

FILE

OCC EXHIBIT NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The East)
Ohio Gas Company d/b/a Dominion East) Case No. 07-829-GA-AIR
Ohio for Authority to Increase Rates for its)
Gas Distribution Service.)

In the Matter of the Application of The East)
Ohio Gas Company d/b/a Dominion East) Case No. 07-830-GA-ALT
Ohio for Approval of an Alternative Rate)
Plan for its Gas Distribution Service.)

In the Matter of the Application of The East)
Ohio Gas Company d/b/a Dominion East) Case No. 07-831-GA-AAM
Ohio for Approval to Change Accounting)
Methods.)

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

In the Matter of the Application of The East)
Ohio Gas Company d/b/a Dominion East)
Ohio for Approval of Tariffs to Recover) Case No. 06-1453-GA-UNC
Certain Costs Associated with Automated)
Meter Reading and for Certain Accounting)
Treatment.)

**DIRECT TESTIMONY
OF
BETH E. HIXON**

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

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Columbus, OH 43215

June 23, 2008

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1 **I. INTRODUCTION**

2 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

3 ***A1.*** My name is Beth Hixon. My business address is 10 West Broad Street, Suite
4 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio
5 Consumers' Counsel ("OCC" or "Consumers' Counsel") as the Assistant Director
6 of Analytical Services.

7
8 ***Q2. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATIONAL AND
9 PROFESSIONAL HISTORY?***

10 ***A2.*** I received a Bachelor of Business Administration degree in accounting from
11 Ohio University in June 1980. For the period June 1980 through April 1982, I
12 was employed as an Examiner in the Field Audits Unit of the Ohio
13 Rehabilitation Services Commission ("ORSC"). In this position, I performed
14 compliance audits of ORSC grants to, and contracts with, various service
15 agencies in Ohio.

16
17 In May 1982, I was employed in the position of Researcher by the OCC. In
18 1984, I was promoted to Utility Rate Analyst Supervisor and held that position
19 until November 1987 when I joined the regulatory consulting firm of Berkshire
20 Consulting Services. In April 1998, I returned to the OCC and have
21 subsequently held positions as Senior Regulatory Analyst, Principal Regulatory
22 Analyst, and Assistant Director of Analytical Services.

1 **Q3. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY**
2 **REGULATION?**

3 **A3.** In my positions with the OCC, and as a consultant with Berkshire Consulting
4 Services, I have performed analysis and research in numerous cases involving
5 utilities' base rates, fuel and gas rates and other regulatory issues. I have worked
6 with attorneys, analytical staff, and consultants in preparation for, and litigation
7 of, utility proceedings involving Ohio's electric companies, the major gas
8 companies, and several telephone and water utilities. At the OCC, I also chair
9 the OCC's cross-functional internal electric team, participate in and/or direct
10 special regulatory projects regarding energy issues, and provide training on
11 regulatory technical issues.

12
13 **Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE**
14 **REGULATORY COMMISSIONS?**

15 **A4.** Yes. I have submitted testimony before the Public Utilities Commission of Ohio
16 ("PUCO" or "Commission") in the cases listed in Attachment BEH-1. As shown
17 on this Attachment, I have also submitted testimony in a case before the Indiana
18 Utility Regulatory Commission.

19
20 **Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF**
21 **YOUR TESTIMONY?**

22 **A5.** From the current rate case, I reviewed Dominion East Ohio's ("DEO" or
23 "Company") standard filing requirements and supporting workpapers, pre-filed

1 testimony, responses to certain OCC discovery, responses to certain data requests
2 of the Staff of the Public Utilities Commission of Ohio ("PUCO Staff"),
3 responses to certain data requests of Blue Ridge Consulting Services, Inc. ("Blue
4 Ridge"), the Staff Report of Investigation ("Staff Report") and certain of its
5 supporting workpapers, and the Report of Conclusions and Recommendations on
6 the Financial Audit of Dominion East Ohio Gas Company by Blue Ridge ("Blue
7 Ridge Report"). I have also reviewed certain documents and Opinion and Orders
8 from other proceedings.

9

10 **II. PURPOSE OF TESTIMONY**

11 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
12 **PROCEEDING?**

13 **A6.** My testimony will support certain OCC objections to the Staff Report, address the
14 issues raised by those objections as they relate to the determination of rate base
15 and operating income, and present quantification of those issues. Specifically I
16 will address OCC's objection related to pension expense and recommend that the
17 Commission:

- 18 (1) Adopt a pension expense of negative \$50.5 million, because that is the net
19 periodic pension cost determined under Financial Accounting Standard
20 Board Statement 87 ("FAS 87"), as proposed by Staff;
- 21 (2) Reject Staff's proposal to allow DEO to earn a return on its pension asset,
22 net of pension-related accumulated deferred income taxes ("ADIT"),

1 because this would allow a return to be earned on non-investor supplied
2 funds;

3 (3) Continue to reduce rate base by the \$220 million date certain balance of
4 pension-related ADIT because this balance represents non-investor
5 supplied funds; and

6 (4) Adopt an adjustment to the working capital allowance to reflect a \$0
7 pension expense in the lead/lag calculation, as an appropriate manner in
8 which to allow the Company to earn a return on the additional working
9 capital need created by a negative pension expense.

10

11 I also summarize the impact on DEO's revenue requirement as determined in the
12 Staff Report, of OCC's recommended adjustments, including those proposed by
13 OCC witnesses Tanner, Hines, Gonzalez and Woolridge. This revenue
14 requirement summary is shown on Schedule BEH-A-1 and supported by
15 Schedules BEH-B-1 through BEH-C-4. I developed these summary schedules
16 through the use of the interactive Excel spreadsheet provided by the Staff in
17 support of the Staff Report. My testimony includes the Staff Report schedules
18 that were impacted by OCC's adjustments and additional schedules needed to
19 present OCC's adjustments.

20

21

22

23

1 **III. PENSION EXPENSE**

2 ***Q7. WHAT IS DEO'S PROPOSED TREATMENT OF PENSION EXPENSE IN***
3 ***THIS RATE CASE?***

4 ***A7.*** In DEO's Rate Case Application¹ and through the Direct Testimony of Mr. Ives²,
5 DEO proposes that its unadjusted negative pension expense not be used in this
6 rate case, but instead the level of pension expense for ratemaking should be \$0.
7 DEO eliminated a \$47.7 million credit from test year expenses, which results in
8 an increase to adjusted operating expense in the same amount. In conjunction
9 with this \$0 pension expense, DEO also eliminated \$220 million in pension-
10 related accumulated deferred taxes from its deductions for rate base, which results
11 in an increase to rate base in the same amount.

