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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION OF OHIO PARTNERS FOR AFFORDABLE ENERGY AND SUMMARY OF MAJOR ISSUES

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OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION OF OHIO PARTNERS FOR AFFORDABLE ENERGY AND SUMMARY OF MAJOR ISSUES

INTRODUCTION

On July 20, 2007, East Ohio Gas Company d/b/a Dominion East Ohio ("DEO" or "Company") filed a Notice of Intent to file an application for an increase in rates. Subsequently, on August 30, 2007, DEO filed the instant application for an increase in distribution rates, an alternative rate plan, and related accounting authority in Case Nos. 07-829-GA-AIR, 07-830-ALT, and 07-831-GA-AAM. On September 20, 2007, DEO filed a motion to consolidate these three dockets with the application filed in Case No. 06-1453-GA-UNC which involves deployment of automated meter reading devices ("AMR"). On February 22, 2008, the Company filed an application -- Case No. 08-169-GA-UNC -- to recover certain costs associated with a Pipeline Infrastructure Replacement Program ("PIR"), and requested consolidation of this additional docket with the rate case. The motion was granted on April 9, 2008. Ohio Partners for Affordable Energy ("OPAE") and the Office of the Ohio Consumers' Counsel filed applications for rehearing of the Entry granting the motion to consolidate. On May 28, 2008, the Commission granted the applications for rehearing in part and ordered DEO to comply with procedures for alternative regulation for Case No. 08-169-GA-UNC, whose designation was changed to an alternative regulation docket, Case No. 08-169-GA-ALT.

Pursuant to R.C. 4909.19 and Ohio Adm. Code 4901-1-28(B), OPAE, a party to the above-captioned case, hereby submits these objections to the Staff Report of Investigation ("Staff Report") filed on May 23, 2008, and a summary of major issues.

OBJECTIONS

I. OPAE objects to the failure of the Staff Report to forbid charging deposits or late fees to customers participating in the Percentage Income Payment Plan.

When a customer enrolls in the Percentage of Income Payment Plan ("PIPP"), an Ohio natural gas utility is authorized to collect the delta revenue associated with the payment plan through a separate rider that is periodically adjusted to reflect costs. As a result, it is inappropriate to require such customers to pay deposits or be subjected to late fees because natural gas utilities are not at risk for recovery. Thus, it is appropriate that PIPP customers be exempt from the tariff requirements regarding deposits or late fees. The exemptions will reduce the cost of PIPP to ratepayers. The Staff Report errs by failing to require these exemptions.

II. OPAE objects to the Staff Report's rejection of the proposal in the Application to credit commodity exchange and firm receipt point revenues toward the amounts that would otherwise be recovered through the PIPP Rider mechanism.

DEO proposes in its application to credit the customer portion of commodity exchange and firm receipt point revenues back to customers through the PIPP Rider mechanism, a proposal opposed in the Staff Report. The significant increase in the PIPP Rider over the past several years is well recognized. DEO is currently amortizing a portion of these increases per the Commission Entry in Case No. 05-1427-GA-PIP through January of 2009. Crediting commodity exchange and firm receipt point revenues to the Rider will have the effect of reducing carrying charges on the deferral and thus will provide additional benefits to customers.

III. OPAE objects to the failure of the Staff Report to make adjustments *to reduce test year amounts in* FERC Account 923, Outside Services, as recommended by Blue Ridge.

Blue Ridge, the consultants reviewing various aspects of DEO's application, recommended adjustments to FERC Account 923 because of significant increases in test year expenses. Rather than recommend the adjustments proposed by Blue Ridge, the Staff instead requested that DEO 'respond' to the recommendations rather than incorporating the adjustments into the FERC Account 923 expenses. The Staff erred in failing to make the adjustments called for by Blue Ridge.

IV. OPAE objects to the failure of the Staff Report to require that the amount of excess recovery of weatherization deferrals be determined and the excess recovery be spent on weatherization activities.

Staff correctly identifies the issue of the recovery of deferred weatherization expenditures and recommends that recovery cease because rates have been in place for fourteen years and the deferral has been recovered, recommending no adjustment in this proceeding. The Staff errs in not requiring the Company to account for collections during the past fourteen years and assign the excess recovery to low-income weatherization programs to ensure that ratepayers get what they paid for.

