 matching group of nonparticipants was estimated," so

9 that would imply to me non-HWAP.

10 Q. Please turn to page 21. Take a moment to

11 read the last two sentences on that page. That page

12 refers to Cinergy customers as being one of the

13 utilities included in this study. That's now

14 succeeded by Duke Energy Ohio, correct?

15 A. Correct.

16 Q. And according to this statement Cinergy

17 had one of the smallest sample sizes in this study;

18 isn't that correct?

19 A. Yes. I agree. That was my concern, that

20 this was relative to the entire state, not focused

21 just on the CG&E territory.

22 Q. And one of the largest error bands in the

23 study?

24 A. I agree.

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1 Q. Even if the study did apply to low income
2 customers, would you be concerned about relying on
3 any study that had a small sample size and a large
4 error band?

5 A. Well, obviously the -- they included that
6 disclaimer for that reason and I think for that very
7 purpose.

8 MR. FINNIGAN: That's all the questions I
9 have. Thank you.

10 EXAMINER BULGRIN: Anything further?

11 MR. SERIO: Yes, your Honor.

12 - - -

13 RECROSS-EXAMINATION

14 By Mr. Serio:

15 Q. Turn to page 88 of OCC Exhibit 16.

16 A. This one.

17 Q. Top of the page it says,
18 "non-participants tended to have fewer occupants,
19 lower incomes, and a smaller percentage of people

20 with a disability," correct?

21 A. Which sentence? I'm sorry.

22 Q. Top of the page 88, very top of the page.

23 A. "Fewer occupants, lower incomes, and a

24 smaller percentage of people with a disability,"

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1 that's correct.

2 Q. And if you are looking at the state of
3 Ohio, the four large gas companies, Columbia Gas and
4 Dominion East Ohio are considerably larger than Duke;
5 is that correct?

6 A. That's correct.

7 Q. And, in fact, they are almost four --
8 each is almost four times larger?

9 A. I don't know that, but I know them to be
10 larger, yes.

11 Q. And Vectren is slightly smaller --

12 A. Yes.

13 Q. -- than Duke. So if you were looking at
14 a statewide sample, you would expect Duke to have a
15 significantly smaller percentage than Columbia or
16 Dominion East Ohio, correct?

17 A. Smaller percentage?

18 Q. Of the overall participants.

19 A. And perhaps not being similar to the rest

20 of this state if you are doing a statewide finding,

21 correct.

22 MR. SERIO: That's all I have, your

23 Honor. Thank you.

24 EXAMINER BULGRIN: Okay. I think you are

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1 done. Thank you very much.

2 THE WITNESS: Thank you.

3 MR. SERIO: Your Honor, I would move for
4 admission of OCC Exhibits 14, 15, and 16.

5 EXAMINER BULGRIN: Any objections?

6 Hearing none those will be admitted.

7 (EXHIBITS ADMITTED INTO EVIDENCE.)

8 EXAMINER BULGRIN: Okay. Let's go off
9 the record here.

10 (Recess taken.)

11 EXAMINER BULGRIN: Mr. Serio.

12 MR. SERIO: Thank you, your Honor.

13 - - -

14 STEPHEN E. PUICAN

15 being first duly sworn, as prescribed by law, was

16 examined and testified as follows:

17 CROSS-EXAMINATION

18 By Mr. Serio:

19 Q. Good afternoon, Mr. Puican.

20 A. Good afternoon.

21 Q. Turn to page 1 of your testimony, and can

22 you tell me --

23 A. Give me a chance.

24 Q. You are listed as the co-chief of rates

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1 and tariffs. And then at the bottom of the page you
2 indicate that your responsibility is oversight of the
3 utility department that includes certain rate case
4 issues. Can you specify which rate case issues those
5 are?

6 A. In this particular case sponsoring the
7 straight fixed variable testimony, certain tariff
8 issues relating to transportation programs, a little
9 bit of the AMRP.

10 Q. When -- I'm sorry, were you done?

11 A. Yeah. There is a section in the staff
12 report on -- that refers to the sales decoupling
13 rider that I also rate that refers to the straight
14 fixed variable.

15 Q. When you say straight fixed variable, do
16 you mean the whole customer charge issue?

17 A. The issue that in my testimony I refer to
18 as the SFV, straight fixed variable issue.

19 Q. Now, you said that that was your area of

20 responsibility in this case. In other gas rate cases
21 that you have had since you have been chief of gas
22 and water, do you generally work in the same areas?
23 A. Yeah. I think we have only had one other
24 gas rate case since I have had responsibility for

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1 gas, and that also involved -- I'm sorry there were
2 two others, one Duke and one Vectren. And, yeah,
3 they were very similar.

4 Q. Now, in the other time you have been at
5 the PUCO, you have worked on a number of other
6 natural gas rate cases.

7 A. No. Those -- including this one, there
8 was only the first Duke and Vectren.

9 Q. So previously you didn't do rate case
10 work.

11 A. I did not do gas rate case work.

12 Q. Gas rate case work. To the extent that
13 you were responsible for the straight fixed variable
14 portion of the staff report, did that include you
15 looking at how the staff has addressed the customer
16 charge issue in the past?

17 A. Yes. We recognized that we were making a
18 significant change from the way rates had typically
19 been allocated in the past between the fixed and

20 variable component.

21 Q. You referred to the staff proposal in
22 this case as an SFV or straight fixed variable. What
23 would you call the allocation rate design that the
24 staff used prior to this case, just so I have a name

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1 for it?

2 A. If you have one in mind, I am happy to
3 use it, but I don't have one in particular.

4 Q. Do you know how long the staff has been
5 using this prior allocation methodology?

6 A. I had a conversation with Ms. Rutherford
7 a few weeks ago, and she traced it back to 1978 and
8 could not trace it back further than that.

9 Q. So it's safe to say then since 1978 up
10 until this case the staff has always -- always
11 consistently dealt with the rate design issue in a
12 manner that was -- that would apply fewer cost to the
13 fixed portion and the majority of the cost to the
14 variable portion, correct?

15 A. That was typical up until this case.

16 Q. And in the staff report in this case it
17 lists Mr. Fortney as responsible for the -- let me
18 get the title here -- rates and tariffs. Did
19 Mr. Fortney report to you?

20 A. No. He is the other co-chief.

21 Q. The other co-chief. Is there a reason

22 you weren't listed on the staff acknowledgments in

23 this staff report?