12

13 As Mr. Ives explains in his testimony, DEO proposes two adjustments:

- 14 1. Exclude this \$47.7 million credit from test year expense so that pension
15 expense would be \$0, as opposed to a negative \$47.7 million. This
16 adjustment is shown on DEO Schedule C-3.26.³
- 17 2. Adjust rate base to "exclude" DEO's pension asset, net of pension-related
18 ADIT. The adjustment for pension-related ADIT is shown on DEO
19 Schedule B-6, however, there was no adjustment needed to "exclude" the

¹ *In the Matter of the Application of the East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service, Case No. 07-829-GA-AIR, et al. (August 30, 2007). ("Rate Case Application")*

² *Rate Case Application, Testimony of Daniel M. Ives (September 13, 2007). ("Ives Direct Testimony")*

³ *Ives Direct Testimony at 11.*

1 pension asset from rate base because that asset was not part of DEO's rate
2 base.⁴

3
4 DEO's pension expense credit is the result of the Company applying FAS 87 for
5 book accounting purposes. As Mr. Ives explains in his testimony, a company
6 recognizes a FAS 87 pension expense that has the following cost elements, which
7 the utility determines through an actuarial study:

- 8 1. Service costs of today's employees
- 9 2. Interest cost associated with projected benefits obligations
- 10 3. Actual return on plan assets
- 11 4. Amortization of unrecognized net gains or losses
- 12 5. Gains or losses associated with projected benefits obligations
- 13 6. Amortization of unrecognized prior service costs and
- 14 7. Transition obligation of 1986 implementation of FAS 87

15 [The summation of these components results in the FAS 87 pension expense,
16 which is known as the "net periodic pension cost."]

17
18 According to Mr. Ives, DEO's FAS 87 pension expense for 2006, a negative
19 \$49.4 million, was a credit primarily due to "(1) earned returns on plan assets
20 greater than expected returns; and (2) a reduction in service cost for current
21 employees."⁵ DEO's FAS 87 pension expense has been negative every year since

⁴ Id.

⁵ Ives Direct Testimony at 9.

1 its last rate case in 1994.⁶ In that case, the pension expense in the Staff Report
2 was based on a FAS 87 pension expense credit of \$6.2 million. Therefore, Mr.
3 Ives claims DEO's pension expense credit is not due to ratepayer contributions
4 because there have not been any ratepayer contributions since 1994. DEO has
5 made no cash contributions to its pension plans since 1992 because they are fully
6 funded.

7
8 Mr. Ives asserts that recognition of a pension expense credit in determining
9 DEO's cost of service for revenue requirements would have a working capital
10 impact.⁷ It would require an increased need for working capital because the
11 Company would have to "source" funds for the amount of the credit from other
12 than the "cost of service." As used here, "cost of service" is the DEO distribution
13 gas rates customers will pay as determined and approved in this rate case.⁸

14
15 Finally, if the Company's proposal for a \$0 pension expense is accepted by the
16 Commission, Mr. Ives indicates that DEO would in the future seek recovery
17 through customer rates of the cash contributions it would make to its pension
18 plans.⁹

⁶ *In the Matter of the Application of East Ohio Gas Company and the River Gas Company for Authority to Increase Rates and Charges for Gas Services*, Case No. 93-2006-GA-AIR, Application (January 18, 1994). ("DEO's 1994 Rate Case")

⁷ *Id.* at 21.

⁸ *Id.*

⁹ *Id.*

1 **Q8. WHAT IS THE RATEMAKING TREATMENT FOR PENSION EXPENSE**
2 **PROPOSED BY PUCO STAFF?**

3 **A8.** In the Staff Report on pages 11 and 12, Staff recommends use of what they
4 describe as the “accrued accounting method” under which “pension expense is the
5 net periodic pension cost as set by an independent actuarial in accordance with
6 FASB 87 and FASB 158 and the pension assets and associated deferred income
7 taxes are included in rate base.” Staff’s recommended use of the FAS 87 net
8 periodic pension cost in this rate case results in a negative pension expense for
9 DEO. Staff also recommends adjusting rate base to add in the date certain
10 balance of DEO’s pension asset, net of ADIT, which will allow the Company to
11 earn a return on that net balance of pension asset.

12
13 On Staff Report Schedule C-3.11, Staff recommends a pension expense of
14 negative \$50.5 million, based on the Company’s latest actuarial study, to calculate
15 a reduction to test year expenses of \$2.8 million. Thus, Staff recommends a FAS
16 87 pension expense of negative \$50.5 million, whereas the Company proposes \$0.
17 Staff’s addition to rate base for DEO’s pension asset is shown on Schedule B-6,
18 where a pension asset of \$629 million is added and pension-related ADIT of \$220
19 million is subtracted, resulting in a net rate base addition of \$409 million.

20
21 **Q9. DO YOU AGREE WITH STAFF’S PROPOSED TREATMENT OF PENSION**
22 **EXPENSE?**

1 **A9.** I agree with Staff's use of the FAS 87 net periodic pension cost on Schedule C-
2 3.11. However, I disagree with Staff's addition of the pension asset, net of
3 ADIT, on Schedule B-6.

4

5 In determining rates in this case, I recommend the Commission:

- 6 (1) Adopt DEO's FAS 87 net periodic pension cost of negative \$50.5 as
7 pension expense;
- 8 (2) Not increase rate base to allow DEO to earn a return on DEO's pension
9 asset, net of pension-related ADIT;
- 10 (3) Reduce rate base by \$220 million date certain balance of pension-related
11 ADIT; and
- 12 (4) Adjust pension expense to \$0 in the lead/lag calculation to allow the
13 Company to earn a return on the additional working capital need created
14 by the negative pension expense.

15

16 **Q10. WHY DO YOU SUPPORT AND RECOMMEND THE FAS 87 NET**
17 **PERIODIC PENSION COST FOR RATEMAKING IN THIS CASE?**

18 **A10.** The FAS 87 net periodic pension cost is appropriate for ratemaking because the
19 elements of that cost allow proper recognition in test year expense of the relevant
20 factors that influence the net cost of future pension benefits earned by the
21 Company's employees during the test year. (On page 7 of Mr. Ives Direct
22 Testimony he lists these FAS 87 pension cost elements.)

23

1 For example, the service cost element is the present value of future pension
2 benefits attributable to employee service during the current period. Many
3 assumptions such as discount rates, lengths of employee service, and employee
4 compensation levels are made in determining the service cost. Since actual
5 experience will most likely vary from the assumptions made for the service cost,
6 other FAS 87 elements recognize, over time, the consequences of actual
7 experience, changes and events. By recognizing these other FAS 87 elements,
8 such as interest on projected benefits obligations and the expected return on the
9 pension plan assets, the resulting net periodic pension cost more accurately
10 reflects pension benefits of the Company's employees. How each of the FAS 87
11 elements contributes to the net cost is illustrated by the following calculation of
12 the 2006 net period pension cost for just DEO's union pension plans¹⁰, as shown
13 on Mr. Ives' Attachment DMI-8.1:

¹⁰ DMI-8.1 provides the elements of the negative \$31.3 million 2006 pension expense for the DEO Union plans. On page 4 of his testimony Mr. Ives indicates that the 2006 pension expense for the DEO Mgmt. Plan was negative \$18.1 million, for a total DEO pension expense of negative \$49.4 million.

