

FILE

DEO EXHIBIT 2.1

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Rate Plan for its Gas Distribution Service

Case No. 07-830-GA-ALT

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods

Case No. 07-831-GA-AAM

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 Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment

Case No. 08-169-GA-ALT

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 Automated Meter Reading Deployment Through an Automatic Adjustment Clause, and for Certain Accounting Treatment

Case No. 06-1453-GA-UNC

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**SUPPLEMENTAL DIRECT TESTIMONY OF
VICKI H. FRISCIC
ON BEHALF OF
DOMINION EAST OHIO**

- Management policies, practice and organization
- Operating income

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- ___ Rate base
- ___ Allocations
- ___ Rate of return
- ___ Rates and tariffs
- ___ Other

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1 **Supplemental Direct Testimony of**

2 **Vicki H. Friscic**

3 **I. WITNESS IDENTIFICATION AND BACKGROUND**

4 **Q1. Please state your name, occupation and business address.**

5 A1. My name is Vicki H. Friscic. I am employed by The East Ohio Gas Company, d/b/a
6 Dominion East Ohio (“DEO” or “Company”), as Manager Regulatory & Pricing. My
7 business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

8 **Q2. Are you the same Vicki H. Friscic that previously submitted Direct Testimony in**
9 **Case Nos. 07-829-GA-AIR, 07-830-GA-ALT, and 07-831-GA-AAM?**

10 A2. Yes.

11 **Q3. What is the purpose of your testimony in this proceeding?**

12 A3. My testimony describes DEO’s objections to certain of the Operating Income
13 adjustments recommended in the report by the Staff of the Public Utilities Commission
14 (“Staff Report”) filed in this case on May 23, 2008. In addition, as recommended by
15 Staff on page 18 of its report, I will provide the Company’s response to concerns
16 expressed by Blue Ridge Consulting Services, Inc. (“Blue Ridge”) regarding the level of
17 corporate charges from Dominion Resources Services, Inc. (“DRS”) included in DEO’s
18 test year operating expenses in FERC account 923 – Outside Services Costs.

1 **II. OBJECTIONS TO THE STAFF REPORT**

2 **Q4. What is the general nature of your supplemental testimony with regard to the**
3 **Operating Income adjustments recommended in the Staff Report?**

4 A4. My testimony addresses improper Schedule C-3 adjustments discussed in the Staff
5 Report on pages 12 and 13 and which are shown on Schedules C-3.12, C-3.13, and C-
6 3.16 of the Staff Report on pages 104, 105, and 108, respectively.

7 **Q5. Which specific adjustments will you be addressing?**

8 A5. I will address the inappropriate adjustments made by Staff in the following areas:

- 9 • Other Post Employment Benefits (“OPEB”) Expense – Objection No. 6
10 • Rate Case Expense – Objection No. 9
11 • Uncollectible Accounts Expense – Objection No. 10

12 **Q6. What adjustment was made by Staff related to OPEB expense?**

13 A6. DEO’s adjusted test year OPEB expense is the sum of current expense related to
14 providing OPEB benefits based on three things: (1) the latest known actuarial
15 information; (2) amortization of deferred FAS 106 expense approved in DEO’s last rate
16 case; and (3) amortization of a portion of the curtailment loss incurred in late 1995 as a
17 result of a nonunion workforce reduction in the amount of \$189,495. Under Financial
18 Accounting Standard (“FAS”) 106, OPEB should reflect the actuarial value of the future
19 benefits to be paid. In DEO’s last rate case, the Commission approved a 20-year
20 amortization of the expense associated with transitioning to the new FAS 106 method. In
21 late 1995, DEO experienced a number of early retirements and thus experienced an
22 acceleration of its OPEB obligations. DEO proposed amortizing the curtailment losses
23 resulting from the acceleration of its OPEB obligations over the same period as the

1 related FAS 106 transition cost.

2 On Staff Report Schedule C-3.12, Staff determined the test year OPEB expense
3 omitting the curtailment loss amortization of \$189,495. Reducing that amount by the
4 operating and maintenance (“O&M”) expense ratio of 78.85% results in an adjustment
5 proposed by Staff decreasing test year operating income by \$149,417.