24 A. Bob has overall responsibility for the

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1 rates and tariffs issue in the rate case proceedings.

2 Basically my participation was as any other worker.

3 Q. Page 3 of your testimony near the bottom,

4 you indicate in your response "by allocating a

5 relatively small proportion of fixed costs." Do you

6 know what that percentage was in the past, what the

7 staff has used previously?

8 A. I am not aware it was based on a

9 particular percentage.

10 Q. So when you say "relatively small

11 proportion," you didn't have any number in mind?

12 It's just -- to your recollection it's just a small

13 part?

14 A. It was small in comparison to the

15 variable component.

16 Q. Do you know why the staff started using

17 the current rate design when they did back in 1978?

18 A. I do not.

19 Q. Do you know why the staff continued to

20 use that rate design for the last 25 plus years?

21 A. The staff put a lot of emphasis on the

22 concept of gradualism. Over that period gas prices

23 were relatively stable, and I think the concept of

24 gradualism makes sense when prices are relatively

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1 stable. There simply was no compelling need to make
2 large changes in it.

3 Q. You just mentioned gradualism. So you
4 are familiar with the concept.

5 A. Yes, sir.

6 Q. And that's a principal that the staff has
7 also used in its proceedings over the last 20, 25
8 years?

9 A. Yes.

10 Q. And that's also a principle that the
11 Commission has used, correct?

12 A. The Commission has generally signed off
13 on staff's positions that were based on the concept
14 of gradualism.

15 Q. Do you recall any cases over the last few
16 years where the Commission has actually discussed the
17 concept of gradualism as part of its order?

18 A. Not specifically.

19 Q. To the extent that the staff has done its

- 20 allocation in previous gas rate cases, if you recall,
- 21 there have been instances where the staff recommended
- 22 customer charges often set below the calculated
- 23 maximum customer charge, correct?
- 24 A. I'm sorry, I didn't understand that.

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1 Q. If you look in the staff report, there's
2 a calculation generally and there will be a number
3 that says maximum customer charge, and then there
4 will be a staff recommended customer charge.

5 A. To be honest, I don't do those
6 calculations myself.

7 Q. Are you familiar with the fact that they
8 exist in the customer charge calculation?

9 A. I'm sorry, that what exists?

10 MR. SERIO: Could I approach, your Honor?

11 EXAMINER BULGRIN: Yeah.

12 MR. SERIO: I am not going to mark this
13 because we could take administrative notice. I was
14 just going to show him an old staff report.

15 MR. WRIGHT: Joe, could I -- is that one
16 he said he was involved with?

17 MR. SERIO: No. It's one that's in the
18 book.

19 MR. WRIGHT: Do you have one?

20 MR. SERIO: I have partial pages.

21 Q. I am showing you a document in the

22 application of East Ohio Gas Company and River Gas

23 Company, Case No. 93-2006-GA-AIR. It is a normal

24 staff report in a gas rate case.

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1 A. Okay.

2 Q. You did not work on this case?

3 A. I did not.

4 Q. I am turning to page 34, it's table 1,
5 and it shows a general service customer charge
6 analysis. Do you see that?

7 A. Yes.

8 Q. And do you see at the bottom of the page
9 it lists average monthly customer costs and then
10 staff recommended customer charge?

11 A. I see that.

12 Q. And the average monthly customer cost is
13 572 and staff recommended is 570.

14 A. Yes.

15 Q. Are you at all familiar with that type of
16 calculation in the staff reports that you have been
17 associated with?

18 A. I have not. I do not do those
19 calculations.

20 Q. Now, to the extent that the staff is
21 moving or changing its position to the straight fixed
22 variable rate design, is the staff also changing its
23 position on gradualism?

24 A. I think we've employed the concept of

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1 gradualism within the way we've implemented our
2 recommended straight fixed variable. The two-year
3 phase in of it, the fact we didn't go to a literal
4 straight fixed variable but did leave a volumetric
5 rate, those all employ the concept of gradualism, but
6 we, I admit, made a substantial change from the way
7 we allocated cost between fixed and variable costs in
8 this case and the way it's been done previously.

9 Q. Would you agree that the current customer
10 charge for Duke residential customers is \$6 a month?

11 A. Yes.

12 Q. So the jump that you are recommending in
13 your one to 20.25 is over a \$14 a month increase,
14 correct?

15 A. That's correct.

16 Q. And to the extent that it's not larger,
17 that's where you are saying the staff employed
18 gradualism?

19 A. I would say we -- we wanted to mitigate

20 the full impact of it to some degree.

21 Q. If you would turn to page 4 of your

22 testimony, please, lines 9 to 12, there you talk

23 about reasons behind the change that the staff made.

24 A. Yes, sir.

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1 Q. And I see there it says, "utilities want
2 more certainty," and you indicate consumer groups
3 were looking for energy efficiency. I notice you
4 don't have in there anything about what residential
5 consumers want. Has the staff done any studies or
6 analysis or surveys to determine if customers would
7 be accepting of the change in rate design the staff
8 is contemplating?

9 A. We have done no such surveys.

10 Q. The bottom of page 4 -- I'm sorry, a
11 little further down the page on page 4, about lines
12 12 through 17, you talk about the decline in per
13 customer usage being a reaction to high gas prices.
14 Do you see that?

15 A. Yes.

16 Q. Essentially what's happened is consumers
17 have turned back the thermostat because the price of
18 gas went up.

19 A. Turning back the thermostat is a

20 short-run response. It also increases the demand for
21 energy efficient appliances, weatherization
22 techniques, that sort of thing.

23 Q. In fact, doesn't the state of Ohio have a
24 policy in the gas side to encourage conservation?

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1 A. There was language in the statute
2 referring to it's the state's policy to encourage
3 energy conservation.

4 Q. When you say the statute, you are
5 referring to chapter 4929 generally?

6 A. 02.

7 Q. And you are not an attorney; you are just
8 talking about your regulatory experiences, correct?

9 A. That's correct.

10 Q. Now, at the bottom of page 4 you talk
11 about there's concern about the utility's ability to
12 recover fixed costs of providing service. Do you see
13 that?

14 A. Yes.

15 Q. I think lines 18 and 19.

16 A. Yes.

17 Q. LDCs have the option or the ability to
18 file for rate relief both under traditional
19 regulation and under alt reg if they are not earning

20 or not recovering all their costs; is that correct?