FAS 87 Pension	Union Pension Plans (a)
Service Cost	\$ 6,676,808
Interest Cost	15,180,342
Expected Return on Assets	(53,342,219)
Amortization of Transition Asset	(20,000)
Amortization of Prior Service Cost	243,009
Gains	-
2006 Net Period Pension Cost	\$ (31,262,060)
(a) Reflects both expense and capitalized costs	

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Q11. WHY DO YOU REJECT STAFF'S ADDITION TO RATE BASE OF THE PENSION ASSET, NET OF PENSION-RELATED ADIT?

A11. As discussed on page 12 of the Staff Report, Staff's rate base addition for DEO's pension asset is part of their recommendation for an "accrued accounting method." Staff refers to "two accounting alternatives" that were outlined by DEO for pension, "the cash basis and the Generally Accepted Accounting Principal (GAAP) accrued method." Staff then recommends the "accrued accounting method" for this rate case, using the FAS 87 net periodic pension cost for test year expense and adding the date certain pension asset, net of ADIT to rate base.

While DEO did outline two approaches for the ratemaking treatment of pension, Staff's use of the words "GAAP accrued method" should not be interpreted to mean that GAAP requires for ratemaking both the use of FAS 87 expense and a rate base addition. GAAP requires a company for financial reporting purposes to present its pension expense as the net periodic pension cost determined under FAS 87. Financial Accounting Standard Board Statement No. 158 ("FAS 158") requires a company for financial reporting purposes to present on its balance

1 sheet the funded status of single-employer pension plans. As noted by Mr. Ives
2 in his testimony on page 8, FAS 158 did not modify FAS 87 accounting for
3 pension expense, it moved the presentation of the funded status of the pension
4 plan from the financial statement notes to the balance sheet.

5
6 Thus, it is Staff's proposal in this case and not a GAAP requirement, that DEO's
7 pension asset should be added to rate base. For ratemaking purposes, test year
8 expense can be based on the FAS 87 net periodic pension cost without a rate
9 base addition for the pension asset. This very ratemaking treatment seems to
10 have been implicitly recommended by Staff in DEO's last rate case. As noted by
11 Mr. Ives on page 6 of his testimony, in its last rate case, DEO's 1994 Rate Case,
12 DEO filed a rate application with a FAS 87 pension credit of \$6.2 million and
13 Staff did not propose any adjustment to that negative expense. In that case, DEO
14 also did not seek an addition to rate base for its date certain pension asset of
15 \$24.9 million and Staff did not recommend such a rate base addition in their
16 Staff Report.

17
18 Several times in Mr. Ives' testimony he refers to his proposal to "remove" or
19 "exclude" the pension asset from rate base. This is an incorrect characterization
20 as it gives the impression that the pension asset is "already in" DEO's date
21 certain rate base. It is important to note that the pension asset is not in DEO's
22 rate base, and should not be added to rate base, because it is not a proper rate
23 base component upon which investors are entitled to earn a return. The pension

1 asset is not used and useful plant in service. It is not the unamortized balance of
2 a regulatory asset for which rate recovery has not yet occurred. It is not an
3 investor-supplied source of funds that should be a rate base addition. Instead, the
4 pension asset represents the over-funded pension plans, as described by Mr. Ives
5 on page 8 of his testimony.

6
7 Mr. Ives stresses that this pension asset (i.e. overfunding) is not the result of
8 customer contributions since 1994, because rates could not have been funding
9 the pension plans due to the fact that a negative pension expense was
10 recommended in the Staff Report of the Company's last rate, DEO's 1994 Rate
11 Case. In addition, DEO has made no cash contributions to the pension plans
12 since 1992. Mr. Ives identifies the overfunding as the result of favorable
13 performance of the plans' investments and DEO's labor cost management
14 reductions. *This favorable performance is illustrated from DEO's union plans'*
15 *2006 net periodic pension cost shown on Mr. Ives' Attachment DMI-B.1, in*
16 *which the \$53 million return on plan assets (i.e. plan investments) is an*
17 *overwhelming cause of the negative \$31 million net periodic pension costs.*

18
19 While such investment growth may be seen as not coming from customers' rates
20 since 1994, it is monies earned as a result of rates paid to DEO by customers
21 prior to that time which allowed the original investments to be made by DEO.
22 Customers' rates prior to the last rate case helped provide cash for the
23 investments that have now grown and resulted in the overfunding (i.e. pension

1 asset). It is paradoxical that Staff's proposal would now seek to have customers
2 pay a return to shareholders on overfunding (i.e. pension asset) resulting from
3 investments which customers have previously paid for through rates. The
4 pension asset does not represent funds supplied by shareholders - because no
5 cash contribution to the pension plans have been made since 1992 and because
6 there is no indication that prior to 1992 shareholders supplied funds for
7 contributions to the pension plans.

8
9 The fact that customers' rates prior to 1994 assisted in paying for pension plan
10 investments is made clear from Mr. Ives discussion on page 5 of his testimony
11 where he concludes that customers did not overpay for pension costs prior to
12 DEO's last rate case. That conclusion is premised on the assumption that
13 pension costs in rates prior to 1994 were an expense rather than a credit.

14 However, according to the Company's response to OCC Interrogatory No. 211,
15 "DEO does not have the details of pension-related costs included in test year
16 operating income for rate cases filed prior to [DEO's Last Rate Case]."

17 (Attachment BEH-2).

18
19 ***Q12. IF YOU ARE NOT RECOMMENDING AN ADDITION TO RATE BASE***
20 ***FOR THE PENSION ASSET, WHY SHOULD THERE CONTINUE TO BE A***
21 ***RATE BASE DEDUCTION FOR THE PENSION-RELATED ADIT?***

22 ***A12.*** The pension-related ADIT still represent non-investor supplied funds arising from
23 differences in how the Company treats pension expense for income tax purposes

1 and for book purposes. Shareholders should not earn a return on funds they did
2 not provide. DEO proposed to eliminate the rate base deduction for these ADIT
3 “as a matter of symmetry” since the Company proposed the ratemaking treatment
4 of \$0 pension expense. Conversely, since I recommend restoration of the FAS 87
5 pension expense for ratemaking, the \$220 million date certain balance of pension-
6 related ADIT should continue to be a rate base deduction.

