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VECTREN ENERGY DELIVERY OF OHIO, INC.

Case No. 07-1080-GA-AIR and Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY SUPPORTING

OBJECTIONS TO THE STAFF REPORT

This binder contains the testimony of the following witnesses:

1. Robert L. Goocher
2. Paul R. Moul
3. M. Susan Hardwick
4. Kerry A. Heid
5. Jerrold L. Ulrey
6. James M. Francis
7. Scott E. Albertson
8. William S. Doty
9. L. Douglas Petitt

July 23, 2008

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. For Approval of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

CERTIFICATE OF SERVICE FOR SUPPLEMENTAL TESTIMONY AND EXHIBITS OF VECTREN ENERGY DELIVERY OF OHIO, INC.

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July 23, 2008

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CERTIFICATE OF SERVICE

I hereby certify that a copy of *Vectren Energy Delivery of Ohio, Inc.'s Supplemental Testimony* was served upon the following parties of record this 23rd day of July 2008, *via* electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.

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PREPARED SUPPLEMENTAL TESTIMONY
OF ROBERT L. GOOCHER
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
___ Operating income
_x_ Rate base
___ Allocations
_x_ Rate of return
___ Rates and tariffs
___ Other

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SUPPLEMENTAL TESTIMONY OF ROBERT L. GOOCHER

Q. What is the purpose and scope of your testimony in this proceeding?

A. My testimony will provide support for VEDO's objection 27 to the PUCO Staff's Report of Investigation with regard to the appropriate capital structure that should be applied for purposes of determining VEDO's cost of capital and rate of return and VEDO's objection 6 for the proper revenue lag days to use in the determination of a cash working capital allowance.

Q. Please generally describe the nature of VEDO's objection 27 to the capital structure reflected in the Staff Report.

A. Objection 27 addresses the Staff Report's overall cost of capital analysis, which is based on the use of a hypothetical capital structure comprised of an average of the capital structures of 5 companies selected by Staff. VEDO's Application Schedule D-1 used Vectren Corporation's actual consolidated capital structure at August 31, 2007, as adjusted for the receipt of $125.3 million of common equity proceeds expected in the Spring 2008 from the settlement of the February 20, 2007 equity forward agreement. Proceeds from the equity forward were received in June 2008 as expected. Both Staff and the Company agree with the adjustment to reflect the expected equity proceeds from the equity forward agreement. However, the use by the Staff of the 5 company average to arrive at the starting capital structure for use in determining the weighted average cost of capital in this case is unnecessary and has no basis in practice by the Commission. In fact, I have been advised by counsel that the use of a hypothetical capital structure is not permitted in Ohio.

Q. Is the capital structure used by VEDO significantly different from the hypothetical capital structure proposed by Staff?

A. No. The Staff's hypothetical capital structure is comprised of 48.66% long-term debt and 51.34% common equity. This compares to 47.8% long-term debt and 52.2% common equity that was included in VEDO's filing, which is a reasonable and appropriate capital structure for determining VEDO's weighted average cost of capital in this proceeding. There is less than a 1% difference between the capital structure components of Vectren Corporation and the average of the 5 companies selected by Staff. This further supports the reasonableness of Vectren Corporation's capital structure as shown in VEDO's Application Schedule D-1.

Q. **What is the appropriate return on equity recommended in this proceeding.**

A. As noted in his testimony, VEDO's Witness Moul recommends that VEDO's return on common equity be set at 11.5%. However, the Staff Report includes a much lower range of equity returns of 9.80% to 10.84%. In his supplemental testimony, Witness Moul describes his objections to Staff's range of equity returns.

Q **Do you have concerns about VEDO's ability to earn its return on common equity that is authorized in this proceeding?**

A Yes. First as other witnesses will cover in detail, additional dollars are needed for more robust and new maintenance programs designed to enhance reliability and safety. Second, the Staff Report recommends that VEDO contribute $1 million from shareholders to fund conservation programs that directly benefit VEDO's customers without recovery of those costs from customers. Such a proposal would directly and negatively impact VEDO's opportunity to actually earn the rate of return ultimately authorized in this proceeding. This $1 million requirement alone would lower the true authorized return on equity by about 50 basis points in each and every year.

Q. **Please generally describe the nature of VEDO's objection 6 to the revenue lag days reflected in the Staff Report used in determining the appropriate cash working capital allowance in this proceeding.**

A. Objection 6 addresses the Staff Report's use of an adjusted revenue lag day factor of 38.5 days in its calculation of the cash working capital component of the Company's rate base. In its original filing, VEDO did not prepare a lead lag study and did not seek a cash working capital component in its determination of rate base. However, the Staff Report reflected an adjustment to rate base by taking a schedule that was used in the final settlement from VEDO's last rate case proceeding in Case No. 04-0571-GA-AIR and updated the various dollar amounts supporting cash working capital from that case with Staff's estimates as to the comparable dollar amounts in the current case. The Staff Report also applied the same lead and lag days from that previous proceeding to this case except that the revenue lag days from the settlement schedule were reduced by three days to 38.5, to reflect a change in VEDO's scheduled due date for customer's bills.

Q. **Do you agree with the use of 38.5 revenue lag days for determination of cash working capital?**

A. No. As noted in objection 6, the schedule used in the previous rate case was one of the many elements of a negotiated comprehensive settlement among various parties in that proceeding that supported the final determination of the revenue requirement granted by the Commission. Thus, the final determination of the specific lead and lag days used in the calculation in the previous case was not specifically agreed to or supported by VEDO. The evidence submitted by VEDO in that case supported 44.5 revenue lag days and that would be the most appropriate days to be used in this proceeding, once adjusted for the three day reduction in customer bill due dates, thus resulting in 41.5 as the proper revenue lag days. In addition, the ultimate determination of cash working capital must be based on the final revenue requirements determined in this case rather than estimates of those requirements.

Q. **Does that conclude your prepared supplemental direct testimony?**

A. Yes, it does.

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Summary of the supplemental testimony dealing with the determination of Cost of Equity for Vectren Energy Delivery of Ohio, Inc.

SUPPLEMENTAL TESTIMONY OF PAUL R. MOUL

INTRODUCTION AND SCOPE OF TESTIMONY

Q. Please state your name, occupation, and business address.

A. My name is Paul Ronald Moul and I am managing consultant at P. Moul & Associates, an independent, financial and regulatory consulting firm. My business address is 251 Hopkins Road, Haddonfield, NJ 08033-3062.

Q. Have you previously submitted direct testimony in this proceeding?

A. Yes. My direct testimony was submitted with the Company's case-in-chief on December 4, 2007.

Q. What is the purpose of your testimony?

A. Vectren Energy Delivery of Ohio, Inc. ("VEDO" or the "Company") has requested that I review and comment on the Staff Report of Investigation ("Staff Report") submitted on June 16, 2008. Specifically, I have been asked to prepare objections to the cost of equity section of the Staff Report that was prepared by Mr. Jeff Hecker. Those objections are supported by my detailed analysis of the components that comprise the cost of equity proposed in the Staff Report.

OBJECTIONS TO THE STAFF REPORT

Q. Please identify the objections to the Staff Report concerning the cost of equity issue?

A. The objections that I have to the cost of equity proposed in the Staff Report include:

(1) The Staff Report did not consider the evidence submitted by the Company in support of its proposed cost of equity.

(2) The Staff Report failed to consider methods/models other than DCF and CAPM in the determination of the cost of equity, such as those contained in the Company's direct evidence of its cost of equity.

(3) The Staff Report imposed a different set of criteria for the selection of comparable group companies that differs from the proxy group companies contained in the Company's direct evidence of its cost of equity, without

explaining the reason for ignoring the Company's criteria. In particular, the Staff Report contains a company, i.e. National Fuel Gas Company ("NFG"), that is entirely incomparable to VEDO.

(4) The Staff's calculation of the cost of equity using the non-constant DCF is understated because it improperly used an average stock price that consisted of twelve-months of data, which is too long to reflect the prospective nature of public utility ratesetting.

(5) The Staff's calculation of the cost of equity using the non-constant DCF is understated because two of the inputs used to calculate the growth rate are inapplicable for measuring investors' growth expectations.

(6) The Staff's calculation of the cost of equity using the non-constant DCF is understated because it is not adjusted for application to a book value capital structure used to calculate the weighted average cost of capital.

(7) The Staff's calculation of the cost of equity using the CAPM is understated because it fails to consider the forecast yields on Treasury bonds that are used as the risk-free rate of return. In particular, yields reaching back to March 26, 2007 are too far removed from current market fundamentals.

(8) The Staff's calculation of the cost of equity using the CAPM is understated because it is not adjusted for application to a book value capital structure used to calculate the weighted average cost of capital.

(9) The Staff's calculation of the cost of equity using the CAPM is understated because the relative size of the four companies that comprise the Staff's proxy group, after removal of NFG, has not been considered.

The balance of my supplemental testimony addresses directly each of my objections. I will identify the numerical impact of each of the specific objections that follow using the Staff Report models and proxy group after removing NFG.

Q. Please explain the basis for the first two objections listed above.

A. Objections 1 and 2 involve the issues that differentiate the overall approach taken in the Staff Report and the direct evidence submitted by the Company supporting its proposed cost of equity. The Staff Report does not mention the Company's direct evidence of its cost of equity, nor the reasoning for using a different approach. Moreover, the Staff Report uses just two models to measure the cost of equity. While the Staff Report uses just two models for measuring the cost of equity, the Company's direct evidence used four methods/models for this purpose. The Staff Report never explains the reasons for ignoring the other two methods/models. Due to the imprecise nature of measuring the cost of equity, the use of additional methods/models provides a sounder foundation for establishing the cost of equity.

COMPARABLE COMPANIES

Q. Does the Staff Report provide adequate justification for the selection of its proxy group?

A. No. As noted in Objection 3, the Staff Report employs a different set of screening criteria, which produces a proxy group different from the one submitted in the Company's direct evidence, without ever explaining why a change in criteria was necessary or warranted. For example, the Company's criteria limited the comparable companies to those that are classified as natural gas utilities by Value Line. Without explanation, the Staff Report neglected to impose these criteria for its comparable group. By failing to employ these criteria, the Staff Report has erroneously included National Fuel Gas Company ("NFG") in the Staff's proxy group, even though Value Line classifies NFG as a diversifiable natural gas company. The other companies used in the Staff Report are all classified as natural gas utilities according to Value Line. Indeed, I have also used the remaining four companies in my proxy group along with four additional natural gas utilities.

Q. Why should NFG be excluded from the proxy group?

A. As noted in Objection 3, NFG is not classified as a natural gas utility. Indeed, an analysis of the business segments of NFG shows that only 54% of revenues, 25% of operating income, and 40% of identifiable assets are related to its natural gas distribution utility. Revenue percentages are less meaningful in this regard because they are dominated by the commodity cost of gas, which represents a pass-through that does not contribute to the profitability of NFG. In contrast, the average utility percentage for the other four companies in the proxy group contained in the Staff Report are 72% revenues, 65% operating income, and 87% identifiable assets. Clearly, NFG does not belong in this group. In addition, the Staff Report shows a calculation of growth using the Value Line earnings per share forecasts that show negative growth for NFG. Any calculation of negative growth cannot possibly represent investor expectations for NFG, or any other natural gas utility. Finally, the Discounted Cash Flow ("DCF") results for NFG are clearly an outlier. Setting aside the results for NFG, the remaining four natural gas utilities have DCF results that are clustered within a one percentage point band, with an average of 10.33%. On the other hand, the DCF result for NFG is 1.39 percentage points lower than the average of the other four companies. NFG is an obvious outlier that must be removed from the proxy group in the Staff Report.

DISCOUNTED CASH FLOW

Q. What form of the DCF model has been employed in the Staff Report?

A. The Staff Report uses a non-constant DCF model and provides an insufficient explanation for employing that form of the DCF. First, there is scant explanation for the assumptions employed by Staff to apply the non-constant growth form of the DCF. For example, there is no explanation of the choice of a transition period from the fifth year to the twenty-fifth year when projecting future cash flows. Indeed, the selection of the twenty-fifth year as the end of the transition period is entirely arbitrary. The fiftieth year could also represent the end of the transition period just as easily as the twenty-fifth year. Second, the cash flow horizon of four-hundred (400) years is especially perplexing. I cannot conceive of any investor who would formulate future return expectations that would include a four-hundred (400) year horizon.

Q. Is the time period used in the Staff Report acceptable for measuring the historical price per share?

A. No. As stated in Objection 4, a twelve-month time period is entirely too long for measuring historical prices. As I have done in my direct testimony, six-months is adequate for measuring stock prices. Moreover, stock prices reaching back to March 26, 2007 are too far removed from current market fundamentals, which have been dominated by the credit crisis that developed in the third quarter of 2007 and continues to the present. By eliminating the old stock prices that pre-date six months, the divided yields increase to the levels shown below:

	ATG	ATO	PNY	SJI
Average Price				
Staff Report	39.15036	28.80373	25.7875	36.15234
Six-Months	37.31357	27.43056	25.65873	36.02484
Dividend Yield				
Staff Report	4.21%	4.48%	3.88%	2.78%
Six-Months	4.50%	4.74%	3.90%	3.00%

Q. Why have you proposed Objection 5?

A. Objection 5 is designed to remove from the growth rate component of the DCF those inputs that are not relevant to assessing inventor expectations. Earlier in 2008, Thomson Financial, the publisher of the First Call growth rates that are identified as YAHOO in the Staff Report, acquired Reuters. Today, the Reuters growth rates are not an independent source that would be considered separately by investors. For this reason, and to avoid the appearance of double counting the same information, Reuters should be removed as a source of growth in the Staff Report. Further, the separately calculated growth rates in the Staff Report using the Value Line data should receive no weight in the determination of the DCF growth rate. The reason here is that the method of computation, i.e., the natural logarithm, is an unusual computational approach for calculating investor expected growth. First, the use of continuous compounding that is implied by the natural logarithm is incompatible with the annual periodic form of the DCF model, which the Staff Report used. The periodic form of the DCF model requires that the discrete compound growth rate should be used when computing the DCF growth rates. Further, the use of continuous compounding is not the type of analysis typically employed by investors. The Value Line reports use standard annual compound growth rates computed from a base period (consisting of a three year historical average) to a terminal period (comprised of a three year projected average). Given the period of time from the midpoint of the base and terminal periods, the Value Line reports provide investors with standard five-year annual compound growth rates. These are the types of growth rates that investors consider when taking a position in these stocks. Moreover, the logarithmic procedure of computing growth rates would be correct only if the Staff Report had taken the additional step of calculating the antilog of the growth rates. This then would provide the standard compound growth rate used by investors. Essentially, the Staff Report has stopped one step short of a complete analysis, which would have conformed with conventional growth analysis and would have been compatible with the DCF model that was used in the Staff Report. Most importantly, the separate calculations in the Staff Report have not been shown to be investor influencing. Rather the actual Value Line growth rates identified the Staff Report as the "boxed growth" are the only ones that have a place in the DCF model. This is because they are the growth rates that actually influence investor expectations when they price the stock of these companies. Hence, it is only the actual Value Line published growth rates that are relevant to the DCF analysis.

Q. What growth rates for the proxy group are shown by implementing Objection 5?

A. Those results are summarized below:

	ATG	ATO	PNY	SJI
DCF Growth Estimate				
Staff Report	4.66%	5.12%	5.23%	7.07%
Excluding Reuters & V.L. calculated	4.52%	4.87%	5.46%	7.47%

Q. How have you used these data in the non-constant form of the DCF?

A. Based upon the issues identified in Objections 3, 4, and 5 consisting of the: (i) removal of NFG from the proxy group, (ii) shortening the historical period of measuring stock prices to six-months, and (iii) removal of Reuters and the calculated Value Line growth rates from the analysis, I calculate the cost of equity to be:

	Non-Constant DCF Calculation
AGL Resources, Inc.	10.57%
Atmos Energy Corp.	10.94%
Piedmont Natural Gas Co.	10.39%
South Jersey Industries, Inc.	10.22%
Average	10.53%

These results are developed prior to the "Equity Issuance Cost Adjustment."