6 **Q7. Why did Staff omit the curtailment loss amortization from test year operating**
7 **income?**

8 A7. In its discussion of OPEB expense on page 12 of the Staff Report, Staff states that the
9 savings from the workforce reduction program should offset the curtailment loss.

10 **Q8. Why does DEO consider Staff’s adjustment to be improper?**

11 A8. The total amount of the curtailment loss being amortized, \$3.253 million, represents the
12 acceleration of the pre-1993 FAS 106 transition obligation, which DEO was permitted in
13 its last rate case to amortize over 20 years. The additional expense resulting from that
14 acceleration should be treated in the same manner as the original transition obligation to
15 which it relates. The recognition of the curtailment loss expense over time through
16 amortization matches the expense with the benefit to customers over time associated with
17 the workforce reduction.

18 **Q9. Please describe the Company’s objection regarding Staff’s proposed adjustments to**
19 **rate case expense.**

20 A9. Staff proposed the reduction of rate case expense from \$1,829,616 to \$1,000,000 and
21 proposed amortization over five years rather than three.

1 **Q10. Why are those adjustments improper?**

2 A10. DEO reasonably anticipates that it will incur more than \$1,000,000 in rate case expenses
3 and believes the original estimate to be more representative of the level of total costs to
4 be incurred. Attached as Attachment VHF-2.1 is an updated estimate of DEO's rate case
5 expense based on expenses incurred through June 13, 2008, which shows nearly the same
6 total estimate as provided on the original Schedule C-8. The attached estimate is
7 provided only in support of my objections; DEO will also submit a late-filed exhibit of
8 rate case expense as required by Rule 4901-7-01, Appx. A, Chap. II (C)(46)(f). Because
9 it is more likely that DEO will file another rate case in three years than in five years, a
10 three-year amortization period should be allowed.

11 **Q11. Is the amortization period proposed by Staff consistent with the amortization period**
12 **used for any other adjustments?**

13 A11. No. Staff accepted DEO's use of a three-year amortization period for crediting back to
14 customers an accumulated over-recovery of Order 636 transition costs as shown on Staff
15 Schedule C-3.25. Because the Order 636 transition costs are the only other expenses
16 being amortized in the test year (other than the OPEB expenses mentioned above), the
17 amortization periods used for the operating income adjustments should be consistent. If
18 the Commission were to approve a five-year amortization period for rate case expense,
19 however, it should do likewise for the Order 636 transition cost.¹

¹ As an alternative, the Commission could credit the Order 636 transition costs to amounts that would otherwise be recovered through DEO's Transportation Migration Rider – Part B. Doing so would eliminate the need for any adjustment to test year operating expenses.

1 **Q12. How did Staff indicate that it had determined its adjustment for uncollectible**
2 **accounts expense?**

3 A12. Staff indicated that both Staff and DEO synchronized test year uncollectible accounts
4 expense with revenues collected through the bad debt tracker and that Staff's calculation
5 also synchronizes test year uncollectible accounts expense with revenues collected
6 through the Percentage Income Payment Plan ("PIPP") rider.

7 **Q13. Why is Staff's resulting adjustment improper?**

8 A13. Both DEO and Staff synchronized uncollectible accounts expense with related revenues
9 collected through the bad debt tracker and the PIPP rider. However, DEO's test year
10 operating expenses also include \$150,354, shown on DEO's Schedule C-2.1, for actual
11 miscellaneous uncollectible accounts expense incurred in the months January through
12 March 2007 primarily related to certain traditional transportation accounts and
13 contractors billed for damage to DEO lines whose arrearages are not covered by either
14 the PIPP rider or the bad debt tracker. The amount of the uncollectible expense
15 attributable to these parties was not included in test year operating expenses by Staff.

