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FILE

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**

OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION OF THE EAST OHIO GAS COMPANY D/B/A DOMINION EAST OHIO

In accordance with R.C. 4909.19, Rule 4901-1-28 of the Ohio Administrative Code, the Entry of May 23, 3008, and the Entry on Rehearing of May 28, 2008, The East Ohio Gas

Company d/b/a Dominion East Ohio ("DEO") submits its Objections to the Staff Report of Investigation ("Staff Report").[1]

OBJECTIONS TO THE STAFF REPORT

REVENUE REQUIREMENT

Objection No. 1: DEO objects to Staff's recommended revenue increase range of $33,607,411 to $45,564,961. As detailed in the following objections, Staff's recommended increase understates the amount to which DEO is entitled based on appropriate levels of adjusted operating income, rate base and rate of return. (Staff Report Schedule A-1)

RATE BASE

Objection No. 2: DEO objects to Staff's exclusion of $46,022,630 from the working capital component of rate base that is associated with the Company's purchase of supplier accounts receivable in the Energy Choice program. Although DEO does not object to Staff's recommendation to extend the two-week remittance of payments to Energy Choice suppliers to thirty days, the longer remittance period still results in a working capital requirement that Staff has not recognized in its calculation of working capital. (Staff Report Schedule B-5)

Objection No. 3: DEO objects to Staff's calculation of the working capital component of rate base to the extent that amounts contained in Staff's lead/lag study do not reflect appropriate amounts for the adjusted revenues and expenses addressed in these objections. The amount of working capital must be consistent with appropriate amounts of adjusted revenues and expenses in order to provide a suitable basis on which to establish a recommended revenue increase. (Staff Report Schedule B-5)

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[1] DEO will submit any objections it may have to the Staff Report filed in Case No. 08-169-GA-ALT related to the proposed Pipeline Infrastructure Replacement program in accordance with the May 28, 2008 Entry on Rehearing and Chapter 4901:1-19 of the Ohio Administrative Code.

OPERATING INCOME

Objection No. 4: DEO objects to Staff's proposal to credit $930,825 of transportation service revenues and $2,789,175 of storage service revenues from the Company's pilot storage program toward amounts that would otherwise be recovered through the Transportation Migration Rider – Part B. Such crediting is not needed to establish an appropriate level of adjusted test year operating income or the resulting income deficiency and required revenue increase. The taking of revenues that were recognized during a period in which the Company failed to earn an adequate return on average equity is inappropriate and unnecessary. (Staff Report 9–10)

Objection No. 5: DEO objects to Staff's use of the accrued accounting method to determine test year pension expense and the date certain balance of pension assets and pension-related accumulated deferred income taxes in rate base. The use of accrued accounting to determine pension-related costs does not properly address the working capital impact of the Company's pension expense credit that, under law, cannot be used as a source of funds for operations in any way. (Staff Report 11–12)

Objection No. 6: DEO objects to Staff's elimination from test year operating expenses of $149,417 related to the amortization of a portion of the curtailment loss incurred in late 1995 as a result of a nonunion workforce reduction. The total amount of the curtailment loss being amortized, $3.253 million, represents the acceleration of the pre-1993 FAS 106 transition obligation, which DEO was permitted in its last rate case to amortize over 20 years. The additional expense resulting from that acceleration should be treated in the same manner as the original transition obligation to which it relates. (Staff Report 12)

Objection No. 7: DEO objects to Staff's reinstatement of $104,158 of forfeited discount revenue and rejection of the Company's recommendation to credit all late payment charge revenue against amounts recovered through its bad debt rider. The unadjusted forfeited discount revenue is based on late payment charge revenue from the Company's West Ohio division only. Reinstating the $104,158 does not properly reflect increased late payment charge revenue from both the Company's West Ohio and East Ohio divisions. Crediting all late payment charge revenue against amounts recovered through the bad debt rider resolves all issues related to the uncertainty of such revenues. (Staff Report Schedule C-3)