Q. Can these DCF results be used directly in calculating the weighted average cost of capital for ratesetting purposes.

A. No, and Objection 6 deals with this issue. Aside from the adjustment for flotation costs that the Staff Report adequately handled, there is a need to make the DCF return applicable to the book value capitalization. I explained the theory and adjustment procedure in my direct testimony. With the capital structure ratios calculated from the market capitalization, it is necessary to first calculate the cost of equity for a firm without any leverage. The cost of equity for an unleveraged firm using the capital structure ratios calculated with market values is:

$$ku = ke - (((ku - i)\ 1\text{-}t)\ D / E) - (ku - d)\ P / E$$

$$9.40\% = 10.53\% - (((9.40\% - 6.20\%).65)35.15\%/64.86\%) - (9.40\% - 6.04\%)\ 0.00\%/64.86\%$$

where ku = cost of equity for an all-equity firm, ke = market determined cost equity, i = cost of debt[1], d = dividend rate on preferred stock[2], D = debt ratio, P = preferred stock ratio, and E = common equity ratio. The formula shown above indicates that the cost of equity for a firm with 100% equity is 9.33% in the case of the non-constant DCF. Having determined that the cost of equity for a firm with 100% equity, the rate of return on common equity associated with the book value capital structure is:

$$ke = ku + (((ku - i)\ 1\text{-}t)\ D / E) + (ku - d)\ P / E$$

$$11.35\% = 9.40\% + (((9.40\% - 6.20\%).65)48.34\%/51.67\%) + (9.40\% - 6.04\%)\ 0.00\%/51.67\%$$

Using the DCF result shown above as a base, the DCF return is 11.23% when applied to the book value capitalization. These results are without regard to flotation costs.

<u>**CAPITAL ASSET PRICING MODEL**</u>

Q. What is your concern regarding the use of the CAPM in the Staff Report?

A. As noted in Objections 7, 8, and 9, the CAPM result contained in the Staff Report requires revision. Objection 7 deals with the risk-free rate of return, Objection 8 relates to the beta used in the Staff Report, and Objection 9 deals with the omission of the size factor in the Staff Report.

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[1] The cost of debt is the six-month average yield on Moody's A rated public utility bonds.

[2] The cost of preferred is the six-month average yield on Moody's "a" rated preferred stock.

Q. Has the Staff Report adequately analyzed the yields on Treasury securities in the development of the risk-free rate of return?

A. No. First, the use of a twelve-month average is inappropriate, especially in the context of the credit crisis that developed in the third quarter of 2007. Second, it appears obvious that if interest rates rise from their current levels, the cost of equity determined from recent data will understate future capital costs. Currently Treasury yields have been strongly influenced by the actions taken by the FOMC to deal with the credit crisis. According to the most recent meeting of the FOMC, it appears that further reductions in the Fed Funds rate do not seem to be imminent. Indeed, the FOMC has now increased its focus on fighting inflation. As such, there is more potential for higher rather than lower interest rates for the future.

Q. Is there evidence that interest rates may move higher in the future?

A. Yes. The Blue Chip Financial Forecasts ("Blue Chip") semi-annually provides a long-term forecast of interest rates. In its June 1, 2008 publication, the consensus forecasts of interest rates are forecasted to be:

	Aaa-rated Corporate	Baa-rated Corporate	10-year Treasury	30-Year Treasury
2010	6.0%	7.1%	4.3%	4.8%
2011	6.3%	7.3%	4.9%	5.3%
2012	6.4%	7.4%	5.2%	5.5%
2013	6.5%	7.5%	5.3%	5.6%
2014	6.5%	7.5%	5.3%	5.5%
2010-14 (avg).	6.3%	7.4%	5.0%	5.3%
2015-19 (avg)	6.5%	7.5%	5.3%	5.5%

These forecasts show that interest rates will likely increase in the future based upon the consensus of a panel of forty-three (43) prominent economists.

Q. What risk-free rate of return would be warranted based upon the Blue Chip forecasts?

A. A 5.25% (5.0%+5.3%+5.3%+5.5%=21.1%÷4=5.275%) risk-free rate of return would be warranted based upon the consensus forecast contained in Blue Chip. Such rate represents an increase in the risk free rate of return from the one that I used in my direct testimony. With this rate, the CAPM result shown on Schedule D-1.2 of the Staff Report would become 10.69%, which also reflects the elimination of the beta for NFG.

Q. Should the 10.69% CAPM result be applied to the book value capitalization?

A. No, and Objection 8 deals with this issue. As I explained in my direct testimony, the betas must be reflective of the financial risk associated with the ratesetting capital structure that is measured at book value when used to calculate the weighted average cost of capital. Therefore, Value Line betas contained in the Staff Report cannot be used directly in the CAPM unless those betas are applied to a capital structure measured with market values. Since book value rather than market value capital structures ratios are employed in the Staff Report, the Value Line betas must be adjusted for this purpose. To develop a CAPM cost rate applicable to a book value capital structure, the Value Line betas have been unleveraged and releveraged for the common equity ratios using book values in the manner described in my direct testimony. This adjustment has been made with the formula:

$$\beta l = \beta u \, [1 + (1 - t)\, D/E + P/E]$$

where βl = the leveraged beta, βu = the unleveraged beta, t = income tax rate, D = debt ratio, P = preferred stock ratio, and E = common equity ratio. The betas published by Value Line have been calculated with the market price of stock and therefore are related to the market value capitalization. By using the formula shown above and the capital structure ratios measured at their market values, the beta would become .62 for the companies in the Staff Report's, which excludes NFG, if they employed no leverage and were 100% equity financed. With the unleveraged beta as a base, I calculated the leveraged beta of 1.00 associated with book value capital structure.

Q. Have you re-calculated the CAPM for the Staff's comparable group by incorporating each of the factors noted above?

A. Yes. The CAPM for the Staff's group excluding NFG is 11.75% when using the 5.25% risk-free rate of return taken from the Blue Chip forecasts and the leveraged adjusted beta of 1.00 developed above.

Q. Would these CAPM results fully reflect the cost of equity for these companies?

A. No. There would be an understatement of the cost of equity using the CAPM unless the size of a firm is considered. That is to say, as the size of a firm decreases, its risk, and hence its required return increases. This issue was discussed and quantified in my direct testimony and is enumerated as Objection 9. Indeed, it was demonstrated in the SBBI Yearbook that the returns for stocks in lower deciles (i.e., smaller stocks) had returns in excess of those shown by the simple CAPM.

Q. What size adjustment is necessary for the four companies, excluding NFG, that comprise the Staff Report's comparable group?

A. The requirement for a size adjustment is shown by the following market capitalization values:

	Value Line Published	Category
AGL Resources	$2.7 billion	Mid Cap
Atmos Energy	$2.4 billion	Mid Cap
Piedmont Natural Gas	$2.0 billion	Mid Cap
South Jersey Industries	$1.1 billion	Mid Cap
Average	$2.1 billion	Mid Cap

According to the SBBI 2008 Yearbook, the mid-cap adjustment is 0.92% and would apply to the group average CAPM cost rate.

Q. What CAPM result is shown after incorporating the size adjustment?

A. In response to Objection 9, the CAPM result would be 12.67%(11.75%+0.92).

SUMMARY

Q. Please summarize your supplemental testimony.

A. In my opinion, the cost of equity proposed in the Staff Report has understated the Company's required return. I have explained that revisions are necessary to Staff's analyses to reflect a reasonable assessment of the cost of equity and to respond to Objections 3 through 9. The average DCF result is 11.35% and the average CAPM result is 11.75% . A summary of the adjusted returns for the DCF and CAPM considering each of the Objections is provided below:

	DCF	**CAPM**	**Average**
Staff Report prior to Equity Issuance Cost Adjustment	10.05%	9.87%	9.96%
Objection #3	10.33%	9.79%	10.06%
Objection #4	10.52%	9.66%	10.09%
Objections #5 & #6	10.53%	9.66%	10.10%
Objection #7	10.53%	10.69%	10.61%
Objection #8	11.35%	11.75%	11.55%
Objection #9	11.35%	12.67%	12.01%
	High	**Low**	**Midpoint**
Range	12.05%	11.05%	11.55%
Revised with Equity Issuance Cost Adjustment	**12.49%**	**11.45%**	**11.97%**

As shown above, I have applied the Staff's "Equity Issuance Cost Adjustment" and have arrived at a range of the cost of equity of 11.45% to 12.49%. That range was established using the procedure employed in the Staff Report, i.e., the average of the DCF and CAPM results that provide the midpoint of a range (11.35%+11.75%=23.10%÷2=11.55%) and by adding and deducting fifty (50) basis points to the midpoint of the range (11.05% to 12.05%). Afterward, the Equity Issuance Cost Adjustment is applied to each value. Based on my analysis of the Staff's cost of equity determination, which shows a range of returns of 11.45% to 12.49%, it is apparent that the Company's proposed 11.50% rate of return on common equity is reasonable.

Q. Does this conclude your supplemental testimony?

A. Yes.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

PREPARED SUPPLEMENTAL TESTIMONY
OF M. SUSAN HARDWICK
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
_x_ Operating income
_x_ Rate base
_x_ Allocations
___ Rate of return
___ Rates and tariffs
___ Other

July 23, 2008

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

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SUPPLEMENTAL TESTIMONY OF M. SUSAN HARDWICK

Q. Please state your name and business address.

A. My name is M. Susan Hardwick and my business address is One Vectren Square, Evansville, Indiana 47708.

Q. Are you the same M. Susan Hardwick who previously submitted direct testimony in these proceedings?

A. Yes, I am.

Q. What is the purpose of this supplemental testimony?

A. The Staff of the Commission issued its Staff Report of Investigation in these proceedings on June 16, 2008. The Company timely filed its objections to the Staff Report on July 16, 2008. The purpose of this supplemental testimony is to describe and support certain of the Company's objections to the Staff Report. I also provide information that illustrates the effect of all the Company's objections.

Throughout my supplemental testimony, I will attempt to use specific dollar amounts to illustrate the ratemaking implications of individual objections. Because the ultimate dollar amount implicated by an objection may be dependent on how other issues or objections are resolved, the specific dollar amounts that I use throughout my supplemental testimony should be treated as indicated values.

Q. What specific Company objections to the Staff Report are you sponsoring in this testimony?

A. The specific objections that I am sponsoring are objections 1, Revenue Requirement; objections 2 through 5, Rate Base; and objections 7 through 15, 17 through 19 and 21 through 26 relating to Operating Income.

Q. Please explain Company's objection 1.

A. Company objection 1 is an objection to Staff's overall revenue increase finding that modifies and reduces the revenue requirement supported by the Company's standard filing requirement data. I believe the Company's test year data and expert witness testimony fully support the Company's filing, with limited exceptions that I reference later herein, and should be found to be reasonable for rate-making purposes in this proceeding. Anything less will jeopardize the Company's continued ability to render the quality service that our customers have come to expect.

Q. Please explain Company's objection 2.

A. Objection 2 relates to the Company's disagreement with the treatment by the Staff of unrecorded retirements related to plant in service. As detailed on Staff Schedule B-2.2a, with the related proposed adjustment to the depreciation reserve detailed on Staff Schedule B-3.1 (Lines 2-5 (Distribution Plant) and lines 8-9 (General Plant)), Staff excludes $27,745 of net plant associated with unrecorded retirements in the determination of the appropriate rate base that is used and useful in providing natural gas service. These assets were properly retired prior to the date certain, August 31, 2007, and, therefore, the proposed adjustment is not necessary.

Q. Please describe Company's objection 3.

A. Company objection 3 pertains to the Staff's exclusion of certain items from plant in service that could not be located during the Staff's field inspection or related to the Choice program implementation. Staff's plant in service proposed adjustment is detailed on Staff Schedules B-2.2b and B-2.2c, with the related proposed adjustment to the depreciation reserve detailed on Staff Schedule B-3.1 (Lines 1 (Intangible Plant) and Lines 4-7 (General Plant)). The items, six in total with a net book value of $724,772, are assets that were acquired from The Dayton Power and Light Company (DPL) as part of the asset acquisition completed by VEDO's parent company in 2000 or were recorded as a component of the Choice program implementation costs. VEDO agrees the retirements should be reflected on the Company's books and records. However, the accounting method proposed by the Staff is not consistent with utility accounting practice in that Staff suggests a direct charge off of the net plant balance instead of recording the net retirement to the accumulated depreciation reserve.

The Company, like all public utilities that are regulated by this Commission, employs a composite depreciation rate methodology. This means that classes of property are depreciated instead of specific assets. This methodology results in a cumulative depreciation reserve that, over time, represents the asset class value. As specific assets are retired, they are retired against the depreciation reserve, not charged off as is inherent in the treatment used by the Staff. The result of retiring property against the depreciation reserve, even if there is a positive net book value as is the case in this instance, is no impact to net plant or rate base. Therefore, the Staff's proposal to exclude the net book value from plant in service is contrary to customary utility accounting practice and understates the net plant value that is providing useful natural gas service as of the date certain in this case.

Q. Please describe Company's objection 4.

A. Company objection 4 is consistent with objections 2 and 3 (noted above) related to plant in service where Staff has proposed corresponding adjustments to the depreciation reserve. In other words, Staff's proposed adjustments to the depreciation reserve should likewise not be accepted for the reason described above with regard to objection 3.

Q. Please describe Company's objection 5 and objection 26.

A. Company objection 5 (a-d) and objection 26 relate to apparent typographical errors noted within the Staff 's Rate Base and Operating Income Schedules. The Company notes these corrections to clarify the data contained within the schedules.

Q. What is the impact on rate base, as compared to Staff's proposal, of the objections described herein and in other Company testimony?

A. As a result of our rate base objections discussed in objections 2 through 5 herein and objection 6 as discussed by Witness Goocher, we object to $836,498 of the Staff's proposed $1,397,333 reduction to the rate base valuation demonstrated in our Application and supporting testimony. In other words, we are not objecting to Staff adjustments that amount to, in total, a $560,835 reduction in rate base. The

Staff adjustments to which we are not objecting are adjustments related to materials and supplies inventory as a component of cash working capital.

Q. Please describe Company's objection 7.

A. Company objection 7 is an objection to the Staff's failure to accept the Company's adjustment to the overall test year customer count by tariff. The Staff removed this adjustment, and maintained the budgeted level of customers for the test year. The Company proposed to adjust the customer counts to a level consistent with actual data at the time of the Application. The budget data we used as a starting point for purposes of developing our Application was based on a projection that our tariff-specific customer count would increase at a rate that was in excess of the prior experience. As the actual information became available, we were able to determine that the projection of a higher customer count growth rate was not reasonable and the need to correct the budgeted data. Through May 2008, actual data supports the modifications made to the budgeted assumptions as proposed by the Company in its Application. In fact, if the actual test year customer count data were used to develop test year revenue, the adjustment to the budgeted assumption would need to be even greater because the actual test year customer count is even less than the level used in the Application. The Staff's customer count adjustment resulted in an overstatement of test year adjusted revenues of $393,305.

Q. Please describe Company's objection 8.

A. Company's objection 8 addresses the Staff's removal of the Customer Migration adjustment proposed by the Company in its Application. The Company proposed to adjust test year revenues to capture migration of customers between both proposed and existing tariff rates. First, this adjustment captured the effects on the Company's revenues due to the creation of Tariff Rate 360. This tariff rate, if approved, would require certain qualifying customers on Rates 330 and 345 to migrate to this new tariff schedule, creating changes in all revenue aspects inclusive of expense recovery riders. The Staff removed this adjustment, stating that the adjustment "...is based on hypothetical changes that are unknown." Staff Report at page 8. However, the Staff supported the creation of Rate 360 and recommended approval – "Qualifying customers have been migrated to this rate class from Rates 330 and 345. Staff recommends approval." Staff Report at page 22. The approval of Rate 360 requires customers that qualify based on the volumetric threshold to move to this new rate. Thus, this migration is mandatory, not hypothetical as Staff contends. As such, Applicant made a migration adjustment to properly reflect the test year results of establishing Rate 360.

Second, this adjustment captured the modifications to the budgeted assumptions made in the test year to reflect actual billing data for those customers that had migrated between existing tariffs. The Staff, explaining that it thought there were hypothetical assumptions in this adjustment, failed to include these items in the computation of the Staff Report's adjusted operating revenue. However, actual billing data for the test year through May 2008 supports the Company's migration-related adjustment and should be accepted to properly reflect the test year billing determinants that will be used to establish revenue requirements and to set rates.