21 A. That's correct, and we believe this is a
22 more efficient alternative.

23 Q. Is it the staff's position that we should
24 take steps to enable companies to be able to avoid

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1 rate cases for longer and longer periods of time?

2 A. I think there is some benefit to that.

3 Q. Does the staff have a position as to what
4 a reasonable time period between rate cases is?

5 A. Way too many variables to pick a number.

6 Q. Duke has had two rate cases in the last
7 12 years, correct?

8 A. Correct.

9 Q. So they have had one every six years in
10 their recent history?

11 A. Okay.

12 Q. Is it your position that that's too many
13 rate cases over that period of time, or is that a
14 reasonable period in order to allow the Commission
15 and other parties to do review of the company's
16 earnings, cost, revenues, expenses, et cetera?

17 A. That was done specifically because of the
18 AMRP program because we put a limit on the approval
19 of AMRP in that first rate case that did not cover

20 the time period that they needed to complete AMRP so
21 it necessitated them coming in after that six-year
22 period.

23 Q. But do you have any position whether a
24 six-year period between rate cases is a reasonable

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1 period?

2 A. Like I said, it depends on the
3 circumstances. I just cited some circumstances that
4 made that a very reasonable thing to do.

5 Q. On page -- the bottom of page 4 going
6 over to page 5, you talk about the staff's supporting
7 the straight fixed variable rate design because it
8 addresses utility concerns and it addresses the
9 disincentive to utility-sponsored energy efficiency.
10 I didn't see that you mentioned anything about what
11 the straight fixed variable rate design does for
12 customers there. Did I miss something, or did you
13 have something in that section relating to what the
14 straight fixed variable rate design does for
15 consumers?

16 A. The straight fixed variable, as it says
17 there, aligns utility and consumers' interests, gives
18 companies incentives to fund energy efficiency
19 programs that customers can take advantage of to help

20 mitigate their bills.

21 Q. Do you know what commitments Duke has

22 made to energy efficiency in this case?

23 A. \$3 million in this case. They also have

24 a couple of gas DSM programs underway that are being

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1 funded through an electric rider.

2 Q. Okay. So if we just look at the gas
3 side, it's the 3 million?

4 A. There are additional gas programs in
5 addition to those that will be funded by that 3
6 million, but there are \$3 million in gas funds being
7 extended or will be expended on DSM.

8 Q. And do you have a breakdown of how much
9 of those funds are company funded versus ratepayer
10 funds?

11 A. \$3 million is ratepayer funded at the
12 request of several parties.

13 Q. Now, I believe on page 4, line 16 of your
14 testimony you indicate that we had a market price
15 increase that began in the winter of 2000-2001.

16 A. Yes.

17 Q. Prices have remained pretty close to that
18 level or have increased since then, correct?

19 A. They are in the general ballpark, yeah.

20 Q. And there have been rate cases since the

21 2000-2001 winter, correct, gas rate cases?

22 A. Vectren.

23 Q. And did the staff recommend a straight

24 fixed variable rate design in the Vectren case?

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1 A. We did not.

2 Q. Can you tell me when the staff made the
3 determination to switch from their current rate
4 design to go to a straight fixed variable rate
5 design?

6 A. It was subsequent to Duke filing their
7 application, and we were reviewing all possibilities
8 in terms of how to handle the issue of decoupling,
9 aligning of customer interests, and those sorts of
10 things. We had made a decision in the previous
11 Vectren case, not the rate case but the case where
12 they proposed a decoupling mechanism, that was the
13 first time staff changed its position and decided to
14 support a decoupling mechanism for purposes of
15 aligning consumer interests with utility interests.

16 And when we had discussions among
17 ourselves as to whether to begin support it in this
18 proceeding, looking at Duke's initial proposal to
19 increase the fixed component of the residential rate.

20 We simply made a decision that it makes more sense to
21 simply go all the way to a straight fixed variable,
22 even though I understand we are not literally doing
23 the straight fixed variable, rather than some sort of
24 a modified straight fixed variable plus a decoupling

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1 mechanism. That just didn't make any sense to us,
2 and particularly the idea of staying at roughly a \$6
3 customer charge and then having all of the
4 underrecovery of fixed costs recovered through annual
5 proceedings on -- in a decoupling rider. We just did
6 not think it made sense.

7 Q. Did the staff conduct any workshops or
8 any kinds of public process to get input on its
9 decision to go to the straight fixed variable?

10 A. No. I am not aware that we did.
11 Typically I do that in preparation of the staff
12 report.

13 Q. I understand you don't do it in regards
14 to a staff report. I am talking about with regards
15 to the change in position from the one that you have
16 had for the last 25 to 30 years.

17 A. That came about as part of our staff
18 report investigation.

19 Q. Can you recall the last time the staff

20 made a similar type change in policy as to the move
21 to the straight fixed variable rate design on the gas
22 side?

23 A. No. As I have said, this is the first
24 time we have proposed it.

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1 Q. I understand. Do you recall the staff
2 making a change in a policy regarding not necessarily
3 the straight fixed variable rate design but any other
4 of the policies that the staff has with regards to
5 how it conducts cases, if there was a position that
6 they have had for a long period of time, the last
7 time the staff made a change similar to this one?

8 A. I don't think I have personally been
9 involved in any, and nothing really comes to mind,
10 but that doesn't mean -- you know, my participation
11 in gas rate cases has been somewhat limited.

12 Q. Now, the costs that are included in the
13 customer charge are fixed costs, correct?

14 A. Correct.

15 Q. And they were the same kind of fixed
16 costs back in 1978 as they are today, correct?

17 A. Correct.

18 Q. Page 5 of your testimony, at the top of
19 the page, I think line 6 and 7, your sentence "Making

20 recovery of fixed costs a function of sales

21 jeopardizes recovery of these costs deemed prudent in

22 a base rate proceeding."

23 A. Yes.

24 Q. What's your definition of "prudence"?

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1 A. When a company files an application and
2 the staff conducts an audit, a thorough audit of all
3 the books and makes a recommendation to the
4 Commission and the Commission finds that reasonable,
5 that's my definition of prudent.

6 Q. And once the Commission were to issue an
7 order indicating that the rates that came out of that
8 proceeding were prudent, how long are those costs
9 prudent?