Objection No. 8: DEO objects to Staff's elimination of the Company's $437,045 test year operating expense adjustment for storage migration loss. Staff's adjustments to Transportation Migration Rider Parts A and B that are intended to synchronize all test year gas cost revenues and expenses do not properly recognize the crediting of storage service revenues for storage migration losses. By eliminating the Company's proposed adjustment, Staff has treated the migration loss portion of storage service revenues as base rate revenue even though the Company does not retain it as such. (Staff Report Schedule C-3)

Objection No. 9: DEO objects to Staff's proposed reduction of rate case expense from $1,829,616 to $1,000,000 and to the proposed amortization over five years rather than three. DEO reasonably anticipates that it will incur more than $1,000,000 in rate case expenses and believes the original estimate to be more representative of the level of total costs to be incurred. Because it is more likely that DEO will file another rate case in three years than in five years, a three-year amortization period should be allowed. If rate case expenses must be amortized over a five-year period, DEO's over-recovered transition costs on Staff Schedule C-3.25 should also be amortized over five years. (Staff Report Schedule C-3.13)

Objection No. 10: DEO objects to Staff's exclusion from test year operating expenses of $150,354 of uncollectible accounts expense related to accounts not covered by either the Percentage Income Payment Plan (PIPP) rider or the uncollectibles expense rider. The $150,354 amount shown on DEO's Schedule C-2.1 is the actual miscellaneous uncollectible accounts expense incurred in the months January through March 2007. Staff's adjustment to DEO's test year uncollectible accounts expense improperly eliminates this amount from test year operating expenses. (Staff Report Schedule C-3.16)

Objection No. 11: DEO objects to Staff's recommendation to remove test year expenses of $5,025,182 associated with so-called "Challenge" earnings goals. Although Challenge earnings are included in the budget as a credit to operating expenses, they can be achieved by means that that do not affect jurisdictional test year operating income. As a result, such earnings do not reflect the level of operating expenses anticipated by management either for the test year or the period in which rates will be in effect. (Staff Report Schedule C-3.24)

Objection No. 12: DEO objects to Staff's calculation of Gross Receipts Tax expense to the extent that it does not reflect an appropriate amount for adjusted revenues as indicated in these objections. The amount of Gross Receipts Tax expense must be consistent with an appropriate amount of adjusted revenues in order to provide a suitable basis on which to establish a recommended revenue increase. (Staff Report Schedule C-3.27b)

Objection No. 13: DEO objects to Staff's calculation of Federal Income Tax expense to the extent that it does not reflect an appropriate amount for adjusted revenues and expenses and a reconciling item for interest on rate base as indicated in these objections. The amount of Federal Income Tax expense must be consistent with an appropriate amount of adjusted revenues and expenses and interest on rate base in order to provide a suitable basis on which to establish a recommended revenue increase. (Staff Report Schedule C-4)

RATE OF RETURN

Objection No. 14: DEO objects to Staff's sample selection because it is unnecessarily restricted to companies with a beta of less than 0.85. (Staff Report 21)

Objection No. 15: DEO objects to Staff's sample selection because it is unnecessarily restricted to companies with a Standard & Poor's bond rating of A, A-, BBB+, or BBB, omitting companies with a rating greater than A and companies rated BBB-, all of which are investment grade companies. (Staff Report 20–21)

Objection No. 16: DEO objects to Staff's use, in its CAPM model, of an average of 10-year and 30-year bond yields for the risk-free rate over the last 12 months. This information is stale and out of date and should have matched the term of the risk-free rate and the data used to estimate the MRP. (Staff Report 21)

Objection No. 17: DEO objects to Staff failure to consider a short-term, risk-free rate version of its CAPM model.

Objection No. 18: DEO objects to Staff's failure to recognize and adjust for the well-known shortcomings of CAPM model by using the ECAPM model.