The Staff's failure to include these migration-related adjustments in the computation of the test year revenue requirement improperly overstates test year adjusted revenues by $287,064, thereby reducing the Company's requested increase. Absent recognition of the revenue impact linked directly to this mandatory customer migration, the Company cannot proceed with the recommended tariff change.

Q. Please describe Company's objection 9.

A. Company objection 9 addresses the changes made to the uncollectible revenue and expense synchronization adjustment, the percentage of income plan (PIPP) revenue and expense synchronization adjustment, MCF excise tax revenue and expense synchronization adjustment, gas cost recovery (GCR) revenue and expense synchronization, and the gross receipts tax revenue and expense synchronization adjustment as a result of the adjustments noted in objections 7 and 8. Any adjustment to the overall volumes and gross revenues billed and collected by the Company will impact each of these riders. As a result, all of these items should be recalculated in alignment with the test year revenue and billing determinants used to set rates in this proceeding and as a mathematical necessity.

Q. Please describe Company's objection 10.

A. In objection 10, the Company objects to the Staff's inclusion of federal tax exempt customers within the MCF excise tax revenue calculation. The Staff included customers under Tariff Rate 330 that are tax exempt and are thus removed from the calculation of revenue and volumetric based taxes. The Company's Application appropriately excluded these customers thus the Staff's treatment is improper. The impact of the Staff's error resulted in a $25,660 reduction to the Company's proposed revenue increase.

Q. Please describe Company's objection 11.

A. Company objection 11 is directed at the Staff's adjustment to the large customer revenues originally proposed on Application Schedule C-3.7. Although the Staff affirmed the large customer adjustments proposed by the Company in its Application, the Staff reduced the customers included in this adjustment for certain periods in the calculation. This removal of customers created a $1,259 increase to overall test year service charge revenues, and a subsequent decrease in the proposed revenue increase. These customers should be removed as proposed by the Company to accurately reflect the ratemaking impact of closed customer plants, offices and facilities in the Company's service territory. The Company objects to the Staff's treatment of the adjustment proposed on Application Schedule C-3.7. The adjustment proposed by the Company is necessary to properly reflect test year conditions.

Q. Please describe Company's objection 12.

A. Company objection 12 relates to the calculation of the Gross Receipts Tax Rider revenues presented in Staff Schedule C-3.1. The Staff erroneously included Gas Cost Recovery ("GCR") revenues that were not present in the totals on Staff Schedule C-3.1, with the resulting mismatch causing an overstatement of the test year gross receipts tax rider revenue. Because the Staff did match the gross receipts tax expense with the rider revenue, the Staff's error did not show up in the Staff's computation of the overall revenue increase presented on Staff

Schedule A-1. However and as discussed above with regard to objection 9, the gross receipts tax rider revenues ultimately used for ratemaking purposes in this proceeding should be recalculated based upon the test year revenue which the Commission authorizes the Company to collect in this proceeding.

Q. Please describe Company's objection 13.

A. Company objection 13 addresses the Staff's calculation of the late payment fees captured in the test year adjusted miscellaneous revenues. Staff proposed to use a three (3) year average of late payment fees based on March 2008 data as a percentage of total revenue. The Company agrees with the Staff's change to the overall percentage factor. But the late payment fees ultimately used for ratemaking purposes in this proceeding should be recalculated based on the test year revenue which the Commission authorizes the Company to collect in this proceeding consistent with the treatment of other revenue and volumetric based riders noted previously.

Q. What is the impact to the overall revenue increase proposed, as compared to Staff's proposal, of the revenue specific objections described herein?

A. As a result of the revenue changes made as a result of objections 7 through 13, we object to $3,257,768 (MSH-Exhibit 2, Column F, Line 3) of Staff's proposed revenue adjustments, inclusive of synchronized expense riders.

Q. Please describe Company's objection 14.

A. Company objection 14 challenges the Staff's calculation of the gross revenue conversion factor listed on Staff Schedule A-1.1. The Staff removed both the PUCO and OCC assessment fees and the gross receipts tax from the calculation of the gross revenue conversion factor utilized to determine the overall revenue increase on Staff Schedule A-1.

Based on advice of counsel, it is my understanding that Section 4905.10, Revised Code (Assessment for Expenses) specifically states that the assessment "shall be apportioned among and assessed against each railroad and public utility within this state by the commission by first computing an assessment as though it were to be made in proportion to the intrastate gross earnings or receipts." I understand that similar language can be found in Section 4911.18, Revised Code addressing the assessments for the Consumers' Counsel operating fund. Given these legal foundations, utilities that experience an increase in base rates in a given calendar year will experience an increase in the intrastate gross earnings or receipts utilized to calculate the allocated assessment of the PUCO and OCC operating costs. By excluding mathematically these fees from the gross revenue conversion factor, the Staff has improperly denied the Company a reasonable opportunity to collect sufficient revenue to fully reflect the effect of these mandated assessments.

The Company's payment obligation for the gross receipts tax is derived in much the same manner. Because the gross receipts tax obligation of the Company is determined based on the gross revenue subject to the tax, the amount of revenue authorized by the Commission must include an appropriate allowance for the gross receipts tax. The Staff's approach, if adopted, will preclude the Company from having a reasonable opportunity to earn the rate of return determined to be reasonable in this proceeding regardless of the level of that return.

These adjustments to the gross revenue conversion factor understate by $600,000 the amount of the overall revenue increase which the Commission should authorize in this proceeding.

Q. **Was a reasonable level of test year operating and maintenance expense proposed in the Staff Report?**

A. No.

Q. **Please Explain.**

A. As reflected on the attached supplemental schedule, MSH-Exhibit 1, Staff's proposal reduces total operating and maintenance expense (excluding gas costs), to $63,793,485 (Staff Schedule C-2, Column C, Line 10). This expense level is less than actual test year operating and maintenance expense of $65,661,018 (MSH-Exhibit 1, Line 8). As the Staff Report acknowledges, the actual test year operation and maintenance expense does not include expenses for such things as the $2.9 million expansion of the conservation program, the amortization of natural gas riser investigation, and the amortization of rate case expenses. I have shown these items as examples of costs that both the Company and the Staff agree are incremental to the actual test year on MSH-Exhibit 1, Lines 3-5. Once the actual test year level of expense and these items are considered, it is clear that the operating and maintenance expense level in the Staff Report is over $5.0 million (MSH-Exhibit 1, Line 9) **less** than the actual test year expense. The over $5 million shortfall in a reasonable level of test year operating and maintenance expense results from erroneous assumptions or mathematical errors contained within the Staff's proposed test year adjustments, which is denoted on the Supplemental Schedule, MSH-Exhibit 2. Each of these errors is more specifically addressed below. But the information provided above shows, based on actual data, that the amount of operation and maintenance expense included in the Staff Report for purposes of developing Staff's recommendations is not adequate.

Q. Please describe Company's objection 15.

A. In objection 15, the Company addresses the synchronization of expense to revenue related riders and taxes such as Uncollectible Expense Rider, MCF Excise Tax Rider and Gross Receipts Tax Rider reflected on Staff Schedules C-3.14, C-3.17, and C-3.18 respectively. As noted previously, these expenses should be synchronized to the appropriate level of revenue authorized by the Commission in this case. The overall increase proposed by both the Company and the Staff is not impacted by this synchronization.

Q. Please describe Company's objection 17.

A. Company objection 17 relates to the Staff Report's removal of the annualization of expenses related to newly implemented distribution maintenance, propane air facilities maintenance, right-of-way ("ROW") clearance, training and aging workforce program costs as well as elimination of incremental positions required to administer these programs. The attached schedule titled MSH-Exhibit 3 outlines the annual expense for these programs as identified in the Company's Application, the Staff Report, and as recorded based on actual test year experience. The schedule shows that the actual expense is below the

Application's expense level; however, most programs associated with this expense were initiated in the months of January 2008 – May 2008 or in the latter part of the test year. Since the test year did not contain twelve months of expense, the pro forma adjustment of $2,275,626 (MSH-Exhibit 2, Column D, Line 5) is required to annualize the effects of the programs on related expenses reflected on the Company's Application WPC-3.12. As reflected on the attached Supplemental Schedule, MSH-Exhibit 2, Column F, Line 5, if this objection is sustained, the impact would be to increase Staff recommended revenue by $3,127,186.

The Company's position on the expense level that should be used for ratemaking purposes is related to the program purposes and explanations provided in the testimony of William S. Doty, Aging Workforce, Gas Distribution Maintenance, Propane Air Facilities Maintenance, Training and Employee Additions; and James M Francis, ROW clearance and Engineering Additions and related training.

Q. **Please describe Company's objection 18.**

A. Company objection 18 addresses Staff's understatement of the level of corporate shared asset costs. Staff has proposed a reduction in test year operating expense of $1,072,540 as detailed on Staff Schedule C-3.8 and reflected in the total on MSH-Exhibit 2, Column A, Line 9. There are two reasons put forth by the Staff for this adjustment. The first is the use of 2007 budgeted data to set the annual test year amount, removing any impact of the 2008 budget on the adjusted operating expenses of the Company. The second is the use of the modified Capital Structure and adjusted Return on Equity percentage reflected on Staff Schedule D-1. In contrast, the Company proposed an increase in test year operating expense of $1,247,835 (included in the total on MSH-Exhibit 2, Column B, Line 9) as a result of annualizing the 2008 budget amounts, reflecting the going level of expense incurred by the Company at the Company's proposed rate of return. The expense level represented in the Application is the expense level that is being incurred by the Company beginning January 1, 2008. This is the level of expense incurred by the Company currently and, therefore, should be the expense level included in rates, subject only to the final capital structure and return on equity approved in this case.

Shared assets, owned by VEDO's parent Vectren Utility Holdings, Inc. ("VUHI"), are assets that are jointly used by the various companies within Vectren and include such things as customer information and financial systems. The cost of these assets, including an appropriate return on the investment, is charged to the operating companies. The benefit of this approach is that each company can pay a representative share of these assets at a lower cost than if each Company had to develop, operate and pay for their own unique systems.

The Staff Report utilized a VUHI net asset balance as of December 31, 2007 as the basis for the return calculation in the asset charge. The Staff's position appears to be based on the view that the 2007 VUHI asset base best reflects the book balance. The Staff position therefore improperly removes any impact in the 2008 budgeted periods that reflect the return on the 2008 projected VUHI net asset base which is ever growing. The actual test year experience during 2008 supports the Company's adjustment, as the expense to the Company during this period is based on the 2008 projected VUHI net plant balance. The Company's proposed annualization of expense to capture the going level of shared asset costs is proper and necessary to accurately reflect the Company's test year revenue requirement.

In addition, the level of the asset charge is impacted by the rate of return approved in this proceeding. In the test year, adjusted, the Company used an equity return of 11.50% to calculate the asset charge, whereas Staff applied its midpoint of recommended returns of 10.3%. The Staff Report also adjusted the overall return for the modified Capital Structure proposed by the Staff on Schedule D-1, which is addressed in objection 27 and discussed by Witness Robert L. Goocher. In MSH-Exhibit 4, the Company has provided the calculation methodology. This methodology should be used, with the authorized return level and capital structure, if different from the requested level in the Application, to calculate the test year asset charge ultimately used in this proceeding. These shared assets, such as the Customer Information System, are as critical as any other rate base asset and, while shared among VUHI's utilities to achieve scale and scope economies, the Company is entitled to the same level of return as if these assets were part of its rate base. The approach adopted by the Staff works to discourage the Company from sharing resources in instances when the sharing is in the best interests of both the Company and its customers.

If the objection is sustained, the total impact would be to increase the Staff recommended revenue by $2,320,375 as reflected on MSH-Exhibit 2, Column F, Line 9.

Q. **Please describe Company's objection 19.**

A. Company objection 19 relates to the removal of an incremental employee, Conservation Manager, required to administer the $2.9 million expansion of the Company's conservation program. Sustaining the Company's position on this adjustment would result in an upward adjustment to the Staff recommended revenue increase by $117,000 as noted on MSH-Exhibit 2, Column F, Line 8. Witness L. Douglas Petitt's testimony provides additional information on why this incremental position is needed.

Q. **Please describe Company's objection 21.**

A. Company objection 21 addresses the Staff Report's proposal for the amortization period for rate case expense as detailed on Staff Schedule C-3.10 and treatment of unamortized rate case expenses from Case No. 04-0571-GA-AIR. The Staff Report recommends a five year amortization period for the latest known costs as determined at the conclusion of this case. The Company concurs with the Staff position regarding the expense level determination; however, a five year amortization period is unreasonable. The Company's objection continues to support the three year amortization period as defined in the Company's Application. The three year amortization period is supported by the length of time between the current base rate case (2007) and prior base rate case (2004).

Further, on Staff Schedule C-3.10, the Staff has incorrectly captured test year amortization expense in its adjustment calculation. The Company agrees that the test year contains $202,447 of amortization expense from the prior base rate case, Case No. 04-0571-GA-AIR; however, amortization of the prior case expenses extends to April 2010 as approved in Case No. 04-0571-GA-AIR. Therefore, to allow full recovery of these expenses, it is proper for ratemaking purposes to capture the unamortized balance as reflected on the Company's Application Schedule C-3.18. The Company agrees this calculation should be updated to the unamortized balance as of the date of the order. On the attached Supplemental Schedule, MSH-Exhibit 2, the Company supports it original filed position; however, the Company agrees that the final adjustment should be determined at the conclusion of this case based on actual expenses incurred and remaining amortization from the prior case.

Q. Please describe Company's objection 22

A. In objection 22, the Company challenges the Staff's recommendation for miscellaneous expenses on Staff Schedule C-3.13 as described below, with the exception of lobbying expenses associated with American Gas Association (AGA) dues reflected on Staff Schedule C-3.13, Line 1 and attached Supplemental Schedule MSH-Exhibit 2, Line 14, Column D. Each miscellaneous expense item is discussed below.

a. The Staff compared the three year average of injury and damage claims expense to the total expense included in FERC Account 925. FERC Account 925 includes injuries and damages claims expense and risk related insurance premiums; therefore, the Staff's recommended adjustment on Staff Schedule C-3.13, Line 2 erroneously removes insurance premiums. The Company's treatment of the cost of insurance premiums is consistent with the accounting requirements set forth for FERC Account 925 in the FERC Uniform System of Accounts. Therefore, these are appropriate expenses that are properly includable in the test year for ratemaking purposes. Sustaining the Company's objection with regard to this expense item will increase the Staff's recommended revenue increase by $792,856.

b. The Staff recommended a reduction in the Company's proposed expense for FERC Account 921, Office Supplies. The Company's proposed expense level properly annualizes operating expense at the test year level for ratemaking purposes. Sustaining the Company's objection with regard to this expense item will increase the Staff's recommended increase by $924,127.

c. The Staff recommended that the Company's contributions to the Dayton Air Show be excluded from miscellaneous expenses on Staff Schedule C-3.13, Line 4. The Staff's adjustment is in error and unnecessary because these contributions were already excluded by the Company in its Application. The Company did not propose that this expense be included in the Company's test expenses and the Staff adjustment to the Company's test year expense is therefore unreasonable. Sustaining the Company's objection with regard to this expense item would upwardly adjust the Staff recommended increase by $105,000.

d. On Schedule C-3.13, Line 5, the Staff recommends the exclusion of all expenses included in FERC Account 930.2, miscellaneous general expense. Staff's exclusion was based on the incorrect assumption that this account includes only charges for industry and business related dues that are not properly chargeable to ratepayers. In fact, this account also contains charges for general corporate expense and share-based compensation expense that is part of a total compensation package necessary to attract and retain qualified employees, which are proper above-the-line expenses for ratemaking purposes. Moreover, the dues expense which do not relate to political or lobbying activities, for organizations such as the American Gas Association and Midwest Gas Association, are proper and allowable expenses for ratemaking purposes and should be included for purposes of reasonably determining the amount of revenue which the Company should be authorized to collect. Sustaining the Company's objection with regard to this item would cause an upward adjustment to the Staff recommended revenue increase in the amount of $574,972.

e. The Staff includes an adjustment reflected on Staff Schedule C-3.13, Line 6 which removed labor expense associated with vacant incremental positions in the amount of $144,532. However, the Staff had already removed these positions on Staff Schedules C-3.4, C-3.7, and C-3.8. Therefore, Staff's adjustment on Schedule C-3.13, Line 6 is duplicative, unreasonable and not necessary. The Company objects to the Staff's duplication of this labor expense adjustment. Sustaining the Company's objection with regard to this expense item would result in an upward adjustment to the Staff's recommended revenue increase in the amount of $144,532.