10 A. I think they are presumed prudent until
11 they get changed.

12 Q. In your opinion does the high price of
13 gas encourage conservation?

14 A. Yes, it does.

15 Q. And, in fact, that's generally what we
16 have seen the reaction of customers to be to the
17 price spikes we have seen since the year 2000, 2001,
18 correct?

19 A. I agree.

20 Q. And would you agree that lower prices
21 would tend to have an effect of not encouraging
22 conservation as much or perhaps even encouraging more
23 usage?

24 A. Give me a sense of what you mean by low

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1 prices.

2 Q. If we had a price reduction similar to
3 the price spike that occurred in 2000, 2001, would
4 you expect that that would lead to lessening efforts
5 of conservation or perhaps more increased usage?

6 A. I doubt it would lead to increased usage.
7 Elasticity generally aren't symmetric. You don't
8 make an energy efficient investment when prices are
9 rising and then tear it out when prices are falling.

10 Q. But if prices fall, customers might not
11 be willing to pay a premium for greater efficient
12 appliances when they replace the ones they have got,
13 correct?

14 A. If prices drop in proportion to, in your
15 question, similar to what they were during the
16 run-up, if you saw a similar price fall, I would
17 expect you would see a slowing in the rate of growth
18 of energy efficiency.

19 Q. Now, is it the staff's position that the

20 majority of high use customers in the Duke territory

21 are low income customers?

22 A. No. That's not our position unless I am

23 not hearing your question correctly. No, the

24 majority of high use customers are not low income.

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1 That's not our position.

2 Q. So the majority of the high use customers
3 would be generally higher income customers?

4 A. Simply because I presume the total
5 proportion of nonlow income customers is greater,
6 significantly greater, than low income customers, I
7 would expect the roughly that proportion would be
8 applicable to the number -- I am getting twisted up
9 here -- but roughly applicable to the same proportion
10 of nonlow income to low income customers that are
11 high usage. I hope that came out all right.

12 Q. On page 5 of your testimony you indicate
13 that using PIPP customers is the best readily
14 available proxy for all low income customer usage.
15 Did you see that?

16 A. Yes.

17 Q. Is it in your opinion the best proxy or
18 just the most readily available proxy?

19 A. It's the best readily available proxy.

20 Q. If a better proxy were readily available,
21 would the staff recommend using that rather than PIPP
22 customers for low income usage?

23 A. I would have to see what that was.

24 Q. Does the staff have U.S. census data

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1 available to it?

2 A. Yes.

3 Q. Have you looked at U.S. census data to
4 determine if it's a better proxy for PIPP -- for low
5 income customers than PIPP customers?

6 A. There is no census data that will give
7 you gas consumption for CG&E customers -- excuse me
8 Duke customers.

9 Q. Does the census data give you a sense of
10 how many low income customers there are in the Duke
11 territory?

12 A. Yes. You can get a sense of it by
13 looking by county.

14 Q. Have you done that?

15 A. I have.

16 Q. Do you have -- can you give me an idea of
17 the magnitude of low income to PIPP customers? Let
18 me help you. Subject to check, would you agree
19 there's I think it's over 100,000 low income

20 customers in Hamilton County?

21 A. I assume you are pulling that off the
22 same census sheets that I am looking at so I would
23 accept, subject to check.

24 Q. Let me clarify. 66,000 in Hamilton

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1 County and 100,000 over the Duke service territory.

2 A. I know I can check the Hamilton County.

3 I am not sure how I would check the other.

4 Q. At the bottom of page 5 you talk about

5 low income customers being more likely to rent than

6 to own. That's generally they would rent or own

7 smaller homes than higher income customers, correct?

8 A. Are you asking me regardless of whether

9 they rent or own, they would be smaller homes; is

10 that your question?

11 Q. Generally speaking, is it your

12 understanding that low income customers have smaller

13 homes or smaller apartments than higher income

14 customers?

15 A. I don't -- I don't know that as a fact

16 one way or the other.

17 Q. Now, to the extent that the straight

18 fixed variable rate design puts more costs in the

19 fixed portion of the bill and reduces the variable

20 portion, that reduces the portion of a bill that a
21 customer has control over through conservation or
22 other types of efforts to reduce usage, correct?
23 MR. WRIGHT: Could I have the question
24 repeated, please.

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1 (Record read.)

2 A. Yeah. The fixed charge is by definition
3 fixed and customers have no control over that.

4 Q. So to the extent that the fixed charge
5 increases and the variable charge decreases, the
6 customer's ability to control their own bill
7 decreases also, correct?

8 A. To the relatively minor extent that the
9 distribution rate can make a meaningful difference on
10 its own. We have heard plenty of testimony that I
11 agree with that obviously it's the gas cost that
12 really controls how much a customer can control their
13 energy bill.

14 Q. On page 6 of your testimony, line 16
15 through 18, you indicate: "Customers will always
16 achieve the full value of the gas cost savings when
17 they conserve regardless of the distribution rate."

18 To the extent that someone bought a more
19 energy efficient appliance, up until the time of the

20 order in this case they could have used their old
21 bills to do an analysis of how long their payback
22 period would be, correct? Like if you buy a more
23 energy efficient furnace, the furnaces have a rating
24 that can tell you greater efficiency based on your

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1 usage allowing the payback period for what that
2 appliance is, correct.

3 A. Hypothetically a customer could do that.

4 Q. And to the extent that we are changing
5 the rate design now, that could impact the actual
6 payback period that a customer has on that appliance
7 going forward, correct?

8 A. The way we are switching cost between the
9 fixed and variable component of the distribution rate
10 could have a small impact.

11 Q. On page 7 of your testimony line 5, it
12 says the SFV rate design satisfies this condition by
13 properly separating fixed and variable costs. Does
14 that imply that the previous rate design did not
15 properly separate fixed and variable costs?

16 A. That was not -- that was not a goal of
17 the previous rate setting regime so it did not.
18 There were other considerations that staff at the
19 time presumably believed were more important.

20 Q. A couple of sentences down from that you
21 indicate that artificially inflating the volumetric
22 rate would cause an overinvestment in conservation.
23 Can you define what you mean by "overinvestment in
24 conservation"?

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1 A. It encourages customers to invest in
2 conservation based on an improper price signal where
3 that conservation will reduce the collection of a
4 company's fixed costs, thereby incurring more
5 frequent rate cases and other customers having to
6 make up that difference. The variable cost that a
7 customer should make a decision on should reflect the
8 utility's actual avoided cost, and that does not
9 happen when you include fixed costs in a variable
10 rate.