7

8 ***Q13. WHY DO YOU RECOMMEND A PENSION EXPENSE RELATED***
9 ***ADJUSTMENT TO STAFF'S WORKING CAPITAL ALLOWANCE?***

10 ***A13.*** I recommend an adjustment to allow the Company to earn a return on the
11 additional working capital need created by the ratemaking use of a negative
12 expense that was not the result of cash paid to the Company. As explained in Mr.
13 Ives testimony on page 10, the negative pension expense does not represent a
14 source of cash for the Company due to a provision of the federal pension law.
15 Because cash is not available to the Company from this specific negative expense,
16 the mathematical result on the revenue requirement is that rates will be designed
17 to cover all expenses, less the amount of the negative pension expense.

18

19 Mr. Ives describes this as “an increased working capital allowance” and his
20 proposal of \$0 pension expense would result in an increase in rates designed to
21 make the Company whole by providing cash flow to cover the negative expense
22 amount. Staff proposes to use the FAS 87 negative pension expense, but also
23 seems to acknowledge DEO's desire to have cash flow to cover the negative

1 expense amount. Staff acknowledges that by allowing a return on the pension
2 asset, net of ADIT that, to a lesser extent than DEO's method, covers most of the
3 negative expense amount. Both proposals have a goal of providing significant
4 additional cash flow to the Company -- in amounts either equal or close to the
5 negative expense.

6
7 The Company's proposal to reverse the negative expense and reflect \$0 pension
8 expense should be rejected because it:

- 9 • ignores the FAS 87 pension expense which Staff recommends and which
10 this Commission has previously determined is appropriate for ratemaking;
- 11 • deprives ratepayers from the benefit of a rate base reduction for pension-
12 related ADIT that are non-investor supplied funds; and
- 13 • requires customers to pay to "keep the company whole on a cash basis"¹¹
14 by increasing the revenue requirement as a result of the overfunding of
15 pension plans that customers previously funded through rates.

16
17 Staff's proposal to use the negative pension expense and provide a return to the
18 Company on the pension asset, net of ADIT, should not be accepted because it:

- 19 • is based on an improper ratemaking adjustment that requires customers to
20 pay a return on non-investor supplied funds; and

¹¹ Ives Direct Testimony at 12.

- 1 • requires customers to pay a substantial portion of the increased revenue
2 requirement that was created by overfunding of pension plans that
3 customers previously funded through rates.

4
5 My recommendation recognizes that an increased working capital allowance
6 means the Company would have to “source those funds from other than the cost
7 of service” in the rates from this case.¹² However, in contrast to the Company’s
8 and Staff’s proposals which have customers paying significantly higher rates for
9 either the full amount, or a large portion of, the additional cash flow due to
10 negative pension expense, I recommend providing the Company a return on the
11 absolute amount of the negative expense. The return on this amount provides
12 acknowledgement of a cost the Company may incur to obtain funds from other
13 sources. This can be appropriately accomplished through an adjustment in the
14 development of the working capital allowance.

15
16 To recognize that negative pension expense may require the Company to obtain
17 funds from sources other than rates to cover the absolute value of that negative
18 expense, I recommend pension expense used to determine the calculated working
19 capital be set to \$0 rather than the negative \$50.5 million reflected in adjusted test
20 years expenses. The impact of this adjustment is to reduce the amount of “Other
21 Operation and Maintenance Expenses” by \$50.5 million, reduce the expense lag
22 allowance working capital requirements, and thus increase the calculated working

¹² Ives Direct Testimony at 7.

1 capital allowance in rate base. Schedule BEH-B-5 reflects this adjustment to
2 pension expense in working capital.

3

4 **IV. RECOMMENDATION AND CONCLUSION**

5 ***Q14. PLEASE SUMMARIZE YOUR RECOMMENDED RATEMAKING***

6 ***TREATMENT FOR PENSION EXPENSE FOR DEO IN THIS CASE.***

7 ***A14.*** I recommend DEO's FAS 87 pension expense of negative \$50.5 be used as the
8 adjusted test year expense for the purposes of determining the revenue
9 requirement in this rate case. Because I am accepting Staff's position on this
10 expense, my schedules do not reflect an adjustment to the Staff Report for pension
11 expense.

12

13 I recommend no rate base recognition for the pension asset because it does not
14 represent investor supplied funds. Schedule BEH-B-6 reflects my adjustment to
15 the Staff Report to eliminate the \$629 million pension asset added to rate base.

16

17 Since I am recommending pension expense be determined pursuant to FAS 87,
18 ADIT related to pension expense should be deducted from rate base. My Schedule
19 BEH-B-6 continues to reflect the rate base deduction for \$220 million in pension-
20 related ADIT, the same as in the Staff Report, so no adjustment is made.

21

22 Finally, to provide the Company a return on the amount of cash it may have to
23 obtain from sources other than rates, I have made an adjustment to the calculation

1 of working capital. This working capital treatment is shown on Schedule BEH-B-
2 5. I have set adjusted pension expense to \$0, which results in an increase to the
3 calculated work capital allowance.

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

6 **A15.** Yes. However, I reserve the right to incorporate new information that may
7 subsequently become available. I also reserve the right to supplement my
8 testimony in the event the PUCO Staff fails to support the recommendations made
9 in the Staff Report and/or changes positions made in the Staff Report.

10

East Ohio Gas Company d/b/a Dominion East Ohio
 Case No. 07-029-CA-AIR
 Revenue Requirements

	Applicant (a)	Staff		OCC	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
(1) Rate Base (b)	\$ 1,071,769,127	\$ 1,396,833,486	\$ 1,396,833,486	\$ 776,415,274	\$ 776,416,274
(2) Adjusted Operating Income (c)	46,592,944	94,012,528	94,012,528	85,578,025	85,578,025
(3) Rate of Return Earned (2) / (1)	4.33%	6.73%	6.73%	11.02%	11.02%
(4) Rate of Return Recommended (d)	8.72%	8.30%	8.25%	7.84%	7.84%
(5) Required Operating Income (1) x (4)	\$ 93,458,268	\$ 114,819,715	\$ 122,222,930	\$ 60,871,036	\$ 60,871,036
(6) Income Deficiency (5) - (2)	47,065,324	20,807,185	28,210,402	(24,706,985)	(24,706,985)
(7) Gross Revenue Conversion Factor (e)	1.615183	1.610183	1.615183	1.615183	1.615183
(8) Revenue Increase Required (6) x (7)	75,019,111	33,607,411	45,584,961	(39,806,309)	(39,806,309)
(9) Revenue Increase Recommended	75,007,378	33,607,411	45,564,961	(39,806,309)	(39,806,309)
(10) Adjusted Operating Revenue (c)	1,053,596,931	1,025,835,804	1,025,835,804	1,025,835,804	1,025,835,804
(11) Revenue Requirements (9) + (10)	\$ 1,128,904,309	\$ 1,059,443,295	\$ 1,071,400,865	\$ 985,939,575	\$ 985,939,575
(12) Increase Over Current Revenue (9) / (10)	7.12%	3.28%	4.44%	-7.89%	-7.89%