16 **III. DEO'S RESPONSE TO CONCERNS RAISED BY BLUE RIDGE REGARDING**
17 **ACCOUNT 923 – OUTSIDE SERVICES**

18 **Q14. Describe the discussion in the Staff Report regarding Account 923 – Outside**
19 **Services.**

20 A14. Staff states that Blue Ridge performed a detailed analysis of the DRS charges to DEO,
21 compared them to DRS costs incurred between 2002 and 2006, and identified four
22 service categories that show noticeable increases: (1) Executive/Administrative
23 Compensation, (2) Customer Service, (3) Miscellaneous, and (4) Information
24 Technology. Staff explains that Blue Ridge's findings show that DRS costs charged to

1 DEO for the test year are significantly higher than in the previous five years and that Blue
2 Ridge recommends that Staff should consider an adjustment to reduce the test year
3 expense in Account 923.

4 **Q15. What recommendation was made by Staff in the Staff Report regarding Account**
5 **923?**

6 A15. Staff recommended that DEO should respond to Blue Ridge's concern about test year
7 costs in Account 923.

8 **Q16. Did Staff recommend an adjustment to test year operating expenses related to costs**
9 **in Account 923?**

10 A16. No.

11 A. EXECUTIVE/ADMINISTRATIVE COMPENSATION

12 **Q17. What are Blue Ridge's concerns regarding Executive/Administrative Compensation**
13 **expense?**

14 A17. Blue Ridge points out that the actual charges to DEO for 2007 are 48.9% greater than the
15 2006 charges and 71% greater than the average charges for the years 2002 through 2006.

16 Based on an explanation of the items contributing to the increase in total 2007 DRS

17 Executive/Administrative Compensation expense, Blue Ridge states that it appears that

18 the increases for 2007 related to (a) a new long-term incentive plan implemented in 2006

19 and (b) executive retirements are "items that may be unique to 2007 and would not occur
20 in a typical year."

21 **Q18. Please describe the items making up the increase in total DRS**
22 **Executive/Administrative Compensation charges, and which impact the allocation**
23 **of these charges to DEO.**

24 A18. In total, DRS expenses for Executive/Administrative Compensation increased by \$28.96
25 million from 2006 to 2007, which increased the allocation to DEO by approximately \$2.5

1 million. The total increase includes long-term incentive plan expense of \$14.8 million,
2 short-term (annual) incentive plan expense of \$10.6 million, executive pension
3 settlements of \$2.0 million, restricted stock amortization of \$0.8 million, and consulting
4 expense of \$0.7 million.

5 **Q19. How does DEO's test year expense for DRS Executive/Administrative**
6 **Compensation compare to the 2007 actual expense?**

7 A19. DEO's allocation of actual 2007 DRS Executive/Administrative Compensation expense
8 totals \$8,608,287. DEO's test year expense for this category is \$8,084,079.

9 **Q20. What is the reason for the increase in long-term incentive plan expense?**

10 A20. Prior to 2006, Dominion made discretionary awards of long-term incentives to executives
11 in the form of restricted stock. In 2006, Dominion implemented a new long-term
12 incentive plan under which executives are granted annual awards comprising 50%
13 restricted stock and 50% performance-based cash or stock awards. The value of the long-
14 term incentives is expensed pro rata over a three-year vesting period for the restricted
15 stock and a 21-month period for the performance-based awards. Accordingly, 2006
16 included long-term incentive expense for April through December 2006, and 2007
17 included a full year of expense for the awards granted in 2006 and nine months of
18 expense for the awards granted in 2007.

19 **Q21. Is the level of expense in 2007 related to long-term incentives unique to 2007?**

20 A21. No. The expense in 2007 is reflective of ongoing executive compensation under the
21 long-term incentive plan implemented in 2006.