11 Q. To the extent that customers always
12 achieve the full value of gas cost savings when they
13 conserve, then any overinvestment still provides a
14 payback to the consumer, correct?

15 A. It provides a payback to the consumer at
16 the expense that the utility's recover its fixed
17 costs, and, once again, creating a deficit that has
18 to be made up by other customers.

19 Q. To the extent that the company would file

20 another rate case but until another rate case is

21 filed, that wouldn't exist, would it?

22 A. It's got to be made up eventually either

23 through a decoupling mechanism, if you went that way,

24 or at the next rate case.

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1 Q. But it's only at the point of that rate
2 case that that would occur unless there is a
3 decoupling mechanism in place.

4 A. The company would continue to lose that
5 portion of its fixed costs until it came in and had
6 rates reset.

7 Q. Now, to the extent there has been a
8 decline in the per customer usage, does the staff
9 have any position on how much is due to the price of
10 gas versus energy efficiency programs versus greater
11 appliance efficiency standards?

12 A. Not individually broken out like that,
13 not by appliance versus other efficiency measures,
14 but we have seen an increase in acceleration in the
15 rate of decline in use per customers since 2000-2001,
16 so I think clearly the significant price increases
17 that have occurred since that time have increased the
18 rate of energy efficiency and conservation efforts,
19 but we haven't attempted to quantify anything beyond

20 the total.

21 Q. Were you here earlier when Mr. Rinebolt
22 introduced OPAE Exhibit 1?

23 A. I believe so.

24 MR. RINEBOLT: I have extra copies.

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1 MR. SERIO: May I approach, your Honor?

2 EXAMINER BULGRIN: Yes.

3 Q. If you look at OPAE Exhibit No. 1,
4 there's three very distinct price spikes on that, is
5 there not?

6 A. Yes.

7 Q. One of them occurred it looks like the
8 winter of 2000, one in the winter of 2003, and one in
9 the winter of 2006, correct?

10 A. Yes.

11 Q. So would it be reasonable to assume that
12 if there was a greater reduction in usage during
13 those years, that that's correlated to the higher
14 price spike here?

15 A. I'm sorry, you are saying if reduction in
16 use per customer coincided with these spikes?

17 Q. Well, let me do this. Let me find --

18 MR. SERIO: May I approach again, your
19 Honor?

20 Q. I am going to hand you what has
21 previously been marked and admitted into evidence as
22 OCC Exhibit 12. I believe there was testimony,
23 earlier, I don't know if you were in the room for it
24 or not, under the most recent five calendar years

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1 that represented actual usage. Do you recall that?

2 A. I accept your representation.

3 Q. So if I was to look at the decline in

4 usage under the five most recent calendar years, and

5 I looked, for example, at the decline from 2005 to

6 2006 on OCC Exhibit 12 and then I look at OPAE

7 Exhibit 1 and I see the price spike, you would agree

8 that it's reasonable to assume that a large portion

9 of that was in response to the higher gas costs,

10 correct?

11 A. Can I ask if these are weather

12 normalized?

13 Q. To be honest, I don't recall what the

14 company said. I remember him saying they were actual

15 numbers.

16 A. Yeah. If they are not weather

17 normalized, you can't read anything into it.

18 EXAMINER BULGRIN: I believe the

19 testimony was that only the projected numbers were

20 weather normalized.

21 MR. SERIO: I just don't recall, your

22 Honor.

23 Q. You indicated without knowing if they are

24 weather normalized, it wouldn't make the correlation.

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1 Can you explain to me why the data being normalized
2 is important to be able to make the correlation
3 between higher gas prices and lower consumption?

4 A. As a general proposition, it's not
5 necessary to make that point, but you asked me
6 specifically about three particular spikes on a graph
7 and whether the reductions that occurred during those
8 years are directly related to those spikes, and
9 without being weather normalized you can't make a
10 conclusion in that regard.

11 Q. So the staff doesn't have an idea of a
12 breakdown between price of gas, energy efficiency and
13 appliance standards and looking at the price spikes
14 and the large reductions that were not normalized, it
15 doesn't enable you to conclude that a larger portion
16 of the drop during those years was as a result of the
17 price of gas?

18 A. I don't think you can say conclusively.
19 If they are correlated to colder than normal winters,

20 then you can't necessarily conclude that it's a

21 function of those price spikes.

22 Q. Okay. Now, I think it's your testimony

23 that the SFV would remove the disincentive to promote

24 and fund energy conservation, correct?

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1 A. Correct.

2 Q. Do you see a difference between removing
3 a disincentive and adding an incentive to encourage
4 energy efficiency?

5 A. I suppose it's the same difference as
6 between reasonable and not unreasonable.

7 Q. So in your -- so in your mind they are
8 not different, or are they?

9 A. We are removing any disincentive. We are
10 not adding any additional incentive above and beyond
11 that.

12 Q. So simply removing the incentive does not
13 necessarily give you the same result as adding an
14 incentive would, correct?

15 A. Help me understand what kind of an
16 incentive we would be talking about.

17 Q. Would you agree that decoupling provides
18 an incentive to promote energy efficiency?

19 A. No. It provides a disincentive to not do

20 DSM.

21 Q. So you see those -- you see both

22 decoupling and SFV as removing a disincentive, as

23 either one adding an incentive?

24 A. That's correct. They are basically

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1 designed to do the same thing.

2 Q. Now, there are other factors that
3 generally weigh in on rate design, like customer
4 acceptance, understandability, fairness,
5 consideration of customer's ability to pay, correct?

6 A. Yes.

7 Q. Was customer acceptance factored into the
8 decision to move to the SFV rate design?

9 A. Yes.

10 Q. And I don't recall if you answered this
11 question, did the staff do any surveys or analysis to
12 determine that, in fact, customers would be accepting
13 of the higher fixed charges? Or what do you base
14 that customer acceptance on?

15 A. In comparison to the decoupling mechanism
16 that was the alternative to the straight fixed
17 variable, I would much rather explain to customers
18 and I think they would be much more receptive of
19 explaining the fixed versus variable concept and why

- 20 this is being done as opposed to each and every year
- 21 to have another proceeding to raise their variable
- 22 rates and have to explain to customers how we
- 23 adjusted for weather and looked at use per customer
- 24 and went back to the rate case and compared that with

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1 use per customer back at the rate case and that's why
2 your bill is going up. I would much rather explain
3 straight fixed variable one time than every year have
4 to explain what we are doing with that decoupling
5 mechanism.