In summary, as reflected on MSH-Exhibit 2, Column F, Line 14, if Company objection 22, items (a) through (e) as discussed above, is sustained, the impact would be to increase the Staff recommend revenue increase by $2,541,487.

Q. Please describe Company's objection 23.

A. Company objection 23 addresses the Staff's unreasonable and duplicative adjustment that reduced operating and maintenance expense for the period of January 2008 through May 2008 to a level that equals the 2008 corporate approved budget for that period. As a result, the Staff understates the test year by removing some expenses twice – once, through adjustment of specific expenses included in Applicant's test year, and, then again, through a overarching and general reduction to the overall budget amount. Examples include operational program adjustments on Staff Schedule C-3.4, injuries and damages on Staff Schedule C-3.13 and incremental positions reflected on Staff Schedules C-3.4, C-3.6, C-3.7, C-3.8 and C-3.13.

The Company's objection on this item is further supported by the fact, discussed previously, that the Staff's recommended operating and maintenance expense level is significant less than actual test year expense level as reflected on the attached supplemental schedule MSH-Exhibit 1. Sustaining the Company's objection with regard to this item would cause an upward adjustment to the Staff's recommended revenue increase in the amount of $1,650,578, which is demonstrated on MSH-Exhibit 2, Column F, Line 16.

Q. Please describe Company's objection 24.

A. Company objection 24 addresses the Staff's calculation of depreciation expense, which is attributed to the Staff's adjustments to utility plant in service described in objections 2 and 3 (above). The Company agrees that its Application depreciation expense is overstated due to the unrecorded retirements and miscellaneous intangible asset adjustment described in objection 3; however, unrecorded retirements described in objection 2 would not impact the depreciation calculation as these assets were excluded from the Application depreciation calculation, on the Company's Application Schedule B-3, as the assets were retired prior to the date certain, August 31, 2007. Therefore, while the Company agrees that depreciation expense should decrease by $67,900 related to the unrecorded retirements (MSH-Exhibit 2, Column E, Line 18) the Staff recommended depreciation expense would need to increase by $4,158, MSH-Exhibit 2, Column F, Line 18, due to error noted in objection 2.

Q. Please describe Company's objection 25.

A. Objection 25 relates to the determination of Federal income taxes detailed on Staff Schedule C-3.21. While both Staff and the Company agree on the methodology, the final Federal income tax expense should be calculated based upon the final pre tax operating income approved in this case.

Q. Has the Company accepted any of the test year adjustments proposed by the Staff?

A. Yes. The adjustments proposed with which we agree are reflected on the attached Supplemental Schedule A-1 attached hereto as MSH-Exhibit 5. The detail of the adjustments is reflected on the attached Supplemental Schedule titled MSH-Exhibit 2.

Q. What is the impact of all objections made by the Company on the amount of the revenue increase recommended in the Staff Report?

A. I have summarized the impact of all objections which are discussed by me and other witnesses in this case on Supplemental Schedule A-1 attached to this testimony. Supplemental Schedule A-1 is offered to illustrate the overall effect of the Company's objections on the results recommended by the Staff. If the Staff Report were to be modified as suggested by the Company's objections, the result is an adjusted revenue increase of $26,068,483, on an adjusted rate base of $232,972,148.

Q. Does this conclude your supplemental testimony?

A. Yes, it does.

VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 07-1080-GA-AIR; CASE NO. 07-1081-GA-ALT
OPERATING AND MAINTENANCE EXPENSE ANALYSIS
FOR THE TWELVE MONTHS ENDED MAY 31, 2008

			Amount
1	Staff Recommended Operating and Maintenance Expense, Excluding Gas Costs	$	63,793,485
2	Staff Agreed to Incremental Test Year Costs		
3	Conservation Program (Expansion)	$	(2,900,000)
4	Amortization of Natural Gas Riser Investigation Expense		(610,000)
5	Annualization of Merit Increases		(211,723)
6	Amortization of Rate Case Expenses		(45,753)
7	Total (Sum of Lines 3-6)	$	(3,767,476)
8	Staff Report - *As Adjusted for Agreed to Incremental* Test Year Costs (Line 1+Line 7)	$	60,026,009
9	Actual Test Year Operating and Maintenance Expence	$	65,661,018
10	Actual Test Year O&M Greater Than Staff Report O&M (Line 9 - Line 8)	$	5,635,009

* - The above adjustments were required to synch up staff test year expenses to actual results

VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 07-1080-GA-AIR; CASE NO. 07-1081-GA-ALT
SUMMARY OF JURISDICTIONAL ADJUSTMENTS
TO OPERATING INCOME
FOR THE TWELVE MONTHS ENDED MAY 31, 2008

SCHEDULE / WORK PAPER REFERENCE NO(S).:
Applicant's Schedule C-3 and Staff's Schedules C-3 Thru 3.21

LINE NO.	STAFF SCHEDULE NO.	APPLICANT SCHEDULE NO.	OBJECTION NO.	DESCRIPTION	STAFF'S ADJUSTMENTS (A)	VEDO'S APPLICATION ADJUSTMENTS (B)	VARIANCE (C) = (A) - (B)	VEDO'S OBJECTION ADJUSTMENTS (D)	VEDO'S OBJECTION VS. APPLICATION (E) = (D) - (B)	VARIANCE (F) = (D) - (A)
				Operating Revenue						
1	C-3.1	C-3.1 - C-3.11	7 - 13	Base, Riders, Miscellaneous, and Other	$ (4,251,652)	$ (8,844,648)	$ 4,592,996	$ (5,440,083)	$ 3,404,565	$ (1,168,431)
2	C-3.2	C-3.10	7 - 13	Gas Cost	59,278,987	(4,029,269)	63,308,256	57,209,651	61,238,920	(2,069,336)
3				Total Operating Revenues	55,027,336	(12,873,917)	67,901,253	51,769,568	64,643,485	(3,257,768)
				Operating Expenses						
				Operation & Maintenance						
4	C-3.3	C-3.10	7 - 13	Gas Cost	$ 59,278,987	$ (4,029,269)	$ 63,308,256	$ 57,209,651	$ 61,238,920	$ (2,069,336)
5	C-3.4	C-3.12	16-17	System Integrity and Reliability Programs	(851,560)	2,275,626	(3,127,186)	2,275,626	-	3,127,186
6	C-3.5	C-3.13	-	Natural Gas Risers	610,000	610,000	-	610,000	-	-
7	C-3.6	C-3.14	-	Customer Related	(198,086)	319,739	(517,825)	(198,086)	(517,825)	(0)
8	C-3.7	C-3.15	19 - 20	Conservation	2,867,557	2,984,557	(117,000)	2,984,557	-	117,000
9	C-3.8	C-3.16	18	Shared Services	(1,016,582)	1,438,128	(2,454,710)	1,303,794	(134,334)	2,320,376
10	C-3.9	C-3.17	-	Labor Adjustment	(69,886)	48,840	(118,726)	(69,886)	(118,726)	-
11	C-3.10	C-3.18	21	Rate Case	45,753	283,416	(237,663)	283,416	-	237,663
12	C-3.11	C-3.19	-	Interest On Customer Service Deposits	155,374	155,374	-	155,374	-	-
13	C-3.12	C-3.20	14	Reclassification of PUCO AND OCC Assessment Fees	(682,457)	(61,389)	(621,068)	(682,457)	(621,068)	-
14	C-3.13	N/A	22	Miscellaneous	(2,545,543)	-	(2,545,543)	(4,056)	(4,056)	2,541,487
15	C-3.14	C-3.5	9	Uncollectible Riders Synchronization	2,001,602	1,580,313	421,289	1,580,313	-	(421,289)
16	C-3.15	N/A	23	Corporate Budget	(1,650,578)	-	(1,650,578)	-	-	1,650,578
17				Total Operation & Maintenance Expenses	$ 57,944,582	$ 5,605,335	$ 52,339,247	$ 66,448,246	$ 59,842,911	$ 7,503,664
18	C-3.16	C-3.21	24	Depreciation	$ (17,142)	$ 54,916	$ (72,058)	$ (12,984)	$ (67,900)	$ 4,158
				Taxes Other Than Income Taxes						
19	C-3.17	C-3.9	9-10	MCF Excise Tax	$ (9,191)	$ 46,582	$ (55,773)	$ 46,582	$ -	$ 55,773
20	C-3.18	C-3.11	9	Gross Receipts Taxes	2,863,508	(454,367)	3,317,875	2,598,201	3,052,568	(265,306)
21	C-3.19	C-3.22	-	Property Taxes	155,658	155,658	-	155,658	-	-
22	C-3.20	C-3.20	14	PUCO AND OCC Assessment Fees	633,300	-	633,300	728,376	728,376	95,076
23				Total Taxes Other Than Income Taxes	$ 3,643,275	$ (252,127)	$ 3,895,402	$ 3,528,817	$ 3,780,944	$ (114,458)
24	C-3.21	C-3.23	25	Income Taxes	$ (2,159,434)	$ (6,235,652)	$ 4,076,218	$ (5,848,420)	$ 387,232	$ (3,088,986)
25				Total Operating Expenses	$ 59,411,281	$ (827,528)	$ 60,238,809	$ 63,115,659	$ 63,943,187	$ 3,704,378
26				Net Operating Income Adjustments (Line 3 - Line 25)	$ (4,383,945)	$ (12,046,389)	$ 7,662,444	$ (11,346,091)	$ 700,298	$ (6,962,146)

VECTREN ENERGY DELIVERY OF OHIO, INC.
DETAIL OF SYSTEM INTEGRITY AND RELIABILITY PROGRAMS ANNUAL COSTS - FOR THE 12 MONTHS ENDED MAY 31, 2008

LINE NO.	NAME OF ADJUSTMENT	APPLICATION SCHEDULE REFERENCE	ADJUSTMENT DESCRIPTION	VEDO Application Annual Cost	VEDO O&M Annual Cost	Actual Test Year
1	System Integrity and Reliability [illegible]		Rationale			
2						
3	Gas Distribution System Maintenance Program	C-3.12		$ 1,214,477	$ 6,401	$ 159,167
4	Regulator station rock/fence maintenance	Distribution	Replace gravel and rock at regulator stations and perform fence maintenance including painting and repair. Includes 553,111 sq ft of gravel and 24,538 linear feet of fencing; total cost $1,152,090 on a five year cycle	$ 230,418	$ -	$ -
5	Regulator station maintenance	Transmission	198 regulator station w/ facilities, $2,481 per station, 5 year cycle for maintenance (75% O&M)	$ 73,698	$ 6,401	$ 8,996
6	Commerical and Industrial Regulator Station Inspection and Repair	Distribution	Inspect and remediate 4041 commercial and industrial regulator stations (including painting); total cost $2,949,930 on a five year cycle	$ 569,986	$ -	$ 73,573
7	Regulator vault maintenance	Distribution	Inspect and remediate 384 regulator station vaults and piping; annual	$ 49,736	$ -	$ 42,098
8	Curb box maintenance	Distribution	Program dollars include locating and repairing 100,681 curb boxes supplying inside meters at $25 each; 10 year cycle	$ 251,883	$ -	$ 34,600
9	Right-of-Way (ROW)	C-3.12		$ 1,114,341	$ -	$ 406,214
10	ROW Clearance-Transmission	Transmission	Clearing 228.5 miles of non-IM transmission miles over a 10 year period; average cost of $17.4K per mile cleared; less 2007 budgeted dollars	$ 721,216	$ -	$ 363,583
11	ROW Clearance-Distribution	Distribution	Approximately 5 percent or 259 miles of the 5,162 miles of distribution will require vegetation management activities; these miles will be cleared over a 10 year period; average cost of $31.9K per mile	$ 393,125	$ -	$ 42,631
12	Aging Workforce:	C-3.12		$ 312,289	$ -	$ -
13	Service Technician- Retirements	Distribution	8 Retirements to occur between 2007-2008; average	$ (478,333)	$ -	$ -
14	Service Technician- Apprentices	Distribution	14 Apprentices to be hired in 2007, average annual impact	$ 788,256	$ -	$ -
15	Engineering Co-ops (2)	T&D	Two co-op engineering students; 12% allocated to Vectren Energy Delivery of Ohio	$ 2,338	$ -	$ -
16	Other Distribution Maintenance Programs	C-3.12		$ 744,873	$ 632,686	$ 690,925
17	ARCOS After Hours	Distribution	Annualized cost for Ohio's allocated portion of the automated crew call-out expenses	$ 15,080	$ -	$ 79,714
18	After Hours Supervisor	Distribution	One FTE to provide supervision of VEDO field employees working second and third shifts as well as holidays and weekends. Annual salary $71k, loaded at 56% w/ (90/10 O&M/Capital split)	$ 93,070	$ -	$ -
19	Ohio Minimum Gas Service Standards	Distribution	MGSS requires scheduled appointments for meter order management which has prevented us from achieving budgeted cost reductions	$ 632,686	$ 632,686	$ 611,211
20	Aerial Pipeline Patrols	Transmission	Two aerial patrols per year at a cost of $7,058 per patrol	$ 14,117	$ -	$ -
21	Propane Air Facilities	C-3.12		$ 21,878	$ -	$ 6,800
22	Propane Air Training Program	Other Production	$3,500 for training development amortized over four years and $6,000 annually for training and travel expenses	$ 6,876	$ -	$ 6,800
23	Security Improvements	Other Production	Added security measures at propane-air facilities because of DHS CFAT regulation	$ 15,080	$ -	$ -
24	Training	C-3.12		$ 162,512	$ -	$ 34,002
25	Engineering Training	Distribution	Basic engineering and technical training expenses for increase in engineer FTE's; assumes $5K per year for the four engineers; one engineer is dedicated to VEDO and three engineers are shared w/ all Vectren utilities.	$ 9,200	$ -	$ -
26	Gas Employee Refresher Training	Distribution	Sustainable cost to complete training on various pieces of equipment for employees in Gas Operations, including trencher, backhoe, instrumentation, squeeze-off tools (hydraulic and non hydraulic), boring equipment, large diameter tapping and stopping equipment	$ 91,840	$ -	$ 33,326
27	SCBA Equipment O&M Costs	Distribution	Program includes training, fitting and medical costs associated with the required SCBA (self-contained breathing apparatus) equipment (one-third of the medical qualification costs which occur every three years, all of the annual training and fit-testing costs); 40 participants	$ 13,472	$ -	$ -
28	Safety projects and implementation	Distribution	Annual expense for compliance and education of employees and projects. The additional expense is related to expanded apprentice programs, testing, OSHA and DOT requirements.	$ 48,000	$ -	$ 876
29	Employee Additions	C-3.12		$ 438,941	$ 227,705	$ 227,492
30	Two Gas Technical Trainers	T&D	Two full-time trainers to support Operations, including Propane Plants. Based on a 2006 Best Practices Benchmarking Summary of 41 companies, the ratio for trainers to employees is .8%, and the Aging workforce trends will bring significant new employees to the operational staff.	$ 188,760	$ 94,000	$ 94,380
31	Gas Training Supervisor	T&D	One FTE to support increased training as noted above in the Gas Technical Trainers description. This position is a shared resource w/ other Vectren utilities.	$ 30,764	$ -	$ -
32	Safety/Industrial Hygiene Consultant	A&G	One FTE responsible for employee and contractor safety compliance and documentation; liaison for medical facilities; completes safety training and safety talks	$ 18,000	$ 15,000	$ -
33	Safety and Training Employee Relations Consultant	A&G	One FTE to support and ensure regulatory compliance with mandatory safety training, safe operating procedures, new hire safety orientation and accomplishing corporate goal of Best in Class safety performance.	$ 21,985	$ 21,985	$ 21,985
34	Contract Administration Manager and Clerk	A&G	Two FTE's responsible for monitoring contracts are executed per guideline developed by Strategic Procurement and Legal	$ 27,786	$ -	$ -
35	Buyer	A&G	One FTE to support increased procurement activities.	$ 12,870	$ -	$ -
36	Contracts Analyst	A&G	An analyst to review all operations contracts to ensure accurate expenses	$ 6,852	$ -	$ -
37	Engineer, Compliance	Distribution	Monitor compliance of DOT and company standards and working with local commission staff on audits	$ 96,720	$ 96,720	$ 96,720
38	Engineer, Encroachment	Distribution	Works with customers to resolve encroachment of gas facilities	$ 18,474	$ -	$ -
39	Engineer Applications Supervisor	Distribution	Supervises engineering staff and plans/designs the engineering systems	$ 14,407	$ -	$ 14,407
40	Program/Project Manager	Distribution	Manages special projects or programs within critical time frame and budget constraints	$ 2,321	$ -	$ -

VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 07-1080-GA-AIR; CASE NO. 07-1081-GA-ALT
SHARED SERVICES EXPENSE - ASSET CHARGE CALCULATION
FOR THE TWELVE MONTHS ENDED MAY 31, 2008

SCHEDULE / WORK PAPER REFERENCE NO(S).:

LINE NO.	DESCRIPTION			AMOUNT
1	Utility Holdings Net Plant Balance at December 31, 2008		$	162,647,864
2	Pro Forma Weighted Average Cost of Capital Grossed Up for Income Taxes	(A)		12.35%
3	Asset Cost-Return and Income Taxes (Line 1 x Line 2)		$	20,087,011
4	Total Depreciation Expense			29,246,998
5	Total Property Taxes			1,293,000
6	Total Charges		$	50,627,009
7	Blended Allocation Factor to Vectren North			21.23%
8	Total Pro Forma Asset Charge (Line 6 x Line 7)		$	10,747,583

(A) Should be updated to the final approved Capital Structure, Cost of Equity, and Rate of Return.

VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 07-1080-GA-AIR; CASE NO. 07-1081-GA-ALT
SHARED SERVICES EXPENSE - ASSET CHARGE RATE OF RETURN CALCULATION
FOR THE TWELVE MONTHS ENDED MAY 31, 2008

SCHEDULE / WORK PAPER REFERENCE NO(S).:

LINE NO.	TYPE OF CAPITAL	RATIOS	COST RATE	WEIGHTED COST RATE	GROSS UP FOR INCOME TAXES
1	Long-Term Debt	51.90%	7.40%	3.84%	3.84%
2	Preferred Stock	0.00%	8.50%	0.00%	0.00%
3	Common Equity	48.10%	11.50%	5.53%	8.51%
4	*Investor Provided Capital*	*100.00%*		9.37%	*12.35%*
5	Customer Deposits	0.00%	6.00%	0.00%	0.00%
6	Cost Free Capital	0.00%	0.00%	0.00%	0.00%
7	Job Development Investment Tax Credit	0.00%	9.92%	0.00%	0.00%
8	Rate of Return	100.00%		9.37%	12.35%

VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 07-1080-GA-AIR; CASE NO. 07-1081-GA-ALT
OVERALL FINANCIAL SUMMARY
FOR THE TWELVE MONTHS ENDED MAY 31, 2008

LINE NO.	DESCRIPTION	SUPPORTING SCHEDULE REFERENCE	APPLICATION	STAFF LOWER BOUND	STAFF UPPER BOUND	REVISED APPLICATION
1	Jurisdictional Rate Base	B-1	$ 233,532,983	$ 232,136,650	$ 232,136,650	$ 232,972,148
2	Current Operating Income	C-1	$ 4,989,460	$ 12,651,907	$ 12,651,907	$ 5,689,761
3	Earned Rate of Return (Line 2 / Line 1)		2.14%	5.45%	5.45%	2.44%
4	Requested Rate of Return	Rate of Return Section	9.36%	8.45%	8.98%	9.36%
5	Required Operating Income (Line 1 x Line 4)		$ 21,858,687	$ 19,615,462	$ 20,845,781	$ 21,806,193
6	Operating Income Deficiency (Line 5 - Line 2)		$ 16,869,227	$ 6,963,555	$ 8,193,874	$ 16,116,432
7	Gross Revenue Conversion Factor	C-10 / A-1.1	1.6175096	1.5384615	1.5384615	1.6175096
8	Revenue Deficiency (Line 6 x Line 7)		$ 27,286,136	$ 10,713,161	$ 12,605,959	$ 26,068,483
9	Revenue Increase Requested (Derived from Noticed Rates)		$ 27,331,071	$ 10,713,161	$ 12,605,959	$ 26,068,483
10	Adjusted Operating Revenues	C-1	$ 374,136,856	$ 442,038,111	$ 442,038,111	$ 438,780,343
11	Revenue Requirement (Line 9 + Line 10)		$ 401,457,926	$ 452,751,272	$ 454,644,070	$ 464,848,826
12	Percent Increase (Line 9 / Line 10)		7.31%	2.42%	2.85%	5.94%

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY OF
KERRY A. HEID
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF
INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
___ Operating income
___ Rate base
___ Allocations
___ Rate of return
_x_ Rates and tariffs
___ Other

July 23, 2008

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)))))))))))	Case No. 07-1081-GA-ALT

KERRY A. HEID

INDEX

Summary of the Supplemental Testimony of Kerry A. Heid addressing the Vectren Energy Delivery of Ohio's cost of service study and proposed rate design

SUPPLEMENTAL TESTIMONY OF KERRY A. HEID

INTRODUCTION AND OVERVIEW

Q. Please state your name and business address.

A. My name is Kerry A. Heid. My address is 3212 Brookfield Drive, Newburgh, IN 47630.

Q. Are you the same Kerry A. Heid who submitted Direct Testimony on behalf of Applicant, Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company") as part of the Application in this proceeding?

A. Yes, I am.

Q. What is the purpose of your Supplemental Testimony?

A. The purpose of my Supplemental Testimony is to support Objections Nos. 30, 31, 34 and 35 to the Staff Report dated June 16, 2008.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

KAH-1	Excerpts from Application Schedule E-3.2, Pages 28-30
KAH-2	Derivation of Rate Class Impacts Under Staff's Recommended Revenue Distribution
KAH-3	Comparison of Resulting Dollar Subsidy Levels at Applicant's and Staff's Proposed Revenue Distributions

DISTRIBUTION OF REVENUE BETWEEN RATE CLASSES (OBJECTION NO. 30)

Q. Did the Staff Report recommend changes to VEDO's proposed revenue distribution?

A. Yes. On page 24, the Staff Report recommended changes to VEDO's proposed revenue distribution. Staff recommended moving rate classes toward equal rates of return, and used an across-the-board 75% reduction in the earnings indices.

Q. Did the Staff Report explain the reason for not accepting VEDO's proposed revenue distribution?

A. No.

Q. Did the Staff Report explain the basis for its recommended revenue distribution?

A. No.

Q. What is the effect of Staff's recommended revenue distribution?

A. The effect of Staff's recommended revenue distribution is to shift costs from Rates 310/315 (residential) to the remaining rate classes,[1] thus increasing the rates of the General Service customers (Rate 320/325) and large volume customers (Rate 330/345 and Rate 360) significantly. Moreover, it also increases the dollar subsidies of each rate class. The rate class impacts proposed by VEDO and by Staff are reflected on the following table, along with the present earnings indices.

	(A)	(B)	(C)
Rate Schedule	Applicant's Proposed Increase (1) (2)	Staff's Proposed Increase (1) (3)	Present Earnings Index (4)
310/315	30.15%	22.34%	(1.61)
320/325	15.45%	25.00%	5.70
330/345	0.00%	29.06%	8.50
341	26.74%	2.29%	(1.55)
360	1.18%	31.42%	7.27
Total	23.72%	23.76%	1.00

(1) Bill impacts excluding gas costs.
(2) Petitioner's Supp. Exhibit KAH-1 (Application Schedule E-3.2, Page 30 of 40).
(3) Petitioner's Supp. Exhibit KAH-2.
(4) Petitioner's Supp. Exhibit KAH-1 (Application Schedule E-3.2, Page 29 of 40).

Q. Do you agree with Staff's recommended revenue distribution?

A. No. Staff applied an across-the-board percentage reduction in the earnings indices, apparently without regard for the rate class percentage increases or dollar subsidies. Consequently, Staff's recommended revenue distribution causes inappropriate results.

[1] Except for Rate 341, Dual Fuel Service, which only has two customers and minimal volumes and revenues.

Q. Please explain

A. Staff's proposed revenue distribution creates inappropriate rate class impacts in that subsidized rate classes (i.e., classes having an earnings index below 1.00) receive below-average percentage increases, whereas the subsidizing rate classes (i.e., classes having an earnings index above 1.00) receive above-average percentage increases. This result is counter-intuitive and unfair. A rate class (such as Rate 310/315) receiving a subsidy should generally have a rate increase percentage greater than the overall system average as the subsidy is reduced and the rates move toward cost of service. Conversely, rate classes providing subsidies (e.g., all of the remaining rate classes) should generally have rate increase percentages below the overall system average. VEDO's revenue distribution proposal provides this appropriate result, whereas Staff's proposal produces the opposite, inappropriate result.

Specifically, as reflected in the above table, Staff's recommended revenue distribution results in the residential (Rates 310/315) customers (who are being subsidized) having a below-average percentage increase (22.34% compared to the system average of 23.76%)[2]. On the other hand, Rate 320/325, Rate 330/345 and Rate 360 (which are providing subsidies to Rate 310/315) have above-average percentage increases. The result, then, is that under Staff's recommended revenue distribution, Rate 320/325, Rate 330/345 and Rate 360, which are subsidizing Rate 310/315, have higher percentage increases than Rate 310/315. And, Rate 330/345 and Rate 360, who have the highest earnings indices (meaning they are providing the greatest relative subsidies to the other rate classes), receive the highest percentage increases. At present rates, Rate 330/345 has an earnings index of 8.50 (meaning its class rate of return is 8.5 times greater than the system average rate of return), and Rate 360 has an earnings index of 7.27 (meaning its class rate of return is 7.27 times greater than the system average rate of return). Therefore, VEDO believes that Rate 330/345 and Rate 360 should receive much smaller percentage increases than the other rate classes. As can be seen on the above table, VEDO proposed a 0.00% increase for Rate 330/345, whereas Staff proposed a 29.06% increase (far above the overall system average of 23.76%). Similarly, VEDO proposed a 1.18% increase for Rate

[2] Because some rate classes include gas costs and some do not, it is necessary for this comparative analysis to state the percentage increases in terms of non-gas bill amounts.

360, whereas Staff proposed a 31.42% increase (again far above the overall system average of 23.76%). Such results are counter-intuitive and unfair.

Q. You previously stated that Staff's recommended revenue distribution increases the dollar subsidies of each rate class. Please explain.

A. Staff's recommended revenue distribution fails to recognize the actual dollar subsidies being received by or provided to each rate class. Moreover, the dollar subsidies of each rate class are actually increased under Staff's recommended revenue distribution. Although the Staff Report appropriately considered the relative movement in the earnings indices as a measure of subsidy reduction, this measure alone is insufficient. Earnings indices may not always be a reliable measure for comparing movements toward cost of service when an increase in revenues is being proposed. It is also necessary to consider the dollar subsidies of each rate class.

Q. Please explain and illustrate the use of dollar subsidies as a subsidy measure.

A. The dollar subsidy is the extent to which the rate class revenues are different from what they would be if that class produced the system average rate of return. VEDO's Application Schedule E-3.2, Page 28 of 40 (which is included herein as <u>Applicant's Supp. Exhibit KAH-1</u>), presents these calculations under VEDO's proposed revenue distribution. For example, under present rates, Rate 310/315 generates $248,266,763 of revenue (Schedule E-3.2, Page 28 of 40, Line 1, Column B). As can be seen on VEDO's Application Schedule E-3.2, Page 29 of 40 (which is included herein as <u>Applicant's Supp. Exhibit KAH-1</u>), this results in a present class rate of return of -3.44%, compared to the system average rate of return of 2.14% at present rates. In order for Rates 310/315 to generate the system average rate of return of 2.14%, it must generate $262,440,382 of revenue (Schedule E-3.2, Page 28 of 40, Line 1, Column C). Comparing the present class revenues of $248,266,763 to the class revenues of $262,440,382 required to generate the system average rate of return, shows that this rate class is being subsidized $14,173,619 ($262,440,382 - $248,266,763) (Schedule E-3.2, Page 28 of 40, Line 1, Column D). In order for Rates 310/315 to move toward cost of service under proposed rates, the present subsidy of $14,173,619 must be reduced. An inspection of VEDO's Schedule E-3.2, Page 28 of 40, shows that at proposed rates the Rates 310/315 dollar subsidy is proposed to be reduced to $9,567,193 (Line 1, Column G), a subsidy reduction of $4,606,426 (Line 1, Column H). The dollar subsidy at the Staff's recommended revenue distribution is shown on Applicant's Supp. Exhibit KAH-3. This exhibit shows that for Rates 310/315, the dollar subsidy has actually increased from $14,173,619 to $15,526,087 (Line 1, Column F), an increase of $1,352,468 (Line 1, Column G). An inspection of the other rate classes shows similar results i.e. Staff's proposed revenue distribution results in an increase in dollar subsidies, thus moving away from cost of service-based rates.

In summary, it is appropriate and necessary to consider both the movement in the earnings index as well as the movement in the dollar subsidies. If the dollar subsidies are increasing, rates cannot be deemed to be moving toward cost-of-service based rates. Under VEDO's proposed revenue distribution, each rate class dollar subsidy would be reduced, while under Staff's proposal these dollar subsidies would be increased. Therefore, Staff's recommended revenue distribution should not be accepted.

AVOIDED CUSTOMER CHARGE PROVISION OF RECONNECTION CHARGE (OBJECTIONS NOS. 31 and 35b)

Q. Did the Staff Report recommend denial of the Avoided Customer Charge provision of the Reconnection Charge?

A. Yes. On page 19, the Staff Report recommended that the "Customer Charge Assessment" fee be denied.

Q. Did Staff provide any explanation for its proposed denial of the Avoided Customer Charge provision?

A. No. Staff presented no evaluation of the proposed charge or any explanation for its recommended denial.

Q. Do you agree with Staff's recommendation to deny the Avoided Customer Charge provision of the Reconnection Charge?

A. No.

Q. What was the basis for the proposed Avoided Customer Charge provision of the Reconnection Charge?

A. As VEDO transitions from low Customer Charges and Volumetric Charges to higher Customer Charges, spaceheating-only customers may find it advantageous to turn service off for as much as six or seven months rather than pay the Summer Customer Charges. Upon reconnecting, the current Reconnection Charge provisions require those customers to only pay for the actual cost of physically disconnecting the customer from and reconnecting the customer to the system. Even though no costs would have been avoided as a result of the customers temporarily disconnecting, the customers would have avoided the payment of Customer Charges designed to recover VEDO's fixed costs. The result is that the seasonal customers who disconnect during the summer months will receive a substantial subsidy related to the unrecovered portion of the fixed cost of facilities.

Q. Please explain.

A. As the Staff correctly recognizes, virtually all of VEDO's distribution costs are fixed. When a customer temporarily disconnects during the summer months, none of VEDO's costs are avoided. The customer's meter and regulator remain in place, and VEDO continues to read the meter indefinitely to ensure no unauthorized gas usage. Moreover, all of VEDO's other fixed distribution costs continue to be incurred. Yet, when a customer temporarily disconnects from the system, it avoids paying the monthly Customer Charge during those months and thus makes no contribution to VEDO's fixed costs, even though no costs are being avoided. The fixed costs, then, are inequitably shifted to other customers who remain on the system during the summer months. Moreover, as VEDO progresses toward full straight fixed variable rate design, the incentive to disconnect during the summer months will become even more pronounced. This result, besides being intuitively inequitable, violates certain of the Rate Guidelines as set forth on pages 22-23 of the Staff Report that the results should provide fairness and equity.