- 1 **Q22. What is the reason for the increase in restricted stock amortization expense?**
- 2 A22. The increase in total DRS expense for restricted stock amortization directly relates to the
3 increase in restricted stock awards under the long-term incentive plan.
- 4 **Q23. Discuss the increase in short-term incentive plan expense.**
- 5 A23. While some of the increase in the short-term (annual) incentive plan expense relates to
6 increases in salaries for 2007, the primary reason for the increase in 2007 actual DRS
7 expense is a result of additional accruals in late 2007 to recognize 2007 annual incentives
8 at 182% of the normal expected pay outs based on targets established for the annual
9 incentive plan for the year.
- 10 **Q24. Is the increase in the annual incentive plan accruals reflected in DEO's test year?**
- 11 A24. No. The 2007 plan for DRS charges to DEO included annual incentive plan expense at
12 the level of normal expected payouts. DRS' actual increased cost for long term
13 incentives, restricted stock amortization and the annual incentive plan exceed the plan for
14 these charges by \$9 million.
- 15 **Q25. Please explain the increase in executive pension settlements in 2007.**
- 16 A25. Actual total DRS Executive/Administrative Compensation expenses for 2007 include
17 \$2.0 million related to the retirement of three Dominion executives in 2007.
- 18 **Q26. Is the increase in the executive pension settlements reflected in DEO's test year?**
- 19 A26. No. There were no executive retirements included in the 2007 plan for total DRS
20 Executive/Administrative Compensation expenses. Accordingly, the portion of the total
21 plan included in DEO's test year includes no such amounts.

1 **Q27. What caused the increase in consulting expense related to Executive/Administrative**
2 **Compensation?**

3 A27. Dominion's Compensation, Governance and Nominating Committee uses an independent
4 consultant to evaluate the executive compensation programs. The role of the independent
5 consultant was expanded in 2007 in response to changes adopted in July 2006 by the
6 Securities and Exchange Commission that were designed to significantly improve the
7 information investors receive about executive compensation. Dominion expects to
8 continue using an independent consultant in an expanded capacity on an ongoing basis.

9 **Q28. Is the increase in the consulting expense related to Executive/Administrative**
10 **Compensation reflected in DEO's test year?**

11 A28. Yes. Although actual DRS costs for consulting expense in this category increased
12 \$705,038, an increase of only \$464,000 was planned for 2007. Because DEO's test year
13 includes a portion of the DRS plan for Executive/Administrative Compensation, the
14 planned increase is reflected in DEO's test year operating expenses.

15 B. CUSTOMER SERVICE

16 **Q29. What are Blue Ridge's comments regarding Customer Service expense?**

17 A29. Blue Ridge points out that the actual charges to DEO for 2007 are 42.6% greater than the
18 2006 charges and 83% greater than the average charges for the years 2002 through 2006.
19 Blue Ridge then provides the Company's explanation for the increase, which states that
20 in order to achieve the Average Speed of Answer ("ASA") of 90 seconds or less required
21 by the Ohio Minimum Gas Service Standards, DEO's call center relied on assistance
22 from the Dominion Virginia Power call center and was charged at cost for those services
23 through DRS.

1 **Q30. Was DEO able to meet compliance with the ASA required by the Ohio Minimum**
2 **Service Standards?**

3 A30. As acknowledged by Staff on page 47 of its report regarding the Customer Service Audit,
4 by May 2007 DEO's ASA was 23.8 seconds. Staff commends DEO for the significant
5 decrease in ASA and consequent improvement in customer service.

6 **Q31. Is the increase in DRS charges to DEO for Customer Service expense reflected in**
7 **DEO's test year?**

8 A31. Yes. Use of the Dominion Virginia Power call center to supplement DEO's call center
9 was planned for 2007.

10 **Q32. Is the increase in DRS charges to DEO for Customer Service expense reflective of**
11 **ongoing call center expense?**

12 A32. Yes. If the Dominion Virginia Power call center was unable to assist DEO's call center,
13 DEO would need to make changes such as increasing call center staff possibly at an even
14 greater cost in order to maintain compliance with ASA required by the Ohio Minimum
15 Gas Service Standards.

16 C. MISCELLANEOUS EXPENSE

17 **Q33. Please describe Blue Ridge's comments regarding DRS charges to DEO for**
18 **Miscellaneous expense.**

19 A33. Blue Ridge points out that actual 2007 DRS charges to DEO for Miscellaneous expense
20 total \$1,760,984 compared with a credit of \$68,681 in 2006 and states that although that
21 expense has fluctuated widely, for the years 2002 through 2006 the expense was
22 significantly less than in 2007. Blue Ridge also provides the Company's explanation that
23 the primary reason for the increase is the accrual in December 2007 of \$2.6 million in
24 additional DRS Annual Incentive Plan expense authorized based on targets established

1 for the annual incentive plan offset by a credit for the receipt in 2007 of an insurance
2 settlement check.