V. OPAE objects to the Staff Report recommendation that the rate of return be set in the range of 8.22% to 8.75% because it provides an excessive return when compared to the risk faced by DEO, and other factors.

Staff acknowledges the need to adjust rate of return to recognize the reduction in risk of earning the revenue requirement because of decoupling or the Staff's modified straight fixed variable rate, and the proposed PIR. The Standard Service Offer bidding process also eliminates the risk of refunds under traditional gas cost recovery audits. Unfortunately, the Staff Report fails to quantify the level of reduction of the rate of return as a result of the reduced risk. The comparable companies utilized by Staff do not, in large part, have decoupling or a modified straight fixed variable rate, or a PIR. The Staff Report errs in not reducing the rate of return sufficiently to reflect the minimal risk faced by the Company for purposes of a return on its investment.

VI. OPAE objects to the failure of the Staff Report to require that DEO tariffs eliminate fees or charges associated with disconnection/reconnection when the customer receives service via automated meter reading ("AMR") equipment.

AMR equipment is touted as eliminating the need for manual disconnection and reconnection, instead allowing the Company to 'flip a switch' to accomplish those tasks. As a result, the cost of disconnection and reconnection is effectively embedded in the cost of AMR equipment. Therefore the Staff Report erred in not requiring that disconnection/reconnection fees be eliminated for customers served with AMR equipment.

VII. OPAE objects to the failure of the Staff Report to require that DEO tariffs be modified to require monthly actual readings for customers with AMR equipment.

Natural gas prices are widely acknowledged to be extremely volatile. As a result, customers may pay more or less than they should depending on the accuracy of the estimated consumption calculated by DEO. With the implementation of AMR, the utility has the capacity to base all billing on actual readings. The Staff Report errs by not requiring monthly actual readings in DEO tariffs for customers with AMR equipment.

VIII. OPAE objects to the Staff Report approval of a 1.5% late payment charge.

DEO does not currently have a late payment fee. The Staff Report supports the imposition of a 1.5% late payment fee as requested by the Company, calling it an 'industry standard.' However, the lead-lag study submitted by DEO and approved in the Staff Report already factors in the cost of late payments. Charging a 1.5% late payment fee, without crediting that fee back to customers, means the impact of delayed recovery is being paid twice. In addition, from a public policy standpoint, imposition of a late fee only makes the situation worse for customers struggling with historically high energy prices. Moreover, there is no demonstration that a late fee improves payment behavior. The Staff Report errs by supporting a late payment charge.

IX. OPAE objects to acceptance by the Staff Report of the peak and average method of allocating cost to the various classes because the procedure fails to represent the utility system's characteristics.

The allocation of costs to the residential class is excessive and not supported by sound regulatory and public policies. Basing the rate design on the difference between average deliveries and the difference between that average and peak demand unreasonably allocates excessive system costs to customers with primarily heating loads. Moreover, because the Staff is advocating for a high customer charge to capture 'fixed' costs of the distribution system, there is no justification for allocating cost based on throughput; rather, costs should be allocated based on usage alone. The Staff erred by accepting the rate design based on the cost of service study proposed by DEO.

X. OPAE objects to the failure of the Staff Report to require that recovery of costs under the DEO AMR deployment application be subject to the "used and useful" standard for recovery.

OPAE has previously questioned the efficacy of pouring millions of residential ratepayer's dollars into an advanced metering system with dubious benefits for those customers. A traditional check on the ability of utilities to pass through unreasonable costs to customers is the "used and useful" standard for recovery. The Staff Report errs by failing to require the application of the "used and useful" standard for investments proposed for funding under a fixed AMR Cost Recovery Charge.

XI. OPAE objects to the conclusion in the Staff Report that rate decoupling is justified for DEO.

The Staff Report "supports the concept of decoupling", citing the steadily declining residential use per customer as justification. Yet the data on which the Staff relies paints a different picture. Average residential consumption between 1990 and 1993, the date of the last DEO rate case, is 129.61 Mcf. The average consumption between 2001 and 2005 was 110.39, a 15% reduction. Yet, the Company did not request a rate increase, leading to the rational conclusion that revenues, at a minimum, were adequate. The subsequent reduction in residential throughput of 10% apparently created a situation where revenues are now inadequate and the Company has now availed itself of the appropriate remedy – an application for an increase in rates. Staff provides no projections indicating that throughput will continue to decline; it may have reached a plateau. Thus, the Staff Report errs by conceding the need for rate decoupling in this proceeding.