Q. Could the increasing number of summer disconnections and subsequent reconnections divert service personnel resources from other important customer service activities?

A. Yes. VEDO expends considerable service personnel resources in disconnecting and reconnecting customers. If the Avoided Customer Charge provision discouraged these wasteful and inappropriate summer disconnections, service personnel resources could be better directed to other customer service activities.

Q. Do the summer shut-offs create potential operations issues for the customer?

A. Yes. It may be more difficult to relight a pilot light after the meter has been shut off all summer due to such problems as excessive air in the line, blockage of orifices and pilots by dust, lint, etc. This may delay reestablishment of service and necessitate the customer incurring the expense of contacting a heating dealer.

Q. Are you aware of other regulatory commissions that have approved the Avoided Customer Charge provision?

A. Yes. The Indiana Utility Regulatory Commission has found the Avoided Customer Charge provision of the Reconnection Charge to be fair and equitable and has approved it for virtually every gas utility in Indiana, including VEDO's two sister utilities, Vectren North (Indiana Gas Company) and Vectren South (Southern Indiana Gas & Electric Company).

<u>STAFF'S PROPOSED SCHEDULE E-5 (OBJECTION NO. 34)</u>

Q. Please discuss your concern with the Staff Report's proposed volumetric rates and Schedule E-5 bill impacts.

A. During its review of the Staff Report, VEDO identified several errors to Staff's proposed Schedule E-5 bill impacts (pages 127-133), which could potentially be misleading. The errors are not, however, of material consequence. Staff is aware of these issues and has indicated its intent to make the necessary corrections.

Q. Does this conclude your Supplemental Testimony?

A. Yes.

ECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUD
EXCERPTS FROM APPLICATION EXHIBITS

DATA: SUPPLEMENTAL
TYPE OF FILING: OBJECTIONS TO PUCO STAFF REPORT
WORK PAPER REFERENCE NO(S): NONE

APPLICANT'S SUPP. EXHIBIT KAH-1
WITNESS: HEID

EXCERPTS FROM APPLICATION SCHEDULE E-3.2, PAGES 28-30

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUDY
COMPARISON OF PROFORMA OPERATING REVENUES AND RESULTING DOLLAR SUBSIDY
LEVELS AT PRESENT AND PROPOSED RATES

DATA: 3 MONTHS ACTUAL AND 9 MONTHS ESTIMATED
TYPE OF FILING: APPLICATION
WORK PAPER REFERENCE NO(S): NONE

SCHEDULE E-3.2
PAGE 28 OF 40
WITNESS: HEID

		PROFORMA REVENUES - PRESENT RATES			PROFORMA REVENUES - PROPOSED RATES				
								Subsidy Reduction	
Line No.	Rate Schedule (A)	Revenues At Present Rates (B)	Revenues Required For Equalized Returns (C)	Present Subsidy (D)	Revenues Required For Equalized Returns (E)	Revenues At Proposed Rates (F)	Ending Subsidy (G)	Amount (H)	Percentage (I)
1	Rates 310/315	$248,266,763	$262,440,382	($14,173,619)	$280,815,554	$271,248,361	($9,567,193)	($4,606,426)	32.50%
2	Rates 320/325	$110,613,049	$102,298,986	$8,314,063	$108,300,358	$114,732,944	$6,432,586	$1,881,477	22.63%
3	Rates 330/345	$9,123,577	$6,379,552	$2,744,025	$7,611,622	$9,157,983	$1,546,361	$1,197,664	43.65%
4	Rate 341	$25,450	$25,769	($319)	$25,755	$25,755	$0	($319)	100.00%
5	Rate 360	$6,108,016	$2,992,166	$3,115,850	$4,669,704	$6,257,950	$1,588,246	$1,527,604	49.03%
6	Total	$374,136,856	$374,136,855	$0	$401,422,993	$401,422,993	$0	$0	

Supplemental KAH-Exhibit 1
Page 2 of 4

ECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUDY
COMPARISON OF EARNINGS INDICES AT PRESENT AND PROPOSED RATES

DATA: 3 MONTHS ACTUAL AND 9 MONTHS ESTIMATED
TYPE OF FILING: APPLICATION
WORK PAPER REFERENCE NO(S): NONE

SCHEDULE E-3.2
PAGE 29 OF 40
WITNESS: HEID

		PRESENT RATES		PROPOSED RATES	
Line No.	Rate Schedule (A)	Present Rates of Return (B)	Present Earnings Index (C)	Proposed Rates of Return (D)	Proposed Earnings Index (E)
1	Rates 310/315	-3.44%	-161%	5.59%	60%
2	Rates 320/325	12.17%	570%	17.13%	183%
3	Rates 330/345	18.17%	850%	18.39%	197%
4	Rate 341	154.38%	7226%	9.36%	100%
5	Rate 360	15.54%	727%	16.19%	173%
6	Total	2.14%	100%	9.36%	100%

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUDY
COMPARISON OF PROFORMA REVENUES FROM GAS SALES
AT PRESENT AND PROPOSED RATES

DATA: 3 MONTHS ACTUAL AND 9 MONTHS ESTIMATED
TYPE OF FILING: APPLICATION
WORK PAPER REFERENCE NO(S): NONE

PRO FORMA GAS SALES REVENUES

Line No.	Rate Schedule (A)	Base Revenues At Present Rates (B)	Gas Costs (C)	Total Revenues At Present Rates (D)	Base Revenues At Proposed Rates (E)	Gas Costs (F)	Total Revenues At Proposed Rates (G)	Increase or (Decrease) Amount (H)	Increase or (Decrease) Percentage (I)
				(B) + (C)			(E) + (F)	(G) - (D)	(H) / (D)
1	Rates 310/315	$75,891,220	$168,095,148	$243,986,367	$98,774,445	$168,095,148	$266,869,592	$22,883,225	9.38%
2	Rates 320/325	$28,030,774	$81,019,642	$109,050,416	$32,361,909	$81,019,642	$113,381,550	$4,331,134	3.97%
3	Rates 330/345	$5,049,739	$3,884,921	$8,934,660	$5,049,739	$3,884,921	$8,934,660	($0)	0.00%
4	Rate 341	$3,800	$21,436	$25,236	$4,225	$21,436	$25,661	$425	1.68%
5	Rate 360	$6,057,711	$0	$6,057,711	$6,129,064	$0	$6,129,064	$71,353	1.18%
6	Total Gas Sales Revenue	$115,033,244	$253,021,146	$368,054,390	$142,319,381	$253,021,146	$395,340,527	$27,286,137	7.41%
7	Miscellaneous Revenue	$6,082,466		$6,082,466	$6,082,466		6,082,466		
8	Total Revenue	$121,115,710	$253,021,146	$374,136,856	$148,401,847	$253,021,146	$401,422,993	$27,286,137	

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUDY
DERIVATION OF RATE CLASS IMPACTS UNDER STAFF'S RECOMMENDED REVENUE DISTRIBUTION

DATA: SUPPLEMENTAL
TYPE OF FILING: OBJECTIONS TO PUCO STAFF REPORT
WORK PAPER REFERENCE NO(S): NONE

APPLICANT'S SUPP. EXHIBIT KAH-2
WITNESS: HEID

PRO FORMA GAS SALES REVENUES

Line No.	Rate Schedule (A)	Base Revenues At Present Rates (B)	Gas Costs (C)	Total Revenues At Present Rates (D)	Base Revenues At Staff's Rates (1) (E)	Gas Costs (F)	Total Revenues At Staff's Rates (2) (G)	Base Revenue Increase or (Decrease) Amount (H)	Base Revenue Increase or (Decrease) Percentage (I)
				(B) + (C)			(E) + (F)	(G) - (D)	(H) / (D)
1	Rates 310/315	$75,891,220	$168,095,148	$243,986,367	$92,843,539	$168,095,148	$260,938,686	$16,952,319	22.34%
2	Rates 320/325	$28,030,774	$81,019,642	$109,050,416	$35,037,908	$81,019,642	$116,057,548	$7,007,132	25.00%
3	Rates 330/345	$5,049,739	$3,884,921	$8,934,660	$6,517,095	$3,884,921	$10,402,015	$1,467,355	29.06%
4	Rate 341	$3,800	$21,436	$25,236	$3,887	$21,436	$25,323	$87	2.29%
5	Rate 360	$6,057,711	$0	$6,057,711	$7,961,267	$0	$7,961,267	$1,903,556	31.42%
6	Total Gas Sales Revenue	$115,033,244	$253,021,146	$368,054,390	$142,363,698	$253,021,146	$395,384,839	$27,330,449	23.76%
7	Miscellaneous Revenue	$6,082,466		$6,082,466	$6,082,066		6,082,466		
8	Total Revenue	$121,115,710	$253,021,146	$374,136,856	$148,445,762	$253,021,146	$401,467,305	$27,330,449	

(1) Staff Report, Table 1a, Page 26.
(2) Staff Report, Table 2a, Page 28.

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
COST OF SERVICE STUDY
COMPARISON OF RESULTING DOLLAR SUBSIDY LEVELS AT APPLICANT'S AND STAFF'S RECOMMENDED REVENUE DISTRIBUTIONS

DATA: SUPPLEMENTAL
TYPE OF FILING: OBJECTIONS TO PUCO STAFF REPORT
WORK PAPER REFERENCE NO(S): NONE

APPLICANT'S SUPP. EXHIBIT KAH-3
WITNESS: HEID

		Applicant's Proposed Subsidies			Staff's Proposed Subsidies		
Rate Schedule (A)	Present Subsidy(1) (B)	Ending Subsidy (1) (C)	Subsidy Reduction Amount (1) (D)	Subsidy Reduction Percentage (2) (E)	Ending Subsidy (1) (F)	Subsidy Reduction Amount (1) (G)	Subsidy Reduction Percentage (2) (H)
310/315	($14,173,619)	($9,567,158)	($4,606,410)	32.50%	($15,526,087)	$1,352,468	-9.54%
320/325	$8,314,063	$6,432,601	$1,881,481	22.63%	$9,097,446	($783,382)	-9.42%
330/345	$2,744,025	$1,546,362	$1,197,665	43.65%	$3,011,801	($267,777)	-9.76%
341	($319)	$0	($390)	100.00%	($346)	$27	-8.44%
360	$3,115,850	$1,588,246	$1,527,604	49.03%	$3,417,186	($301,336)	-9.67%
Total	$0	$50	($50)	0.00%	$0	($0)	0.00%

(1) A negative subsidy reflects that the rate class is being subsidized by other rate classes. A positive subsidy reflects that the rate class is subsidizing other rate classes.

(2) A positive subsidy reduction percentage indicates that the rate class is moving toward cost-of-service based rates. A negative subsidy reduction percentage indicates that the rate class is moving away from cost-of-service based rates.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)))))	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)))))))))))	Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY OF
JERROLD L. ULREY
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
___ Operating income
___ Rate base
___ Allocations
___ Rate of return
_X_ Rates and tariffs
_X_ Other –ARP SRR-B Proposal

July 23, 2008

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.)	Case No. 07-1081-GA-ALT

JERROLD L. ULREY
INDEX

Supplemental testimony explaining Applicant's objections to certain recommendations contained in the Staff Report issued on June 16, 2008 in this proceeding.

SUPPLEMENTAL TESTIMONY OF JERROLD L. ULREY

INTRODUCTION AND PURPOSE

Q. **Please state your name and business address.**

A. Jerrold L. Ulrey, One Vectren Square, Evansville, Indiana 47708.

Q. **Did you file Direct Testimony in this proceeding on behalf of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "Company")?**

A. Yes.

Q. **What is the purpose of your Supplemental Testimony?**

A. The Staff of the Public Utilities Commission of Ohio ("Commission" or "PUCO") filed its Staff Report of Investigation in these proceedings on June 16, 2008. VEDO timely filed its objections to the Staff Report on July 16, 2008. My supplemental testimony describes and supports certain of VEDO's objections to the Staff Report.

Q. **What specific objections to the Staff Report do you discuss in your Supplemental Testimony?**

A. My Supplemental Testimony provides information that shows that the recommendations in the Staff Report which are the object of VEDO's objection Nos. 32, 33, and 35, are not reasonable or must be modified as I discuss in my testimony.

OBJECTION NO. 32, SALES RECONCILIATION RIDER - B (SRR-B)

Q. **Please describe objection No. 32.**

A. VEDO objects to the Staff Report's failure to recommend approval of its proposed Sales Reconciliation Rider – B ("SRR-B"). At Page 34, the Staff Report states that "Staff is recommending that the SRR-B not be implemented in favor of a more direct implementation of a full SFV rate design in this case." However, the Staff Report does not recommend a more direct implementation of a full straight fixed variable ("SFV") rate design in this case. Rather, the Staff Report has proposed only a partial movement to full SFV rate design, leaving a significant amount of fixed costs to be recovered in the remaining volumetric or usage-sensitive charges of the Residential and General Service rate classes. The mismatch between what the Staff Report says it is recommending (a more direct implementation of SFV) and what it actually proposes, in combination with the Staff Report's rejection of Applicant's proposed SRR-B, will deny Applicant a reasonable opportunity to recover the revenue requirement approved in this case.

Q. **Does VEDO currently have in effect a Sales Decoupling mechanism?**

A. Yes. VEDO filed its current decoupling mechanism, the Sales Reconciliation Rider, with the Commission on June 28, 2007, as approved in Case No 05-1444-GA-UNC, for the recovery of deferred amounts equal to the difference between the actual and approved base rate revenues (adjusted for normal weather and customer additions). That Sales Reconciliation Rider has been re-designated as Sales Reconciliation Rider–A (SRR-A) for this Application and reflects initial rates which will recover, over one year, the accumulated deferred amount which is subject to amortization through the SRR-A. The Staff Report, at Page 35, recommends approval of the SRR-A and the initial rates as proposed by VEDO.

Q. **What is your understanding of the reasons the Commission approved the decoupling mechanism addressed in Case No. 05-1444-GA-UNC?**

A. My understanding is based on the language used by the Commission to describe its decision. In the Supplemental Opinion and Order ("Supplemental Order") issued June 27, 2007 approving the SRR, the Commission stated at Page 18: "The Commission continues to believe it is in the public interest, in order to promote energy efficiency, to decouple the link between gas consumption and the company's ability to meet its revenue requirement. As we stated in the Opinion and Order in this proceeding, the Commission believes that the linking of gas consumption with the public utility's ability to meet its revenue requirement is counterproductive to energy efficiency (Opinion and Order at 16)". And, on Page 19 of the Supplemental Order, the Commission stated: "In addition, the Commission notes that the implementation of the SRR only will allow VEDO the opportunity to collect the revenue requirement ordered by the Commission in VEDO's last rate case. The Commission has already determined that these revenues are required for VEDO to earn a fair and reasonable rate of return. Vectren, Case No.04-571-GA-AIR, Opinion and Order (April 13, 2005) at 16".

Q. In its Application, what is VEDO's proposal regarding phased movement to full SFV rate design for distribution service and its proposal for an interim decoupling mechanism?

A. Full SFV rate design provides for recovery of a utility's base revenues through charges that are not based on customer usage. It allows the utility a fair opportunity to recover the costs approved for recovery by the Commission in rate cases and removes a disincentive for the utility to support the provision of energy efficiency services and incentives. It does this by eliminating the linkage between base revenue recovery and sales volumes.

In its Application, VEDO proposed a phased introduction of full SFV rate design and the elimination of its Volumetric Charges over the period of two rate case cycles – this rate case and the next – for its distribution rate schedules. Until the Volumetric Charges in Residential and General Service rate schedules are fully eliminated, VEDO proposes to implement a modified, full decoupling rider – its proposed SRR-B – to have a reasonable opportunity to recover the costs authorized by the Commission for recovery in VEDO's rate cases and to remove the disincentive related to energy efficiency that exists with volumetric rates.

Q. What is the Staff Report's recommendation regarding movement toward SFV rate design?

A. The Staff Report has proposed a partial movement to full SFV rate design in this case, basically recommending approval of VEDO's proposal to increase the Customer Charges for the Residential and General Service rate classes. For the Residential class, the Staff Report agrees with VEDO by establishing seasonally differentiated Customer Charges. The Staff Report adopts VEDO's proposed Stage 1 Customer Charges as filed and makes only a slight change from the Company's proposed Stage 2 Customer Charges (increasing the Summer charge from $10.00 per month to $11.96; reducing the Winter charge from

$22.00 to $20.04) to which the Company does not object. However, unlike the Company's proposal, the Staff Report does not include an interim full decoupling mechanism.