3 **Q34. Is the increase in DRS charges to DEO for Miscellaneous expense reflected in**
4 **DEO's test year?**

5 A34. No. DEO's test year operating expenses include a *credit* of \$765,598 for 2007 DRS
6 Miscellaneous expense.

7 D. INFORMATION TECHNOLOGY

8 **Q35. Describe Blue Ridge's comments regarding Information Technology expense.**

9 A35. Blue Ridge shows that actual 2007 DRS charges to DEO for Information Technology are
10 only 4.6% higher than for 2006, but are lower than previous years and in line with the
11 historical trend.

12 **Q36. Is DEO's test year expense for DRS Information Technology charges in line with the**
13 **historical trend and reflective of an appropriate level of ongoing expense?**

14 A36. Yes. DEO's test year expense for DRS Information Technology charges totals \$20.6
15 million, which is in line with the historical trend and reflects an ongoing level of expense.

16 E. FINDING AND RECOMMENDATION

17 **Q37. What was the result of the review by Blue Ridge of the 2007 DRS corporate charges**
18 **allocated to DEO?**

19 A37. Blue Ridge found that the DRS costs charged to DEO for 2007 and, therefore, Account
20 923 – Outside Services, are significantly higher than in the previous five years. Blue
21 Ridge states that based on the explanations provided by the Company, the only concern
22 that remains is the level of Executive/Administrative Compensation.

1 **Q38. Does DEO believe that it has provided sufficient justification for the increase in**
2 **Executive/Administrative Compensation expense included in the test year?**

3 A38. Yes. Based on the information provided in this supplemental direct testimony, DEO
4 believes that the increase in 2007 Executive/Administrative Compensation expense
5 included in the test year is reasonable and justifiable.

6 **Q39. Does this conclude your supplemental testimony?**

7 A39. Yes.

THE EAST OHIO GAS COMPANY d/b/a DOMINION EAST OHIO
 Case No. 07-0829-GA-AIR
 Rate Case Expense (Jurisdiction)

Data: Revised Estimate
 Type of Filing: Original

Schedule C-8 Update
 Page 1 of 1
 Witness Responsible:
 V. H. Friscic

Comparison of Projected Expenses Associated with the Current Case to Prior Rate Cases

Line No.	Item of Expense	Current Case Estimated	Most Recent Prior Case Actual	Most Recent Prior Case Estimate	Next Most Recent Case Actual	Next Most Recent Case Estimate	Justification of Significant Change
			83-2006-GA-AIR		86-297-GA-AIR		
1							
2	Legal	\$ 698,000	\$ -	\$ 500,000	\$ 188,000	\$ 400,000	Increase in expenses is anticipated due to the length of time since the last rate case and due to the increased complexity of issues involved in the current case.
3	Audit	275,122	-	-	-	-	
4	Consultants/Expert Witness	278,841	60,000	60,000	39,000	25,000	
5	Other Major Rate Case Expenses:						
6	Printing and Publishing	15,983	25,000	25,000	-	-	
7	Court Reporters	25,000	20,000	20,000	-	16,886	
8	Customer Notification	520,000	311,000	311,000	209,000	444,972	
9	Miscellaneous	10,550	20,000	20,000	21,000	42,410	
10	Total Rate Case Expense	\$ 1,823,406	(a)	\$ 936,000	\$ 457,000	\$ 929,268	

Schedule of Rate Case Expense Amortization

Line No.	Rate Case	Total Expense to be Amortized	Opinion/Order Date	Authorized Amortization Period	Amount Authorized/ Expensed To Date	Expenses Included in Unadjusted Test Year Expense
11	Current (Estimated)	\$ 1,823,406		3 Years	(b)	\$ 40,284
12	Most Recent (93-2006-GA-AIR)	(a)	11/3/1994	3 Years	(b)	-
13	Next Most Recent (86-297-GA-AIR)	\$ 457,000	12/30/1986	3 Years	(b)	-
14						\$ 40,284

(a) The Commission approved a waiver of this requirement in its Entry dated August 15, 2007 in this case.
 (b) Company does not amortize these costs, but charges them to expense as incurred.