XII. OPAE objects to the failure of the Staff Report to require conditions related to the collection of revenue under the rate decoupling approach proposed by the Company.

State regulators have begun to analyze the appropriateness of rate decoupling mechanisms. Several states have implemented this approach. These states have developed a series of criteria that are applied to decoupling including: 1) not exempting any customer classes; 2) linking decoupling to significant DSM investments with targeted reductions in system throughput; 3) limiting recovery to the percentage of the reduction goals; 4) limiting recovery to

90% of the lost revenue authorized for collection; and, 5) requiring regular base rate cases to ensure that revenue reflects the utility's actual costs. The Staff Report erred by failing to establish conditions regarding the proposed Sales Reconciliation Rider ("SRR").

XIII. OPAE objects to the proposal in the Staff Report to establish a high fixed customer charge and low volumetric rates.

The Staff Report recommends a "significant change" in rate structure through the establishment of a rate based primarily on a high fixed distribution charge. This would harm customers with low usage and reduce incentives to conserve natural gas through greater energy efficiency. In addition, such a rate design would eliminate any advantages that would accrue to customers from the decoupling approach proposed by the Applicant. Finally, the modified straight fixed variable rate proposed by Staff does not fall within the definition of rate decoupling. The Staff Report erred by proposing a rate design based on a high fixed customer charge and low volumetric rate.

XIV. OPAE objects to the failure of the Staff Report to require that DEO offer affordable payment plans based on the customer's energy burden and income.

Existing Commission rules provide for two payment plans, and authorize utilities to negotiate customized payment programs with customers. Customers are not well served by 'one size fits all' payment plans which are often unaffordable and ultimately put customers in danger of disconnection once again. Data clearly indicates that the number of disconnections is increasing. Payment plans should be customized based on a customer's income and the resulting energy burden – the percentage of income spent on utility bills. The Staff Report erred by failing to require DEO to offer affordable payment plans based on the customer's energy burden and income.

XV. OPAE objects to the failure of the Staff Report to require DEO to undertake educational efforts so customers understand the difference between authorized and non-authorized payment stations.

Many merchants hold themselves out as utility payment stations though not all stores taking utility payments are authorized payment centers. To ensure customer payments are promptly credited to accounts to prevent the issuance of disconnection notices or actual disconnections, DEO should be required to undertake an education program designed to alert customers to the need to use only authorized payment stations. The Staff Report errs by failing to require an education effort designed to ensure customers use authorized payment centers.

XVI. OPAE objects to the failure of the Staff Report to recommend that the EnergyShare be coordinated with E-HEAP.

The Staff Report fails to recognize the advantages of coordinating the EnergyShare with other bill payment assistance programs. Programs such as E-HEAP, HEAP and PIPP are managed through a network of nonprofit agencies funded by the Ohio Department of Development ("ODOD"). ODOD has developed an electronic data exchange system that permits payments to be applied directly to customer accounts when they are authorized, reducing costs to the utility and ensuring that payments are credited promptly. Providing benefits from the EnergyShare program through an entity separate from the existing E-HEAP network is inefficient because it fails to take advantage of the information transfer capabilities, requires a duplicative network to deliver the benefits, and requires customers to contact multiple agencies to secure needed assistance. Further, it is common for customers to contact community agencies providing E-HEAP services when they have exhausted their benefits. Under the current structure, these clients must be referred to a separate nonprofit agency. Low-income customers often lack adequate transportation and are inordinately affected by record gasoline prices. These customers contact E-HEAP providers as a matter of course, making this delivery network the logical entity to efficiently operate the EnergyShare program. The Staff Report erred by failing to require that benefits provided under the EnergyShare program be coordinated and delivered by agencies providing E-HEAP payments to customers.