Objection No. 19: DEO objects to Staff's calculation, in its DCF model, of the dividend yield using prices and dividends over the past year. That is too long a period to use for the forward-looking DCF model. (Staff Report 21)

Objection No. 20: DEO objects to Staff's use, in its growth estimates in its DCF model, of non-independent sources such that some analyst estimates were counted multiple times. Staff should have used independent sources of estimates. (Staff Report 21)

Objection No. 21: DEO objects to Staff's failure to consider, in its DCF model, that DEO's dividends are paid quarterly. Staff should have used a quarterly version of the model.

Objection No. 22: DEO objects to Staff's failure to consider differences in market value capital structures at which ROE estimates are made. Staff should have used an adjustment that recognizes *differences in financial risk based on comparable* companies' market value capital structures rather than their book value capital structures.

Objection No. 23: DEO objects to Staff's suggestion that decoupling or similar measures may reduce the type of risk that affects the cost of capital to the Company, without discussion or analysis demonstrating that systematic or non-diversifiable risk is in fact reduced. (Staff Report 22)

RATES AND TARIFFS

Objection No. 24: DEO objects to Staff's proposed reconnection charge of $33.00. Staff's use of total pay hours per year rather than productive hours understates the effective cost of reconnecting a customer. (Staff Report 27)

Objection No. 25: DEO objects to Staff's statements that it "needs additional information from the Company supporting the investigation cost per field visit" and that its recommended rate for DEO's proposed new Investigation Fee "will be contingent upon information provided by the Applicant in the pending data request response." DEO believes that it provided the requested information in its response to Staff data request 8.3 and therefore that Staff has the information necessary to approve the charge as proposed by DEO. (Staff Report 27)

RATE DESIGN AND REVENUE ANALYSIS

Objection No. 26: DEO objects to Staff's proposal to increase the rate of return for the combined General Transportation Service and Transportation Service for Schools ("GTS/TSS") class to a level that is almost twice that of Staff's proposed rate of return for the combined General Sales Service and Energy Choice Transportation Service ("GSS/ECTS") class and substantially higher than the rate of return for the system as a whole. Such an outcome would perpetuate the current situation in which the GTS/TSS class pays rates that generate a rate of return that far exceeds those of any other customer class. (Staff Report 29)

Objection No. 27: DEO supports Staff's concept of a primarily fixed charge rate. DEO objects to Staff's proposed rate design approach only to any extent that it does not result in rates that (1) customers can readily understand, (2) can be billed without significant billing system modifications, (3) distinguish single premise residential accounts from multiple tenant residential accounts and (4) avoid significant changes in the relative economics of different rate schedules utilized by non-residential customers. The Company makes this objection only to reserve its right to promote the proper design of rates and tariff terms and conditions that accomplish the objectives cited by Staff is its discussion of the recommendation. (Staff Report 34–36)

Objection No. 28: DEO objects to Staff's failure to address the Company's proposal to reflect an updated estimate of the costs associated with gas migration from storage that accompanies the provision of seasonal storage service. Reflecting an updated estimate of those costs in rates will ensure that an appropriate portion of storage service revenues are used to credit amounts that would otherwise be recovered through Transportation Migration Rider Part B.

Objection No. 29: DEO objects to Staff's failure to address the Company's proposed change in its Gross Receipts Tax "(GRT") Rider to recover the entire GRT expense through a modified rider. Modification of the GRT Rider is needed to ensure that customers pay, and the Company receives, an appropriate amount for DEO's GRT obligation.

GAS PIPELINE AND SAFETY REVIEW

Objection No. 30: DEO objects to Staff's exclusion of $383,494.38 of straight-time labor costs that were identified by the Company as incremental costs incurred in complying with directives set forth in the Commission's investigation of natural gas service risers in Case No. 05-463-GA-COI. Complying with those directives required DEO to incur overtime elsewhere in its Field Services organization, which imposed incremental costs to the Company. Including only straight-time labor costs in the determination of incremental costs reduced the cost to ratepayers of complying with the Commission's directives. (Staff Report 40)

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Objections to the Staff Report of Investigation of The East Ohio Gas Company d/b/a Dominion East Ohio was sent by electronic mail to the following parties on this 23rd day of June, 2008.

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