(a) Applicant's Revised Schedule A-1
 (b) Staff's Schedule G-1 and BEH-B-1
 (c) Staff's Schedule C-1 and BEH-C-1
 (d) Staff's Rate of Return Section and Testimony of OCC Witness Woolridge
 (e) Staff's Schedule A-1.1

East Ohio Gas Company d/b/a Dominion East Ohio
 Case No. 07-829-GA-AR
 Rate Base Summary
 As of Date Certain, March 31, 2007

	<u>Applicant</u> (b)	<u>OCC</u>	
(1) Plant in Service	\$ 1,938,317,266	\$ 1,916,133,980	(b)
(2) Depreciation Reserve	<u>(852,185,473)</u>	<u>(949,347,745)</u>	(c)
(3) Net Plant in Service	1,087,131,793	1,066,786,235	
(4) Construction Work in Progress	0		(d)
(5) Working Capital Allowance	157,331,875	132,813,551	(e)
(6) Other Rate Base Items	<u>(172,694,543)</u>	<u>(423,182,512)</u>	(f)
(7) Rate Base (3) Thru (6)	<u>\$ 1,071,769,127</u>	<u>\$ 776,416,274</u>	

- (a) Applicant's Revised Schedule B-1
- (b) Staff's Schedule B-2
- (c) Staff's Schedule B-3
- (d) Staff's Schedule B-4
- (e) Schedule BEM-B-5
- (f) Schedule BEM-B-6

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 57-829-GA-AIR
Working Capital Allowance

	Adjusted Revenues & Expenses (a)	Days Lag (b)	Weighted Dollar Days (c)	Working Capital Requirements (d)
(1) Revenue Lag Allowance	\$ 512,937,732	52.70	\$ 49,352,408,023	125,212,073
(2) PIPP Revenue	<u>92,298,152</u>	0	<u>0</u>	<u>0</u>
(3) Total Revenue Lag Allowance	3,025,835,884		49,352,408,023	125,212,073
Operation & Maintenance Expenses:				
(4) Gas Purchases	438,852,865	39.70	17,474,046,741	47,337,114
(5) Payroll	73,356,625	37.70	2,682,683,122	7,349,603
(6) Uncollectibles - PIPP	22,828,152	0.00	0	0
(7) Uncollectibles - Non-PIPP	47,754,796	52.90	2,526,328,709	6,871,175
(8) Pension (h)	0	0.00	0	0
(9) Benefits	12,021,618	11.30	336,183,285	373,102
(10) Benefits - OPEB	4,829,783	172.64	833,806,843	2,284,402
(11) Insurance	146,000	(160.90)	(21,493,408)	(84,360)
(12) Claims	3,625,941	26.80	97,443,219	256,968
(13) Other Operation & Maintenance	<u>92,503,791</u>	<u>41.80</u>	<u>3,855,531,547</u>	<u>10,593,926</u>
(14) Total Operation & Maintenance (4) Thru (13)	363,869,040		27,943,460,065	79,461,833
(15) Depreciation	48,908,074	0.00	0	0
Federal Income Tax:				
(16) Current Income Tax	47,229,898	17.50	1,772,246,135	4,855,465
(17) Deferred Income Taxes	(15,783,178)	0.00	0	0
(18) Net ITC	<u>0</u>	<u>51.90</u>	<u>0</u>	<u>0</u>
(19) Total Federal Income Tax (16) Thru (18)	30,476,720		1,772,246,135	4,855,465
Taxes Other Than Federal Income Tax:				
(20) Property Tax	18,783,259	102.50	5,681,936,248	15,566,948
(21) Gross Receipts Tax	43,584,101	90.61	3,938,659,551	10,793,588
(22) MCF Tax	26,812,059	56.90	2,571,276,458	7,044,521
(23) Payroll Taxes	5,450,271	18.10	207,678,274	568,982
(24) FUDO & OCC Maintenance	1,005,780	210.58	422,377,193	1,157,158
(25) Sales and Use Taxes	<u>467,952</u>	<u>38.21</u>	<u>17,880,446</u>	<u>48,988</u>
(26) Total Taxes Other Than Income (20) Thru (25)	97,064,024		12,840,807,729	35,180,287
(27) Interest Expense	27,407,494	91.25	2,500,933,828	6,851,874
(28) Preferred Stock	0	0.00	0	0
(29) Return on Common Equity	<u>58,170,521</u>	<u>0.00</u>	<u>0</u>	<u>0</u>
(30) Expense lag Allowance (14) + (15) + (19) + (26) + (27) + (28) + (29)	<u>\$ 1,025,838,884</u>		<u>\$ 44,657,447,797</u>	<u>122,249,175</u>
(31) Supplier Billings (e)				0
(32) Percentage of Income Payment Plan (PIPP) (f)				95,619,803
(33) Materials and Supplies (g)				1,147,663
(34) Gas Stored Underground (g)				<u>23,103,285</u>
(35) Calculated Working Capital Allowance (3) - (30) + (31) Thru (34)				<u>\$ 132,813,651</u>

- (a) Staff's Schedules C-2 Thru C-4, as adjusted by BEH-C-7, C-3 and C-4 and (h) for pension expense
(b) Applicant's Lead Lag Study as Adjusted by Staff. See Text
(c) Column (a) x (b)
(d) Column (c) / 365
(e) See Text
(f) Applicant's Revised schedule B-5 and Staff's Workpaper
(g) Applicant's Schedule B 2.1 and Staff's Workpaper
(h) Testimony of OCC Witness Nixon

East Ohio Gas Company d/b/a Dominion East Ohio
 Case No. 07-229-NA-AIF
Other Rate Base Items

	Total		Adjusted
	Debit/Credit	Adjustments	Debit/Credit
(1) A/C 245 - Customers' Deposits (a)	\$ (22,751,197)	\$ 0	\$ (22,751,197)
(2) A/C 252 - Customer Advances for Construction (b)	0	0	0
(3) A/C 254 - Investment Tax Credits (b)	(2,553,434)	2,536,085	(17,349)
(4) Deferred Income Taxes: (b)			
A/C 281 - Alternative Minimum Tax	6,725,454	(6,725,454)	0
A/C 251 - Bad Debts	(3,150,347)	0	(3,150,347)
A/C 280 - Bad Debts - PIPP	(4,293,192)	44,293,192	0
A/C 283 - Bad Debts - Tracker	(6,158,474)	6,158,474	0
A/C 284 - Benefits	15,250,894	0	15,250,894
A/C 282/282 - Depreciation	(190,692,828)	193,079	(190,499,749)
A/C 281 - PIN 48 Bad Debts	2,576,592	(2,576,592)	0
A/C 283 - PIN 48 Bad Debts - PIPP	20,277,702	(20,277,702)	0
A/C 281 - PIN 48 Bad Debts - Tracker	10,372,892	(10,372,892)	0
A/C 281 - Inventory	5,610,092	(5,610,092)	0
A/C 282 - TIC	893,968	(893,968)	0
A/C 282-283 - Other	45,506	(45,506)	0
A/C 281 - Pension	(220,235,229)	0	(220,235,229)
A/C 287 - Taxes	(634,577)	0	(634,577)
A/C 19K - UFGA	(14,834,002)	14,834,002	0
(5) Total Deferred Income Taxes	(415,245,211)	17,930,145	(397,315,066)
(6) Pension (c)(4)	0	0	0
(7) Total Other Rate Base Items (1) + (2) + (3) + (5) + (6)		\$	\$ (422,123,622)