6 Q. That goes to understandability.

7 A. I thought that's what you asked me.

8 Q. I was asking you about customer
9 acceptance.

10 A. I would make the same answer with regard
11 to acceptance.

12 Q. You referenced the Vectren proceeding
13 earlier. Is that the 1444 docket?

14 A. Yes.

15 Q. Do you know if any of the decoupling
16 mechanisms have actually been implemented in that
17 proceeding yet?

18 A. They have not. The calculations are
19 being done and the results being deferred and the

20 recovery will be determined in the rate case.

21 Q. So we haven't had the opportunity to

22 determine what customer acceptance or customer

23 understandability would be to that implementation of

24 decoupling yet, correct?

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1 A. At this point in time we have neither a
2 decoupling or an SFV. Customers have no opportunity
3 to respond to either the SFV or a decoupling.
4 Neither has been implemented to date.

5 Q. So we don't have any customer feedback on
6 either one.

7 A. Correct.

8 Q. So to the extent that the staff was
9 concerned that the decoupling would cause more --
10 would result in less understandability or less
11 customer acceptance, we haven't had the opportunity
12 to see decoupling put in place to see if that
13 actually would play out, correct?

14 A. Correct.

15 Q. Were you here previously when I asked
16 Mr. Smith about the I think it was less than 10,000
17 low usage customers on the Duke system?

18 A. I was here for your cross-exam of
19 Mr. Smith, yes.

20 Q. Has the staff done any analysis to
21 determine the impact of the higher customer charge
22 from the SFV and whether that would result in any of
23 the low usage customers that are currently on the
24 system leaving the system?

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1 A. We have not done any specific analysis.

2 Q. So the extent Duke is a combination
3 utility and they might loss a gas customer that would
4 become more of an electric customer, that would be a
5 different situation than the other three large gas
6 companies in Ohio because they are not combination
7 utilities, correct?

8 A. I am not sure because they might switch
9 over to electric. How much of a change that would
10 make in Duke gas being willing to lose customers, I
11 don't know.

12 Q. Let me ask the question this way. If you
13 know, do you think that Columbia, Dominion, or
14 Vectren would be as willing to lose anywhere from
15 zero to I think 6,800 customers as a result of a
16 higher customer charge to the extent that if they
17 lost the customers, they lose the customer
18 completely, whereas if Duke loses them as a gas
19 customer, they could pick them up as an electric

20 customer?

21 A. I don't think it enters into the

22 consideration at all, given that Columbia has just

23 filed an application proposing a strict straight

24 fixed variable rate.

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1 Q. And Dominion actually in their current
2 rate case filed to maintain the customer charge that
3 they have had for 13 years, correct?

4 A. Correct.

5 Q. Is it one of staff's objectives to
6 decrease the frequency of rate cases as a result of
7 the straight fixed variable rate design?

8 A. I think that's fair, yes.

9 Q. Would you agree that the straight fixed
10 variable rate design has the effect of providing a
11 more guaranteed recovery of per customer revenue
12 requirements for a company?

13 A. It provides -- provides a more assured
14 way of recovering the company's fixed costs.

15 Q. Is there anything under the Ohio
16 traditional ratemaking formula that requires a more
17 guaranteed recovery of customer revenue requirements?

18 A. Not under Ohio law. We are doing it
19 because of what we have seen take place in recent

20 years when the majority of cost recovery is put into
21 the variable component and prices are rising and
22 inducing price-induced conservation. Then the
23 utility is not recovering the fixed costs that the
24 Commission has deemed they were entitled to, and

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1 that's the problem we are attempting to fix here.

2 Q. Straight fixed variable rate design is a
3 reaction to high gas prices. In the event gas prices
4 were returned to the pre-2000-2001 winter prices,
5 would the staff recommend going back from the
6 straight fixed variable to the current rate design
7 that we have today?

8 A. I think what staff would recommend, no
9 further increases in the customer charge on a
10 going-forward basis.

11 Q. So even if we get a straight fixed
12 variable rate design, even if the cost of gas comes
13 down in the future, staff would recommend staying
14 with the straight fixed variable?

15 A. Yes, because it makes economic sense to
16 do so.

17 Q. To the extent that the staff -- one of
18 the staff's goals is to reduce frequency of rate case
19 filings, if a straight fixed variable rate design is

20 implemented in this proceeding, it's possible that
21 the company wouldn't have another rate case for
22 longer than a six- to eight-year period, correct?

23 A. That's possible.

24 Q. And to the extent that the Commission

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1 would implement a straight fixed variable rate design
2 for the first time, that would mean that the
3 Commission would not have the ability to review the
4 implications or the fallout from that policy change
5 until the company's next case at some unknown point
6 in the future, correct?

7 MR. WRIGHT: Objection. That calls for a
8 legal conclusion.

9 EXAMINER BULGRIN: Sustained.

10 Q. Mr. Puican, other than rate cases, what's
11 your understanding of the other way the Commission
12 can review the company's earnings?

13 A. It's typically done through a rate case,
14 but, you know, we have seen all kinds of creative
15 riders appear over the last few years. I am sure
16 there's very little the Commission couldn't take care
17 of if they desired.

18 Q. You are familiar with the decoupling
19 mechanism that the company initially filed in its

20 application?

21 A. Yes.

22 Q. Do you know if the company asked for
23 carrying costs as part of that decoupling mechanism?

24 A. It was modeled after Vectren, and I

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1 believe Vectren does allow carrying charges year to
2 year prior to the new rates being put into effect.

3 Q. Do you know whether Duke specifically
4 asked for carrying charges, though?

5 A. No, I guess I don't. They are modeled
6 after VEDO so I am assuming that they do.

7 Q. On page 8 of your testimony, lines 10 and
8 11, you indicate that: "It recovers costs as
9 incurred by the LDC and eliminates the need for
10 carrying cost associated with deferred recoveries."
11 To the extent the company didn't ask for carrying
12 costs, that wouldn't be a factor that would be
13 considered one of the reasons not to do a decoupling
14 mechanism, correct?