Q. **Does the Staff Report's proposal of a partial implementation of SFV result in decoupling sales from revenue recovery?**

A. No, it does not. The Staff Report proposal leaves a significant amount of the Company's fixed costs to be recovered in the Volumetric Charges of the Residential and General Service rate schedules, where, absent the approval of the SRR-B, their recovery will be adversely impacted by reductions in sales volumes, resulting in the inability of VEDO to earn its return authorized in this proceeding.

Q. **Is the Staff Report's recommended partial implementation of full SFV, without an interim decoupling mechanism, consistent with the Staff Report's stated position on Decoupling?**

A. No. At Page 34, the Staff Report states: "Decoupling will also eliminate the disincentive a utility otherwise would have to promote energy efficiency and conservation. ....Once sales volumes and revenues are decoupled, utilities are in position to more aggressively assist customers in their efforts to consume less energy."

Q. **What portion of the Company's fixed costs are remaining in the Volumetric Charges based on the Staff Report's revenue distribution and rate design and VEDO's proposed total revenues?**

A. For the Residential class, $20.2 million remains in the Volumetric Charge under Stage 1 rates, and $13.4 million remains in the Volumetric Charges under Stage 2 rates.

Q. **What under-recovery risk does that raise for the Company?**

A. As customers continue to reduce usage in response to rising natural gas prices, as well as other factors, fixed cost recovery from Volumetric Charges can be expected to decline. For instance, a 5% reduction in sales volumes for the Residential rate classes alone would result in an under-recovery of about $1 million under the Staff's proposed Stage 1 rates in a single year. And that annual under-recovery amount would undoubtedly compound over time during the expected life of the rates as customers continue to reduce usage volumes. For instance, an additional decrease in Residential customer usage of 5% per year in the second and third years would result in fixed cost under-recovery of nearly $2 million in year 2, and, in year three, of nearly $3 million.

Similarly, because of fixed costs remaining in the Volumetric Charges of General Service rate classes under the Staff Report's partial SFV proposal, reductions to General Service usage volumes would result in additional fixed cost under-recoveries for VEDO.

Q. Is the price of natural gas expected to increase in the months ahead?

A. Yes. As shown by the gas futures prices reflected on the New York Mercantile Exchange ("NYMEX") the price of natural gas can be expected to be much higher this winter than in previous winters. Based on the July 18, 2008 closing NYMEX prices, winter prices for the upcoming 2008-2009 winter heating season average $11.441 per MMbtu compared to the average closing NYMEX prices last winter (2007-2008 season) of $7.714 per MMbtu. This $3.727 difference represents a 48.3 % increase in commodity gas prices over the previous year and will undoubtedly result in lower customer usage, as customers attempt to avoid the full impact of the higher prices by implementing usage reduction techniques, including dialing down their thermostats to a lower temperature setting.

Q. Please describe VEDO's Alternative Rate Plan proposal related to the Sales Reconciliation Rider-B (SRR-B).

A. As more fully described in the alternative regulation exhibits included in the Application in this proceeding, VEDO proposed the implementation of the SRR-B on an interim basis in lieu of an immediate movement to full Straight Fixed Variable ("SFV) rate design. The SRR-B, as proposed, would recover the difference between VEDO's actual base rate revenues and the revenues approved in the current rate case, as adjusted for customer additions. The SRR-B is designed to complement VEDO's phased movement to full SFV rate design. VEDO proposed that it be effective until the Volumetric Charges in VEDO's

Residential and General Service rate schedules have been entirely eliminated and those rates reflect the full SFV rate design.

Q. Is the SRR-B necessary to achieve the decoupling of VEDO's sales from its revenue recovery?

A. Yes, until VEDO achieves full SFV rate design, it is absolutely necessary. Absent the approval of the SRR-B, VEDO will not have a reasonable opportunity to earn its authorized rate of return in this proceeding, and the absence of the SRR-B in this context will misalign VEDO's incentives with efforts to promote energy efficiency and conservation. Approving the SRR-B is especially important given the Staff Report's recommended acceptance of VEDO's proposed enhanced conservation program. VEDO has proposed, and the Staff Report at Page 50 has recommended approval of, a 5-year Demand Side Management ("DSM") program totaling $14,330,770. The Staff Report recommends "...that VEDO's proposed DSM Program be approved and implemented as planned with the goal of providing customers conservation measures and incentives to help restrain ratepayer energy costs." Until such time as the Volumetric Charges are eliminated under a full SFV rate design, VEDO will need the SRR-B to remove the disincentive and to create the necessary alignment between customers and company that is necessary to fully commit to DSM efforts.

Q. Is the Staff Report's recommendation to approve the Company's DSM programs reconcilable with its recommendation to deny the Company's proposed full decoupling mechanism, the SRR-B?

A. No. The significantly increased DSM programs proposed by VEDO in this proceeding would, if implemented, increase the speed and magnitude of the existing erosion in average annual use per customer. From a public interest or policy perspective, VEDO is willing to do its part to help customers obtain better value for their energy dollars. However, the approval of the proposed SRR-B must be considered a prerequisite to the approval of its DSM proposal. Once VEDO has completed the transition to a full SFV rate design for distribution service in a subsequent rate case, the SRR-B will no longer be required.

Q. Did the Staff Report specify why it prefers movement to a fixed rate (i.e.

SFV rate design) over the SRR-B?

A. Yes. On Page 34, the Staff Report states that "....movement to a fixed rate eliminates the need for the SRR-B and in so doing greatly simplifies the rate setting process by eliminating the need for annual audits of the decoupling mechanism and subsequent true-ups".

Q. Do you agree with the Staff Report's conclusion?

A. I agree that movement to full SFV rate design eliminates the need for the SRR-B, and I also agree with the ultimate objective of moving to full SFV. However, the Staff Report does not recommend a full SFV rate design, only partial movement. As I describe above, the SRR-B is absolutely needed to provide alignment and remove conservation disincentives until such time as the Volumetric Charges in VEDO's Residential and General Service rates are eliminated. Only complete movement to full SFV rate design would eliminate the need for a separate decoupling mechanism. In the meantime, I believe that any additional effort associated with maintaining an interim sales decoupling mechanism (monthly deferrals, annual audits and subsequent true-ups via a rate surcharge/credit) as movement is made to full SFV is more than justified because of the alignment benefits to be received by decoupling sales from revenue recovery.

Q. Is the SRR-B as proposed by VEDO designed to recover the same fixed costs as would recovered under full SFV?

A. Yes. The SRR-B is a full decoupling mechanism, as opposed to the current SRR-A which is only a partial decoupling mechanism. In other words, the SRR-B will track changes in base revenue recovery resulting from abnormal weather as well as other causes, such as declining use per customer. Weather has always represented a variable that can drive financial results but is completely outside the control of the utility. For the reasons described in the Direct Testimony of Company Witness Jerome A. Benkert, Jr. a full decoupling rider (SRR-B) that protects customers and company from the impacts on base revenues resulting from non-normal weather is an important and necessary improvement over the current partial decoupling rider (SRR-A) during the transition to full SFV rate design. The proposed change in the calculation of the Sales Reconciliation Rider from weather-normalized actual base revenues (in the SRR-A) to non-weather normalized actual volumes (in the SRR-B) will eliminate impacts on fixed cost recovery resulting from non-normal weather and provide the same revenue recovery result to VEDO that would occur from an immediate movement to a full SFV rate design

Q. Please summarize your objection.

A. The SRR-B proposal is the necessary companion to VEDO's and the Staff Report's proposed phased transition to a full SFV rate design applicable to distribution service, allowing VEDO a reasonable opportunity to recover its approved revenue requirement and eliminating disincentives to VEDO to advocate and support customer conservation efforts. VEDO has previously demonstrated commitments to the implementation of conservation programs that benefit customers and enabling a corporate culture that includes a dedication of associates to help customers cost effectively reduce consumption and the bill they would otherwise be required to pay. VEDO's commitment and its ability to sustain and grow this commitment require approval and implementation of the proposed SRR-B mechanism until a full SFV rate design becomes effective and all deferred amounts have been recovered/passed back.

OBJECTION NO. 33, FULL STRAIGHT FIXED VARIABLE RATE DESIGN

Q. Please describe objection No. 33.

A. In view of the Staff Report's recommended rejection of the SRR-B, VEDO objected to the Staff Report's failure to recommend the use of a full SFV rate design. Full SFV rate design would require the complete elimination of Volumetric Charges for the Residential and General Service rate classes and in the case of the General Service customers, the introduction of Billing Demand Charges based on individual customer usage characteristics. The Staff Report's recommended rejection of the SRR-B in the face of the expiration of the deferral and recovery authority for the Sales Reconciliation Rider (SRR-A) approved in Case No. 05-1444-GA-UNC without the imposition of full SFV rate design denies Applicant a reasonable opportunity to recover the revenue requirement approved in this case and reinstitutes for VEDO a disincentive to encouraging customers to pursue energy efficiency and conservation measures.

Q. What would be required for VEDO to implement full SFV rate design for its Residential customer rate classes in this rate case?

A. In this rate case, the Company proposed to recover the entirety of its proposed base revenue increase allocated to the Residential rate schedules through an increase in those rate schedules' Customer Charges. That results in an average for the proposed Summer/Winter Customer Charges of $13.375 per month, up from the current $7.00 per month Customer Charges.

To continue movement toward full SFV rates and elimination of Volumetric Charges, VEDO also proposed a Stage 2 rate change to the Residential rate schedules that would reduce their Volumetric Charges by about 35% and increase the Customer Charges to recover those costs. At that point the average of the proposed Summer/Winter Customer Charges would be $16 per month. Stage 2 is not a revenue increase; it only shifts revenue recovery, based on the same amount of revenue authorized by the Commission, from the Volumetric Charges to the Customer Charges.

In both of these proposed stages, significant portions of revenue needed to recover the fixed costs of providing distribution service would continue to be recovered through the Residential Volumetric Charges.

If, however, VEDO were to move immediately to full SFV in this case, based on its proposed revenue allocation and total revenue increase, the Residential Customer Charge would average about $21 per month year round (or on a seasonal basis, about $12.00 in the summer and $30 per month in the winter). This full SFV implementation for VEDO's Residential customers compares to the partial SFV rate design flat charge recently approved in the Duke Energy Ohio rate case of $25.33 per month, year round, in Year 2.

If the Staff Report's recommended revenue distribution of VEDO's proposed revenue requirement were used instead of VEDO's proposed revenue distribution, the Residential Customer Charge would average about $19.20 per month year round (or about $12.00 in the summer and $26.40 in the winter).

Q. What would be required for VEDO to implement full SFV rate design for its General Service customer rate classes in this rate case?

A. VEDO proposed to recover the entire proposed increase for the General Service rate schedules through an adjustment to the Customer Charge. However, VEDO did not propose a Stage 2 rate change for the General Service customers. Rather, because the Group 2 and Group 3 meter customers' usage characteristics are not homogeneous, VEDO anticipated proposing in its next rate case a combination of Customer Charges and Billing Demand Charges for these customers to recover the allocated fixed costs and eliminate the Volumetric Charges. In order to move to full SFV rate design in this case, VEDO would need to establish individual billing demand determinants for each customer based on the heat sensitivity of its loads that would be updated annually to reflect any customer load characteristics changes year-by-year. The Billing Demand Charge unit rate would also then need to be updated annually to ensure that only the approved rate case level of costs is being recovered.

<u>OBJECTION NO. 35, TARIFF LANGUAGE</u>

Q. Please describe objection No. 35.

A. VEDO objected to the Staff Report's recommended changes to certain tariff language, as follows:

a. Sheet No. 62 – Termination of Service at Customer's Request. VEDO objected to the language recommended by the Staff Report that any Customer who wishes to discontinue Gas Service because Customer is vacating the Premises, or for any other reason, shall notify Company at least 72 hours prior to the date of the requested service termination. VEDO suggests that the language be modified to read "...at least three (3) business days prior to the date of the requested service termination." At least three (3) business days notice prior to the requested disconnect date is necessary to assure that the Company has notice of the voluntary disconnect with sufficient lead time in order to efficiently schedule its daily service calls. For instance, a notification on Friday afternoon would require a disconnection on the following Monday, effectively a one (1) Business Day notice that could disrupt other previously scheduled work for that day. Similarly, the 72 hours language would cause the field organization problems for three and four day holiday weekends, when a Friday afternoon request could not be filled within the 72 hour period absent holiday overtime pay. For VEDO's Ohio labor contract, that would include Good Friday, Memorial Day, Labor Day, Thanksgiving, and every few years, the date specific holidays like Christmas, New Year's Day, etc. VEDO's proposed substitute language specifying three (3) business days would provide more efficient and cost-effective service to VEDO's customers than would the Staff Report's recommended 72-hour period.

b. Sheet No. 63 – Disconnection-Reconnection of Service at Customer's Request. For reasons stated in the Supplemental Testimony of VEDO's Witness Kerry A. Heid, in Objection 31 and 35 b - Avoided Customer Charge Provision, VEDO objects to the Staff Report's denial of this proposed new charge.

Q. Does this conclude your Supplemental Testimony?

A. Yes it does.

BEFORE
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In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY OF
JAMES M. FRANCIS
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF
INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
_X_ Operating income
___ Rate base
___ Allocations
___ Rate of return
___ Rates and tariffs
_X_ Other –ARP DRR and specified Alt Reg Exhibits

July 23, 2008

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.)	Case No. 07-1080-GA-AIR
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JAMES M. FRANCIS

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SUPPLEMENTAL TESTIMONY OF JAMES M. FRANCIS

INTRODUCTION

Q. Please state your name, business address and occupation.

A. My name is James M. Francis. My address is One Vectren Square, Evansville, Indiana, and I am Director of Engineering & Asset Management for Vectren Utility Holdings, Inc. ("VUHI"), the parent company of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company").

Q. What are your duties in your present position?

A. I have responsibility for engineering and technical support for VEDO utility operations. My specific responsibilities include System Design and Planning, Engineering Systems Support, Corrosion Control, Project Engineering, Compliance, Standards, Land Services, Asset Management, Pipeline Integrity Management, and Capital Planning and Management. Additionally, I am responsible for identifying and implementing many of VEDO's asset management programs.

Q. Have you previously testified before this Commission?

A. Yes. I provided testimony to support the programs included in the proposed Distribution Replacement Rider in this case.

PURPOSE

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide detail to support the replacement of prone to fail risers. Included in those details will be a discussion of the duration of the replacement period and the costs associated with the program. Also, I will address the Company's Right of Way Maintenance Program as well as Engineering Staff additions.

Q. What Exhibits are attached to your testimony?

A. The following exhibits are attached to my testimony:

- Supplemental JMF-1- Riser Replacement Program Estimate

- Supplemental JMF-2 – Right-of-way Maintenance Cost and Production Comparison

RISER REPLACEMENT PROGRAM

Q. VEDO completed the riser inventory project in April 2008, how many risers were identified of the type that is prone to failure?

A. VEDO identified 77,890 risers that will be included in the riser replacement program.

Q. How many resources will be needed to complete the riser replacement program over a 3 year or 5 year period?

A. When the riser inventory program was completed and the scope of the replacement program was known, VEDO began discussions with several contracting resources to gain a better understanding of the costs and resource needs for the program as proposed. Assuming a consistent workforce is maintained throughout the year, in order to achieve the replacement in a three year time period as recommended by Staff a construction staff of approximately 70 contract personnel would be required. Conversely, to achieve the program over a five year period a construction staff of approximately 40 contract personnel would be required.

Q. What other programs will VEDO be implementing that will require additional construction resources?

A. Concurrent with the implementation and execution of the riser replacement program, VEDO will be implementing a bare steel and cast iron infrastructure replacement program. Each of these programs are included in VEDO's distribution replacement rider proposal and each will require significantly more resources to complete than is presently working with VEDO.