(a) Applicant's Revised Schedule B-6
 (b) Applicant's Schedule B-6
 (c) Applicant's Trial Balance as of March 31, 2007
 (d) Testimony of OCC Witness Nixon

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-625 GA-ATB
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2007

	OCC		Applicant	
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)	Proforma Revenues & Expenses (d)
<u>Operating Revenues</u>				
Base Revenue	\$ 560,355,128	\$ 75,007,370	\$ 635,362,706	\$ 635,023,344
Gas Costs Revenue	438,892,865		438,892,865	463,733,700
Other Revenue	26,887,691	0	26,387,691	25,157,463
Total Operating Revenues	1,025,835,884	75,007,378	1,100,643,262	1,128,904,308
<u>Operating Expenses</u>				
Operation and Maintenance	763,869,040	0	763,869,040	856,896,966
Depreciation	48,908,074		48,908,074	48,561,472
Taxes Other Than Income	97,004,024	3,179,570	100,183,594	103,184,543
Federal Income Tax	30,478,726	25,139,733	55,618,459	28,882,115
Total Operating Expenses	940,257,859	28,319,303	968,577,162	1,037,525,096
Net Operating Income	\$ 85,578,025	\$ 46,688,075	\$ 132,256,100	\$ 91,279,313
Rate Base (e)	\$ 776,416,274		\$ 776,416,274	\$ 1,071,269,127
Rate of Return (f)	11.02%		17.04%	8.52%

- (a) Schedule BSH-C-2
(b) Staff's Schedule C-1.1
(c) Columns (a) + (b)
(d) Applicant's Revised Schedule C-1
(e) Schedule BSH-E-1
(f) Net Operating Income / Rate Base

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-829-GA-AIR
Adjusted Test Year Operating Income

	Unadjusted Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Test Year Revenues & Expenses (c)
<u>Operating Revenues</u>			
Base Revenue	\$ 547,667,650	\$ 12,687,677	\$ 560,355,328
Gas Costs Revenue	521,726,732	(82,835,867)	438,892,865
Other Revenues	75,958,082	(49,371,150)	26,587,601
Total Operating Revenues	1,145,352,464	(119,519,340)	1,025,833,884
<u>Operating Expenses</u>			
Gas Costs Expense	509,175,362	(72,282,427)	436,892,935
Other Operation & Maintenance	230,300,843	(6,004,658)	324,876,175
Total Operation & Maintenance	849,476,205	(78,287,085)	763,859,740
Depreciation & Amortization	57,844,022	(8,536,800)	49,307,222
Taxes Other Than Income	104,568,856	(7,546,832)	97,022,024
Federal Income Tax	16,866,777	(6,333,057)	10,533,720
Total Operating Expenses	1,035,862,822	(99,103,961)	936,758,861
Net Operating Income	\$ 109,489,642	\$ (20,418,618)	\$ 89,071,025

- (a) Applicant's Revised Schedule C-2
(b) Schedule BEH-C-3
(c) Columns (a) + (b)

East Ohio Gas Company d/b/a Dominion East Ohio
 Case No. 07-629-GA-AIE
Summary of O&M's Adjustments

	O&M's		Applicant's		Variance
	Adjustments	(a)	Adjustments	(b)	
Operating Revenues					
C-3.1	Base Revenue	\$ 12,587,878	\$ 2,216,558	\$ 10,477,128	
C-3.2	Gas Costs Revenue	(57,815,857)	(56,995,032)	(25,840,835)	
C-3.3	Other Revenue - Non-regulated Gas Storage Revenue	(22,758,722)	(22,758,722)	0	
C-3.4	Other Revenue - Revenue Sharing	(13,695,727)	(11,021,795)	(2,673,932)	
C-3.5	Reclassification of Firm Storage Service Revenue	(10,127,566)	0	(10,127,566)	
C-3.6	Other Revenue - Gas Storage Revenue	(1,789,175)	(2,789,175)	0	
	Other Revenue - Forfeited Discounts	0	(104,156)	104,156	
	Total Revenue Adjustments	(119,519,779)	(51,458,332)	(28,061,042)	
Operating Expenses					
C-3.7	Gas Costs Expense	(70,222,497)	(69,441,662)	(25,810,835)	
BEH-C-3.8	Labor	(1,356,245)	915,272	(2,271,517)	
BEH-C-3.9	Other Benefits	(485,536)	201,459	(746,995)	
BEH-C-3.10	Incentive Plan Expense	(2,542,607)	1,102,522	(2,545,200)	
C-3.11	Pension	(2,833,195)	(7,709,829)	(55,542,235)	
C-3.12	CPER	(1,491,039)	(1,742,789)	(158,750)	
C-3.13	Rate Case Expense	164,121	609,872	(445,751)	
C-3.14	Interest on Customer Deposits	582,536	721,791	(139,255)	
C-3.15	Advertising	(538,564)	(930,564)	0	
C-3.16	Uncollectible Accounts	(7,068,740)	(6,017,685)	(1,051,055)	
C-3.17	Charitable Contributions	(123,562)	(123,562)	0	
BEH-C-3.18	Lobbying Expense	(126,254)	(45,859)	(80,404)	
C-3.19	Dues and Memberships Expense	(47,916)	(47,916)	0	
C-3.20	Public Relations Expense	(620,915)	(557,667)	(63,249)	
BEH-C-3.21	DSM Program, AMR Deployment, & Weatherization	7,700,000	8,040,920	(340,920)	
C-3.22	Migration Riders A & B and Volume Banking	7,294,561	7,294,561	0	
C-3.23	DSM Program Funding	600,000	600,000	0	
C-3.24	Operating Expense Budget Adjustment	(5,025,182)	0	(5,025,182)	
C-3.25	Amortization of Order 615 Transition Costs	(682,975)	(682,975)	0	
BEH-C-3.29	Demonstration and Selling Expense	(103,057)	0	(103,057)	
	Storage Migration Loss	0	437,045	(437,045)	
	Amortization of FASB 105 Containment Loss	0	863,333	(863,333)	
	Amortization of Deferred Weatherization C	0	94,623	(94,623)	
	Total O & M Expenses	(76,287,166)	14,129,134	(90,486,299)	
C-3.26	Depreciation Expense	(9,905,408)	(9,163,410)	(246,602)	
BEH-C-3.27	Taxes Other Than Income Taxes	(7,546,832)	(4,776,164)	(2,770,668)	
BEH-C-3.28	Federal Income Tax	(6,330,057)	(32,094,193)	25,764,134	
	Total Expense Adjustments	\$ (99,100,561)	\$ (31,854,834)	\$ (67,246,127)	