15 A. I'm sorry, if I could have it again.

16 Q. Are you assuming here in your answer on
17 lines 10 and 11 that carrying costs would be included
18 in the decoupling mechanism?

19 A. Yes, I am assuming, as with VEDO, there

20 would be carrying charges.

21 Q. So to the extent there are carrying

22 costs, you see that as a negative, so the flip side

23 if there is no carrying costs, there would not be a

24 negative?

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1 A. If there are no carrying costs then
2 this -- then that statement would not be relevant.

3 Q. Okay. Thank you. That's all I have,
4 your Honor.

5 EXAMINER BULGRIN: Mr. Rinebolt?

6 - - -

7 CROSS-EXAMINATION

8 By Mr. Rinebolt:

9 Q. Mr. Puican, good afternoon.

10 A. Good afternoon.

11 Q. Like usually, my colleague from OCC has
12 asked most of my questions so this should be brief.
13 I do want to follow-up, however, on the Vectren
14 decoupling issue just a little bit more. Would you
15 say it's correct to characterize the two-year
16 authorized decoupling in Vectren as a pilot program?

17 A. I honestly don't recall that being
18 referred to as a pilot program.

19 Q. Well, let's put it this way, if that

20 program is only authorized for two years, it's

21 clearly an experiment.

22 A. I am hesitating because I am trying to

23 think back to the details of what we -- what the

24 Commission approved. And I am just -- my

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1 recollection was that they had a deferral authority
2 up until the time of the next rate case. If that's
3 wrong, I am willing to be corrected, but that was my
4 recollection.

5 Q. Okay. Have you looked at data from other
6 decoupling schemes approved by commissions in other
7 states to look at the impact it had on promoting
8 conservation or efficiency?

9 A. No. I have not done any follow-up to see
10 if -- if the practical application comports with the
11 theory behind it.

12 Q. So you really haven't done any analysis
13 of decoupling to determine whether it's a rate design
14 that balances the needs of customers and the company.

15 A. No. We have evaluated it from a
16 theoretical perspective, but we have not gone back
17 and tried to do any empirical analysis to see if that
18 actually was the case.

19 Q. Okay. Let me see. Let's go to page 4 if

20 we could, and I am around line 13. And you indicate
21 that really the focus of the SFV rate design is to
22 protect the ability of the company to recover its
23 fixed costs, correct?

24 A. That's one of the motivations, yes.

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1 Q. Okay. What percentage of the revenue
2 shortfall in this case is caused by the reduction in
3 per customer usage?

4 A. I don't know the percentage. My
5 recollection it was \$6 million.

6 Q. And would you agree, subject to check, we
7 discussed this with Mr. Storck this morning, that
8 that's about 27 percent of their initial request for
9 a rate increase?

10 A. If 6 million is that percent of
11 34 million, yes.

12 Q. Okay. Okay. So clearly not the majority
13 of the justification for the rate increase in this
14 case.

15 A. We -- yes, yes.

16 Q. Okay. Now, we've talked a lot about
17 aligning the customer charge with fixed costs. What
18 happens if a company adds customers and new service
19 lines? Does that increase their costs?

20 A. If a customer has to install new service

21 lines to serve new customers?

22 Q. Uh-huh.

23 A. Does that increase their costs?

24 Q. Yes.

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1 A. Those are fixed costs they have to

2 recover, yes.

3 Q. Okay. And you have more meters in, you

4 have more customers?

5 A. Yes.

6 Q. And you have all the little things that

7 you've got to have to serve a customer. The more

8 customers you get, the more they cost.

9 A. There are costs associated when you add

10 customers.

11 Q. All right so. The costs of serving

12 customers aren't really fixed. It evolves based on

13 the number of customers or the growth in customers

14 that you are serving.

15 A. When we talk about the costs that are

16 fixed, you are talking about serving, about fixed

17 costs independent of volume even for a particular

18 customer. It doesn't cost any more for them to

19 provide a customer 8 MCF versus 5 MCF. When we talk

20 about fixed costs, that's really what we are talking

21 about, not the cost of expanding the service

22 territory.

23 Q. But ultimately the cost of expanding the

24 service territory goes into the rate base, doesn't

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1 it?

2 A. Yes.

3 Q. And then that's converted into a per
4 customer charge under your straight fixed variable.

5 A. Right, because at that point it is a
6 fixed cost and no longer -- no longer dependent on
7 volumes.

8 Q. All right. In your staff discussions of
9 the SFV concept, have you conducted an analysis of
10 the bill impacts of SFV on customers with annual use
11 between 10 and 20 MCF?

12 A. We have looked at a lot of scenarios in
13 terms of who would pay more, who would pay less.

14 Q. Okay. Have you done any analysis or
15 reviewed any data to indicate if a straight fixed
16 variable rate encourages more conservation than the
17 current rate design?

18 A. No. But there's no reason to believe it
19 would be significantly different. And I understand

20 the question, the decrease in the volumetric rate
21 will cause people to be less inclined to conserve
22 possibly at the margin, but I can't believe that
23 that's significant, and I certainly think it would be
24 overwhelmed by the removal of the company

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1 disincentive to actually promote conservation.

2 Q. But you haven't reviewed actually any
3 data from other states that have -- or other
4 utilities where this rate design has been
5 implemented?

6 A. I have not.

7 Q. Now, Mr. Smith testified that 60 to 80
8 percent of costs are variable under the SFV rate
9 design. Obviously, it varies by consumption. So
10 doesn't that mean that the savings associated with
11 reduction in usage would be discounted by 20 to
12 40 percent, the amount that's a fixed charge?

13 A. I'm sorry. You will have to give me that
14 one again.

15 Q. Okay. Mr. Smith indicated that 60 to 80
16 percent of the cost under the SFV is variable.

17 A. Okay.

18 Q. Okay. So that means that the discount
19 applied to returns on energy efficiency investments

20 would be in the range of 20 to 40 percent because now

21 you have got fixed costs eating up that much.

22 A. I am not trying to be difficult. I am

23 not -- your -- I don't see where your 20 to

24 40 percent is coming from.

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1 Q. Well, I may not be much of a

2 mathematician.

3 A. Are you simply subtracting from the

4 100 percent?

5 Q. I am simply subtracting it from 100.

6 A. Once again, I apologize. If you would

7 give it to me again now that I understand what you

8 are doing.

9 Q. Sixty to 80 percent of the cost is

10 variable, so that means 20 to 40 percent is fixed.