XVII. OPAE objects to the failure of the Staff Report to require adequate funding for the Housewarming Program.

The Staff Report fails to designate funding for or the continuation of the existing Housewarming Program, rejecting the proposal included in the DEO application. Current funding for low-income assistance from DEO, a combination of ratepayer and shareholder funds, is clearly inadequate to meet the needs in the service territory. The number of eligible customers has increased significantly since program funding was set at $3 million per year in 1994. (A five-year temporary increase of $500,000 will expire this year, as will $137,500 annually provided for a fuel fund.) Testimony filed by Staff in Case No. 04-571-GA-AIR indicates that during the 12 months ending in September 2004, Dominion spent $2.66 per customer for low-income weatherization compared to

$3.95 by Columbia Gas of Ohio, $3.69 by Vectren Energy Delivery of Ohio, and $5.93 by Cincinnati Gas and Electric (now Duke). Subsequent to that analysis, Duke has added an additional $1 million per year of ratepayer funding for low-income weatherization and the Columbia Collaborative is considering a minimum of $7 million per year. DEO and Columbia have roughly the same number of low-income customers. Funding provided for low-income weatherization should be comparable to other utilities. Comparability with Duke funding levels would be approximately $9.5 million per year. The Staff Report erred by failing to recommend this minimum level of ratepayer funds be specifically programmed through the Housewarming Program.

XVIII. OPAE objects to the failure of the Staff Report to require adequate funding for Demand Side Management ("DSM") programs.

The Staff Report provides a paltry $5.27 million per year for DSM -- $4.27 million from ratepayers and $1 million from shareholders. If current funding for low-income programs is simply maintained, it leaves a paltry $770,000 per year for customers with incomes greater than 150% of the poverty line, less than the $1 million per year of funding in the Vectren service territory approved in Case No. 05-1444-GA-UNC. Because of the massive increases in gas prices, and consistent with DEO's role as an energy service provider, a minimum of $12.1 million should be provided annually for DSM.

XIX. OPAE objects to the decision in the Staff Report to support the DEO proposal to combine low-income weatherization and DSM programs.

The Staff Report errs in affirming the proposal by DEO to combine low-income weatherization and DSM programs, and the funding for the programs.

While both low-income weatherization and DSM programs have the same focus -- reducing energy consumption and improving affordability – there are fundamental differences between the two. Low-income weatherization provides additional benefits to ratepayers that are not factored in to traditional cost tests which are used to evaluate DSM such as reducing bad debt, the cost of PIPP, and costs associated with disconnection and reconnection, along with the benefits of traditional DSM. The two services should not compete for funding. The Staff Report errs by supporting the combination of the programs.

XX. OPAE objects to the failure of the Staff Report to establish the Participants Test as the appropriate evaluation tool for Demand Side Management Programs.

Approaches to measuring DSM cost-effectiveness have evolved significantly since the first programs were implemented in the 1980s. Initial cost tests, such as the Total Resource Cost Test ("TRC"), are archaic measures for determining cost-effectiveness because they date to the period when utilities were vertically integrated entities and the need to reduce capacity provided the basis for determining program efficacy. Energy efficiency needs to be treated on par with the commodity when determining the optimal supply of services designed to produce the lowest customer bill. A preferable approach is to use the Participants Test which analyzes the impact of efficiency programs on customer bills, the only true measure of cost-effectiveness. The Staff Report errs by failing to adopt the Participants Test and the appropriate mechanism for determining cost-effectiveness of demand-side management programs.

XXI. OPAE objects to the failure of the Staff Report to require that natural gas Demand Side Management Programs be coordinated with electric energy efficiency programs.

The most effective efficiency and DSM programs are those that coordinate funding for all regulated services including natural gas, electricity and water. Comprehensive services pay dividends across the board, ensuring the maximum efficiency is delivered to the customer. The Staff Report errs by failing to require that energy efficiency and DSM programs funded by DEO be coordinated with one another and with programs funded by other utilities including water conservation programs.

MAJOR ISSUES

Pursuant to R.C. 4903.083, OPAE proposes the following summary of major issues:

1. The lack of adequate funding for low-income weatherization programs.
2. The lack of adequate funding for DSM programs.
3. The appropriateness of residential and commercial tariffs which over-allocate costs to these customer classes because of a cost of service approach which does not accurately reflect the utility system;
4. The appropriateness of decoupling for DEO.
5. The appropriate rate design for residential customers.
6. The appropriate rate of return for ratemaking purposes
7. The appropriate level of test-year revenues;
8. The appropriate level of operating and maintenance expenses;
9. The appropriate level of rate base;
10. The appropriate coordination between bill payment assistance and fuel funds.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Objections and Major Issues was served by regular U.S. Mail, postage prepaid, upon the parties of record identified below on this 23rd day of June, 2008.

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