(a) Staff's Schedules C-3.1 Through C-3.28 and BEH adjustment schedules as noted
 (b) Applicant's Schedule C-3
 (c) Columns (a) - (b)

OCC

BEH-SCHEDULE C-3.8

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 87-829-GA-AIR
Labor Expense Adjustment

(1) Annualized Salaries Labor Expense (a)	\$	19,127,910
(2) Annualized Hourly Labor Expense (b)		<u>52,528,735</u>
(3) Total Annualized Test Year O&M Labor Expense (1) + (2)		71,196,645
(4) Test Year O&M Labor Expense (c)		<u>72,512,880</u>
(5) Labor Expense Adjustment (3) - (4)	\$	<u>(1,356,245)</u>

(a) Schedule BEH-C-3.8a
(b) Staff's Schedule C-3.8b
(c) Applicant's schedule C-9

OCC

SCHEDULE BEM-C 3.8a

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-029-GA-AIR
Salaries Labor Expense Adjustment

(1) Test Year Number of Full Time Employees (a)	270
(2) Average Monthly Straight Time Wages (a)	\$ <u>6,489</u>
(3) Monthly Straight Time Wages (1) x (2)	1,752,030
(4) Annualized Straight Time Wages (3) x 12	21,024,360
(5) Test Year Actual Overtime Wages (a)	159,607
(6) Test Year Actual Parttime Wages (a)	123,810
(7) Test Year Actual Intern Wages (a)	52,966
(8) Test Year Actual Restricted Stock Grant (a)(c)	<u>0</u>
(9) Total Test Year wages (4) + (5) + (6) + (7) + (8)	21,376,743
(10) O&M Ratio (b)	<u>59.48%</u>
(11) Adjusted O&M Labor Expense (8) x (9)	\$ <u>19,127,910</u>

- (a) Staff's Workpaper
(b) Applicant's Schedule C-9.1
(c) Testimony of OCC Witness Hines

OCC

SCHEDULE BEH-C-3.9

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-829-GA-AIR
Other Fringe Benefits Expense Adjustment

(1) Annualized OLM Labor Expense Adjustment (a)	\$	(1,356,245)
(2) Employee Benefits Load Factor (b)		<u>35.80%</u>
(3) Adjustment (1) x (2)	\$	<u>(485,516)</u>

(a) Schedule BEH-C 3.6

(b) Derived From Applicant's Schedule C-9.1 (\$25,960,211 / \$72,512,880)

OCC

SCHEDULE BR-C-3.10

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-829-GA-AIR
Incentive Plan Expense Adjustment

(1) Hourly Incentive Plan Expense (a)	\$	2,043,510
(2) Salary Incentive Plan Expense (a)		<u>2,829,736</u>
(3) Total (1) + (2)		<u>4,873,246</u>
(3a) OCC Recommended Incentive Plan Expense (Line(3) x 50%) (d)		2,436,623
(4) Test Year Expense (b)		<u>4,393,005</u>
(5) Adjustment (3) - (4)		(1,956,382)
(6) O&M Ratio (c)		<u>78.85%</u>
(7) O&M Expense Adjustment (5) x (6)	\$	<u>(1,542,607)</u>

(a) Applicant's Schedule WPC-3.25

(b) Applicant's Schedules WPC-3.25 and WPC-2.1 (\$63,485 + \$2,462,163 + \$1,525,328 + \$342,029)

(c) Applicant's Schedule C-9.1

(d) Testimony of OCC Witness Tanner

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-529-GA-AIR
Lobbying Expense Adjustment

(1) Elimination of Lobbying Expense (a)(b)

\$ (128,250)

(a) Applicant's Schedule C-3.19	(45,850)
(b) Testimony of OCC Witness Tanner Columbus Office Lobbying-related expense	(80,404)

OCC

SCHEDULE BEH-C-1.21

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 97-829-GA-AIR
DEM Program and Weatherization Funding Adjustment

(1) OCC Recommended Annualized Test Year DEM Expense (a)	\$ 10,700,000
(2) Test Year Expense - R/C 908 (b)	<u>3,900,000</u>
(3) Adjustment (1) - (2)	\$ <u>7,700,000</u>

- (a) Testimony of OCC Witness Gonzalez
(b) Applicant's Schedule C-7 and WPC-2.1

OCC

SCHEDULE BEH-C-3.27

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-029-GA-AIR
Summary of Taxes Other Than Income Adjustment

	<u>Schedule</u> <u>Reference</u>		
(1) Property Taxes	C-3.27a	\$	18,783,259
(2) Ohio Gross Receipts Tax	C-3.27b		43,484,101
(3) Payroll Taxes	BEH-C-3.27c		5,450,873
(4) FUCO and OCC Assessments	C-3.27d		2,005,760
(5) MCF Tax	C-3.27e		26,812,559
(6) Other	C-3.27f		<u>467,932</u>
(7) Total Taxes Other Than Income Taxes (1) Thru (6)			97,004,524
(8) Test Year Taxes Other Than Income Taxes (a)			<u>184,550,956</u>
(9) Adjustment (7) - (8)		\$	<u>(7,546,932)</u>

(a) Staff's Schedule C-2

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 97-829-GA-AIR
Calculation of Payroll Taxes

	<u>FUTA</u>	<u>SUTA</u>	<u>FICA</u>
(1) Annualized O&M Labor Expense (a)			\$ 71,194,435
(2) Payroll Not Subject to Social Security (1) x 2.22% (b)			<u>1,579,677</u>
(3) Taxable Payroll (1) - (2)			69,614,757
(4) Medicare Tax (1) x 1.45%			1,031,771
(5) Social Security Tax (3) x 6.20%			4,313,771
(6) Number of Employees (c)	1,452	1,452	
(7) Taxable Wages	\$ <u>2,000</u>	\$ <u>9,000</u>	
(8) Taxable Wages (6) x (7)	10,164,000	11,068,000	
(9) Tax Rate	<u>0.80%</u>	<u>0.40%</u>	
(10) FUTA And SUTA Taxes (8) x (9)	81,312	52,272	
(11) O&M Ratio (d)	<u>78.85%</u>	<u>78.85%</u>	
(12) O&M FUTA And SUTA Taxes (10) x (11)	64,115	41,216	<u>105,331</u>
(13) Total Payroll Taxes (4) + (5) + (12)			<u>\$ 5,450,873</u>