11 A. Okay.

12 Q. Now, that fixed cost essentially

13 discounts the revenues associated with the savings,

14 the amount that's saved, correct?

15 A. It -- the higher the fixed costs, the

16 less is the variable rate by definition, and so there

17 is a little bit more disincentive for the customer

18 because they -- because it has a potential to impact

19 any payback analysis. My opinion, again, is that

20 that impact is so small that the number of customers

21 that do that fine-tuned of a payback analysis is

22 probably very small, and I just don't believe that

23 that impact is going to be significant.

24 Q. Well, in fact, that's the point you make

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1 on page 6 at line 20 in your testimony where you
2 indicate the customers, you know, that do an explicit
3 cost/benefit analysis would be -- the way that you
4 would -- you know, that would be the only time
5 something like this would come into play. Now, you
6 know what an energy audit is, right?

7 A. Yes.

8 Q. And, in fact, Duke has an energy audit
9 available on their website.

10 A. I'll accept that.

11 Q. All right. Now, a modern energy audit
12 calculates the cost/benefit associated with
13 installing an efficient appliance, doesn't it?

14 A. That would be one of the purposes of
15 energy audit, yes.

16 Q. And so it's going to look at the rate
17 structure that's associated with the price the
18 customer pays for gas and for distribution service in
19 order to make those calculations.

20 A. I would presume. Not having looked at
21 their audit program, I don't know, but I would assume
22 that that would be part of it.

23 Q. Well, any audit program that you have
24 looked at wouldn't it -- don't you have to plug in

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1 the rates and plug in the customer charge in order to
2 get a calculation on cost/benefit?

3 A. To get a payback, yes.

4 Q. To get a payback, okay. So it's possible
5 given this change that an investment that may have
6 made economic sense under traditional rate design
7 won't make economic sense under the SFV?

8 A. It has the potential to slightly change
9 the payback analysis.

10 Q. Okay. You note on page 8 that one of the
11 advantages of an SFV is that we are not going to have
12 to do annual true-ups that would be required with
13 decoupling, correct?

14 A. Yes. Yes.

15 Q. Now, and those cases take time, and we
16 are going to have an argument about weather
17 normalization and other things, right? I mean that's
18 what you talked about in your testimony.

19 A. I make that point here, yes.

20 Q. Okay. Now, the last two rate cases

21 brought by Duke have settled, haven't they?

22 A. The last one I am sure was settled.

23 Q. And the bulk of this one, actually.

24 A. Are you referring to this?

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1 Q. Well, we will include this one then.

2 A. The bulk of this case has settled, yes.

3 Q. Right. And we have had Rider MRP cases
4 since 2003?

5 A. Yes, that's true.

6 Q. And the bulk of those have settled as
7 well, haven't they?

8 A. They have because that is much more of
9 just an accounting and making sure the expenditures
10 were as they said and the numbers all add up. We
11 don't have to get into issues of weather
12 normalization, which we saw take a lot of time here
13 today, so I am not sure it's exactly analogous.

14 Q. We had weather normalization in the 2003
15 rate case. That was an issue, wasn't it?

16 A. You are referring to the 2001?

17 Q. The 2001.

18 A. Yes.

19 Q. Okay.

20 MR. RINEBOLT: I have no more questions

21 thank you very much.

22 THE WITNESS: Thank you.

23 - - -

24 CROSS-EXAMINATION

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1 By Mr. Finnigan:

2 Q. Good afternoon, Mr. Puican.

3 A. Good afternoon.

4 Q. I just have a couple of questions.

5 MR. SERIO: Your Honor, before, to the

6 extent that the company is adopting the staff

7 position, it would seem to me that the company asking

8 the staff cross-examination would constitute the most

9 extreme form of friendly cross.

10 EXAMINER BULGRIN: I would agree, but

11 there may be a question that isn't.

12 MR. FINNIGAN: Thank you.

13 By Mr. Finnigan:

14 Q. Mr. Puican, you were asked a couple of

15 questions whether census data could be used to

16 determine the impact of straight fixed variable rates

17 on low income customers.

18 A. Yes.

19 Q. Do you know whether census data on income

20 levels is reported on a per capita basis or a

21 household income basis?

22 A. I don't believe it's on a per household

23 income basis.

24 Q. If it's a per capita basis, then it would

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1 not be useful in determining the impact of straight
2 fixed variable rates on low income customers because
3 you could have more than one low income person in the
4 same household, couldn't you?

5 MR. SERIO: Objection. Your Honor, this
6 is what I meant by friendly cross. If the staff
7 wants to do redirect --

8 EXAMINER BULGRIN: Okay. Sustained.

9 Q. Mr. Puican, you were asked a question
10 about the residential customer charge charged by Duke
11 Energy.

12 A. Yes.

13 Q. Isn't it true that Duke Energy also has a
14 fixed monthly charge of approximately \$6 for the
15 AMRP?

16 A. 5.77, yeah.

17 MR. FINNIGAN: Thank you. That's all I
18 have.

19 EXAMINER BULGRIN: Mr. Wright?

20 MR. WRIGHT: Could I have a couple of

21 minutes to confer with the witness?

22 EXAMINER BULGRIN: Just a couple.

23 MR. WRIGHT: What's that?

24 EXAMINER BULGRIN: I say just a couple.

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1 (Discussion off the record.)

2 EXAMINER BULGRIN: Let's go back on the
3 record then for the purposes of saying that.

4 MR. WRIGHT: We are back on the record?

5 EXAMINER BULGRIN: Yes, we are back on
6 the record.

7 MR. WRIGHT: Your Honor, we have no
8 redirect for Mr. Puican. I would like to move at
9 this time for admission of Staff Exhibit 3.

10 EXAMINER BULGRIN: There being no
11 objections that will be so admitted.

12 (EXHIBIT ADMITTED INTO EVIDENCE.)

13 EXAMINER BULGRIN: And we will recess
14 this until 9:00 a.m. tomorrow morning. Thank you.

15 (Discussion off the record.)

16 (The hearing adjourned at 4:57 p.m.)

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CERTIFICATE

I do hereby certify that the foregoing is
a true and correct transcript of the proceedings
taken by me in this matter on Wednesday, March 5,
2008, and carefully compared with my original
stenographic notes.

Karen Sue Gibson, Registered
Merit Reporter.

(KSG-4858)

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