(a) Schedule BEH-C-3.8

(b) Applicant's Schedule MPC-3.17

(c) Staff's Schedules C-3.8a and C-3.8b (270 + 1,182)

(d) Applicant's Schedule C-9.1

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 87-629-GA-AIR
Federal Income Tax Expense Adjustment

(1) Adjusted Federal Income Tax (a)	\$ 30,476,730
(2) Test Year Federal Income Tax (b)	<u>36,805,777</u>
(3) Adjustment (1) - (2)	\$ <u>(6,330,057)</u>

(a) Schedule BEH-C-4
(b) Applicant's Schedule C-2

OCC

SCHEDULE BEN-C-3.29

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-625-GA-AIE
Demonstration and Selling Expense Adjustment

(1) Elimination of Demonstration and Selling Expense (a)

\$ 103,057

(a) Testimony of OCC Witness Hines

East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-829-GA-RIR
Calculation of Federal Income Tax

	Adjusted Operating Income	Profirma Operating Income
(1) Operating Income Before SIT (a)	\$ 116,054,745	\$ 107,882,553
<u>Reconciling Items:</u>		
(2) Interest Charges (b)	(27,407,494)	(27,407,494)
(3) Book Depreciation (c)	48,908,074	48,908,074
(4) Tax Accelerated Depreciation (d)	56,986,180	56,986,180
(5) Excess of Tax Over Book Depreciation (3) - (4)	(8,078,106)	(8,078,106)
(6) Other Reconciling Items (e)	54,459,133	54,459,133
(7) Total Reconciling Items (2) + (5) - (6)	18,973,533	18,973,533
(8) Federal Taxable Income (1) + (7)	135,028,278	206,856,086
<u>Federal Income Tax</u>		
(9) First \$50,000 x 15%	7,500	7,500
(10) Next \$25,000 x 25%	6,250	6,250
(11) Next \$25,000 x 34%	8,500	8,500
(12) Next \$235,000 x 35%	81,650	81,650
(13) Next \$9,663,900 x 34%	3,286,100	3,286,100
(14) Next \$5,000,000 x 34%	1,700,000	1,700,000
(15) Next \$1,333,333 x 35%	466,667	466,667
(16) Excess of Taxable Income Over \$15,333,333 x 35%	40,843,231	40,843,231
(17) Federal Income Tax Liability (9) Through (16)	47,259,598	47,259,598
(18) Investment Tax Credit	0	0
(19) Federal Income Tax - Current (17) - (18)	47,259,598	47,259,598
<u>Deferred Income Taxes</u>		
(20) Tax Accelerated Depreciation (d)	56,986,180	56,986,180
(21) Tax Straight Line Depreciation (c)	48,908,074	48,908,074
(22) Excess of Tax Accelerated over Tax S/L Deprec. (18) - (19)	8,078,106	8,078,106
(23) Deferred Tax Depreciation @35%	2,827,337	2,827,337
<u>Other Deferred Taxes</u>		
(24) Amortization of Prior Years LTC (f)	(549,818)	(549,818)
(25) Other Deferred Taxes (g) x 35%	(19,060,697)	(19,060,697)
(26) Total Deferred Taxes (21) + (22) + (23)	\$ (16,783,178)	\$ (16,783,178)
(27) Total Federal Income Tax (17) + (24)	\$ 30,476,420	\$ 30,476,420

- (a) Schedule BEH-C-1
 (b) Schedule BEH-B-1, \$776,416,274 x 0.0353, Weighted Cost of Debt Per Testimony of OCC Witness Woolridge
 (c) Schedule BEH-C-2
 (d) Applicant's Revised Schedule C-4 and Supplemental Information No. 16
 (e) Applicant's Schedule WFC-4.1 and Staff's Workpaper, adjusted for OCC Schedule C-3 adjustments
 (f) Applicant's Revised Schedule C-4

Beth E. Hixon
Utility Testimony

As an employee of the Office of the Ohio Consumers' Counsel (OCC):

Company	Docket No.	Date
Ohio Power	83-98-EL-AIR	1984
Ohio Gas	83-505-GA-AIR	1984
Dominion East Ohio Gas	05-474-GA-ATA	2005
Dayton Power & Light	05-792-EL-ATA	2006
Duke Energy Ohio	03-93-El-ATA et al.	2007

As an employee of Berkshire Consulting Service:

Company	Docket No.	Date	Client
Toledo Edison	88-171-EL-AIR	1988	OCC
Cleveland Electric Illuminating.	88-170-EL-AIR	1988	OCC
Columbia Gas of Ohio	88-716-GA-AIR et al.	1989	OCC
Ohio Edison	89-1001-EL-AIR	1990	OCC
Indiana American Water	Cause No. 39595	1993	Indiana
	Office of the Utility Consumer Counsel		
Ohio Bell	93-487-TP-CSS	1994	OCC
Ohio Power	94-996-EL-AIR	1995	OCC
Toledo Edison	95-299-EL-AIR	1996	OCC
Cleveland Electric Illuminating.	95-300-EL-AIR	1996	OCC
Cincinnati Gas & Electric	95-656-GA-AIR	1996	City of
	Cincinnati, OH		

The East Ohio Gas Company d/b/a Dominion East Ohio
Case No. 07-0829-GA-AIR
Response to Data Requests

Requesting Party:

OCC

Data Request Set:

Interrogatories - 6th Sci

Question Number:

211

Subpart:

Request Date:

02/25/2008

Due Date:

03/18/2008

Topic:

Direct Testimony - Ives

Question:

Referring to statement on page 5 of the Direct Testimony of Mr. Ives that "to the extent that pension-related costs were an expense rather than a credit prior to DEO's last rate case"

a. Is "pension-related costs" meant to refer to the pension expense that was used in determining the revenue requirements for DEO's rates prior to the last rate case in 1994?

b. If the response to OCC Interrogatory No. 211(a) is negative, what is meant by "pension-related costs"?

c. If the response to OCC Interrogatory No. 211(a) is affirmative:

i. What was the amount of pension expense used in determining the revenue requirement for DEO's rates prior to the last rate case in 1994?

ii. In what case was the amount provided in response to OCC Interrogatory No. 211(c)(i) determined?

iii. For what period of time were the rates determined in the case from the response to part OCC Interrogatory No. 211(c)(ii) in effect?

Answer:

a. Yes.

b. Not applicable.

c. DEO does not have the details of the pension-related costs included in test year operating income for rate cases filed prior to Case No. 93-2006-GA-AIR.

Preparer Of Response:

Jeff Murphy

Date Prepared:

02/26/2008 08:07:36 AM EST

Attachments:

No

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Beth E. Hixon on Behalf of the Office of the Ohio Consumers' Counsel* has been served via First Class US Mail (electronically upon DEO & DEO Counsel), this 23rd day of June, 2008.



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