Q. Are there similar programs being implemented at other utilities in Ohio?

A. Yes. All of the major utilities are currently underway or soon will be with major infrastructure replacement programs. Columbia Gas is just beginning a 3 year riser replacement program. Duke Energy is in the midst of its AMRP program and will be starting a 5 year riser replacement program. Dominion – East Ohio is preparing to begin a $2.6 billion infrastructure replacement program. Each of these programs is significant in scope and will place a heavy strain on the availability of contract resources. Additionally, there are a number of significant infrastructure replacement programs underway in close geographic proximity, including Vectren's infrastructure replacement programs in Indiana.

Q. What does VEDO propose as the timeline to complete the replacement of the 77,890 risers that are prone to failure?

A. VEDO proposes to complete the replacement of the prone to failure risers over a 5 year period. This will allow us to maximize the use of our existing contractor and company workforce; which will allow us to maintain a more cost competitive position than having to bring in additional contractors for a short term program.

Q. What will the riser replacement program cost?

A. The current estimate to complete the riser replacement program is approximately $33,500,000. VEDO worked with its material suppliers and construction contractors to estimate the unit replacement costs. Additional assumptions for restoration costs and after hour relight costs are included in the estimate. Supplemental JMF-1 provides the detailed cost estimate for the program.

RIGHT-OF-WAY MAINTENANCE PROGRAM

Q. What is the current status of VEDO's implementation of the 10 year right-of-way maintenance program?

A. Over the last 12 months VEDO has completed the development of its Vegetation Management Units (VMUs) which identify the pipeline work units (both Transmission and Distribution) and allow us to manage and organize our work. To date, we have completed the maintenance (which includes both initial clearing and maintenance clearing) on approximately 106 miles of pipeline (40 miles of distribution and 66 miles of transmission). Of the 106 miles maintained over the last 12 months, 35 miles required initial clearing while the remaining 71 miles was maintenance clearing.

Q. Will the recommended funding amount, from the PUCO staff report, allow VEDO to maintain a 10 year right-of-way maintenance program?

A. No. The program is designed to complete initial clearing on 10% (or approximately 45 miles) of the total pipeline mileage included in the program that had not been previously cleared on an annual basis. Once the initial clearing is completed, that mileage and all previously cleared mileage will be maintenance cleared (mowing and spraying) annually going forward. The amount of maintenance clearing will continue to increase by 45 miles each year until the entire pipeline mileage, included in the program, has been initially cleared and then all of the work will be maintenance cleared annually. The program estimates for this model are shown in the top table in Supplemental JMF-2 and were the basis for our pro forma adjustment for the right-of-way maintenance program.

The recommended amounts will not allow us to continue with the full maintenance clearing or will not allow us to complete any new clearing; and, thus will force VEDO to consider less efficient maintenance tactics, such as spot clearing or eliminating some maintenance clearing, which will results in higher long term costs. This is exhibited in the bottom table in Supplemental JMF-2. For the work completed thus far in 2008, VEDO was able gain efficiencies by combining work completed as part of the Integrity Management program with work associated on those pipelines that are not in the Integrity Management program, but are adjacent to the Integrity Management high consequence areas.

The test year amount of $571,493 will fund the completion of maintenance clearing only on approximately 223 pipeline miles. At VEDO's current clearing rate and schedule we will have accumulated 223 miles of cleared right-of-way by the end of 2011. This amount does not even achieve the maintenance of the entire mileage of transmission pipelines. Supplemental JMF-2 provides a comparison of the production rates and ability to achieve the program goals of a 10 year right-of-way maintenance program.

Q. **What is VEDO requesting in regard to the Right-of-Way Maintenance Program?**

A. VEDO is requesting that the right-of-way maintenance program be funded to the original amount requested, which is $721,215 for the transmission pipeline maintenance and $393,726 for the Distribution pipeline maintenance. This will allow us to continue to meet the program objectives as the program has achieved according to our original first year plan.

ENGINEERING STAFF ADDITIONS AND TRAINING

Q. What is the current hiring status of engineering positions that VEDO proposed in the original filing?

A. To date, VEDO has hired the Compliance Engineer and the Application Support Supervisor position.

Q. Why does VEDO need the encroachment engineer and the program/project manager positions?

A. VEDO's integrity management, land services and legal department are currently working on the development of an encroachment policy. This policy will provide a governance and management process that the encroachment engineer will administer. The policy is currently being drafted and will be completed by the end of 2008. Additionally, through the integrity management assessment work, VEDO has gathered and continues to gather encroachment information in an effort to better quantify the encroachment workload. Finally, the integrity management department has begun working on the PHMSA sponsored Pipeline and Informed Planning Alliance, which is intended to drive land use policies that will protect pipelines. Each of these initiatives is helping us to define our encroachment engineer's job profile.

The program/project manager will be necessary to help manage the programs proposed in this case, including the bare steel/cast iron replacement program and the riser replacement program. The hiring of this position will coincide with the timing of the launch of these programs.

Both the compliance engineer and the application support supervisor have received training since being hired. Additionally, VEDO's existing engineering staff received incremental training in compliance and regulator design.

Q. Does this conclude your testimony?

A. Yes.

Vectren Energy Delivery of Ohio

Work Order Estimate

Project Name: **Riser Replacement Program**

Work Group	Description	Takeoff Quantity	Material Amount	Sub Amount	Total Amount
Main	Riser Replacements	77,890	$ 3,818,905	$ 28,850,955	$ 32,669,860
Main	Restoration Costs	77,890		$ 617,344.00	$ 617,344.00
	After Hours Relight	4,500.00			$ 209,222.00

Estimate Totals	[illegible]
Labor	$ 209,222
Material	$ 3,818,905
Subcontract	$ 29,468,299
Total	**$ 33,496,426**

VEDO Right-of-way Maintenance Cost and Production Comparison
Gas Distribution & Transmission ROW Maintenance Program Estimate

Original Program Estimate

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2008-2017
Distribution Mileage: 259 Miles													
Initial Clearing	22.48	22.48	22.48	22.48	22.48	22.48	22.48	22.48	22.48	22.48	0	0	
Maintenance Clearing*	34.20	56.68	79.16	101.64	124.12	146.60	169.08	191.56	214.04	236.52	259.00	259.00	
Initial Clearing Estimate $	$136,874	$159,407	$164,609	$169,967	$175,485	$181,170	$187,025	$193,055	$199,267	$205,665	$23,495	$0	
Maintenance Clearing $	$42,419	$73,837	$107,101	$142,295	$179,504	$232,329	$274,245	$318,467	$365,096	$429,443	$481,658	$496,108	
[redacted]													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2008-2017
Transmission Mileage: 248 Miles													
Initial Clearing	22.64	22.64	22.64	22.64	22.64	22.64	22.64	22.64	22.64	22.64	0	0	
Maintenance Clearing*	21.78	44.42	67.06	89.70	112.34	134.98	157.62	180.26	202.90	225.64	248.18	248.18	
Initial Clearing Estimate $	$291,403	$331,628	$341,577	$351,824	$362,379	$373,251	$384,448	$395,982	$407,861	$420,097	$41,079	$0	
Maintenance Clearing $	$53,784	$108,114	$165,655	$226,551	$290,951	$382,634	$455,224	$531,824	$612,611	$724,354	$815,204	$839,660	
[redacted]													
Total Annual ROW Maintenance Costs	$524,479	$672,985	$778,942	$890,836	$1,008,319	$1,169,383	$1,300,942	$1,439,328	$1,584,836	$1,779,568	$1,361,436	$1,338,768	$1,114,941

* Note: Orginally estimated pipeline mileage cleared between 2004-2006

Levelized Program Expense at Test Year Amount

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2008-2017
Distribution Mileage: 259 Miles													
Initial Clearing	20.60	13.60	10.28	7.62	5.50	2.75	1.72	0.88	0.21	0.00	0	0	
Maintenance Clearing*	34.70	55.30	68.90	79.18	88.80	92.30	95.08	96.78	97.66	97.88	97.88	97.88	
Initial Clearing Estimate $	$125,444	$96,441	$75,259	$57,630	$42,947	$22,200	$14,298	$7,590	$1,898	$0	$0	$0	
Maintenance Clearing $	$43,039	$72,042	$93,224	$110,853	$125,536	$146,283	$154,185	$160,893	$166,585	$168,483	$168,483	$168,483	
[redacted]													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2008-2017
Transmission Mileage: 248 Miles													
Initial Clearing	24.48	17.53	14.00	11.04	8.57	5.32	3.91	2.72	1.73	0.00	0	0	
Maintenance Clearing*	35.60	60.06	77.61	91.62	102.66	111.23	116.55	120.46	123.18	124.91	124.91	124.91	
Initial Clearing Estimate $	$315,098	$258,779	$211,291	$171,621	$137,131	$87,710	$66,409	$47,621	$31,094	$0	$0	$0	
Maintenance Clearing $	$87,912	$146,231	$191,719	$231,389	$265,879	$315,300	$336,601	$355,389	$371,916	$403,010	$403,010	$403,010	
[redacted]													
Total Annual ROW Maintenance Costs	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493	$571,493

Current test year expenditure amounts result in only achieving the maintenance of 44% of the Total Pipeline Right-of-way Mileage

BEFORE

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___ Management policies, practices, and organization
___ Operating income
___ Rate base
___ Allocations
___ Rate of return
_X_ Rates and tariffs
___ Other

July 23, 2008

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SCOTT E. ALBERTSON

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Supplemental testimony explaining Applicant's objections to certain recommendations contained in the Staff Report issued on June 16, 2008 in this proceeding.

SUPPLEMENTAL TESTIMONY OF SCOTT E. ALBERTSON

INTRODUCTION AND PURPOSE

Q. Please state your name and business address.

A. Scott E. Albertson
One Vectren Square
Evansville, Indiana 47708

Q. What position do you hold with Applicant Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company")?

A. I am Director of Regulatory Affairs for Vectren Utility Holdings, Inc. ("VUHI"), the immediate parent company of VEDO. I hold the same position with two other utility subsidiaries of VUHI – Southern Indiana Gas and Electric Company ("Vectren South") and Indiana Gas Company, Inc. d/b/a/Vectren Energy Delivery of Indiana ("Vectren North").

Q. Are you the same Scott Albertson who previously filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your supplemental testimony?

A. The Staff of the Commission filed its Staff Report of Investigation in these proceedings on June 16, 2008. VEDO timely filed its objections to the Staff Report on July 16, 2008. My supplemental testimony describes and supports certain of the Company's objections to the Staff Report.

Q. What specific objections to the Staff Report do you discuss in your supplemental testimony?

A. My supplemental testimony supports objections 20, 36 (a through c) and 37 related to the proposed Distribution Replacement Rider.

Q. What exhibits are attached to your supplemental testimony?

A. The following exhibits, which have been prepared by me or under my supervision, are attached to my supplemental testimony:

Supplemental SEA-Exhibit 1 – "DRR Customer Impact"

Supplemental SEA-Exhibit 2 – "Determination of Cap on Annual Increase to DRR Charge for Residential and Group 1 General Service Customers"

Q. Please explain objection 20.

A. The Staff has recommended in its discussion of VEDO's accelerated distribution replacement program that VEDO's shareholders provide funding in the amount of $1 million for low-income weatherization as an adequate commitment to comply with Rule 4901:1-19-05(C)(3), O.A.C. I have been informed by counsel that Rule 4901:1-19-05(C)(3), O.A.C., requires a company seeking rate setting methods alternative to those in Section 4909.15, Revised Code, to detail commitments to customers related to the degree to which its proposal deviates from the rate setting requirements of Section 4909.15, Revised Code. VEDO's proposal for an accelerated distribution replacement program and the Distribution Replacement Rider for recovery of associated costs is consistent with the cost-based or rate-of-return rate setting principles set out in Section 4909.15, Revised Code. VEDO seeks no relief or deviation from the specifications that qualify the costs sought to be recovered from those permitted by law. Staff has not explained what deviation it believes VEDO is seeking from cost-based rate-of-return regulation for its accelerated distribution replacement program that Staff believes requires any commitment.

Q. Please explain objection 36a.

A. Objection 36a relates to how Staff has characterized the impact of the Distribution Replacement Rider ("DRR") on residential and Group 1 general service customers. VEDO filed estimated residential customer bill impacts along with its case-in-chief (SEA-Exhibit 3). VEDO believes the Staff Report is in error in terms of how the proposed DRR, as illustrated by the Company in SEA-Exhibit 3, will impact customer bills. First, the Staff Report indicated that "VEDO has estimated that the program will result in an average annual cost of $7.05 per residential customer and for Group 1 customers on rate schedules 320 and 325." However, as illustrated by VEDO in SEA-Exhibit 3 (and also in Supplemental SEA-Exhibit 1, page 1 of 3),

$7.05 is the average annual increase in the DRR associated with these customers over the proposed 20-year main/service line replacement program. The average annual cost to these customers, as illustrated by the Company in SEA-Exhibit 3 and in Supplemental SEA-Exhibit 1, page 1 of 3, over the 20-year period is $79.84, inclusive of the impact of gross receipts excise tax. Second, Staff also indicated that the $7.05 average annual cost "translates to a monthly charge of $0.73 per month including the gross receipts excise tax." In fact, an annual increase of $7.05 translates to an increase of $0.59 per month ($7.05 divided by 12 equals $0.59); $0.73 per month is the DRR charge applicable to this same group of customers associated with the first annual DRR filing, assuming a full year's costs and maintenance savings credits have been considered (as illustrated in Supplemental SEA-Exhibit 1, page 1 of 3). The average monthly cost to these customers over the 20-year replacement program period proposed by VEDO is $6.65 (as illustrated in SEA-Exhibit 3 and further explained in Supplemental SEA-Exhibit 1, page 1 of 3).

Q. Please discuss objection 36b.

A. Objection 36b refers to the amount of the cap proposed by Staff associated with the monthly DRR increase applicable to residential and general service customers. Staff recommended that the annual increase to the DRR charge be capped at $0.90 per month to account for the unknown additional cost of replacement of prone to fail risers. Based on Staff's recommendation that the Company replace prone to fail risers, VEDO has estimated a cost of $33.5 million for their replacement, as described by witness James M. Francis. As shown in Supplemental SEA-Exhibit 2, page 1 of 2, if the riser replacement program is completed over the three year period recommended by Staff, and if a cap is required, the more appropriate amount of the cap associated with the monthly DRR increase applicable to residential and general service customers is $1.20 (exclusive of gross receipts excise tax) rather than $0.90 as proposed by Staff. Similarly, as shown in Supplemental SEA-Exhibit 2, page 2 of 2, if the riser replacement program is completed over five years, as proposed by VEDO and described by Mr. Francis, to the extent a cap is required the more appropriate amount of the cap associated with the monthly DRR increase applicable to residential and Group 1 general service customers is $1.00 (exclusive of gross receipts excise tax). These caps represent the approximate monthly DRR charge to be applicable to this group of customers upon approval of VEDO's first DRR filing assuming VEDO had invested 1/20 of the estimated 20-year main/service line replacement program costs and 1/3 (or 1/5, as applicable) of the estimated three- year (or five-year) riser replacement costs in the prior 12 months – in other words, an increase in the monthly amount from the initial DRR charge of $0.00 to $1.20 under a three year program (or to $1.00 under a five year program). Establishing a cap on the monthly increase at these levels (dependent upon whether a three year or five year program) would allow VEDO the opportunity to fully recover the revenue requirement associated with its investment in prone to fail riser replacements. The Company believes that to the extent a cap is required, it is appropriate to establish such a cap on the annual increase to the monthly charge based on the maximum estimated year-over-year change. VEDO believes that any lesser cap would result in an under recovery of costs incurred under the Company's main/service line/riser replacement programs.

Q. Please describe <u>Supplemental SEA-Exhibit 1</u>, pages 2 and 3 of 3.

A. <u>Supplemental SEA-Exhibit 1</u>, pages 2 and 3 of 3 illustrate the impact of the additional costs of replacement of prone to fail risers (as compared to the impacts illustrated on page 1 of 3), as recommended in the Staff Report, on the DRR applicable to residential and Group 1 general service customers. Page 2 of 3 illustrates the impact of a three-year riser replacement program, as recommended by Staff. Page 3 of 3 illustrates the impact of a five-year riser replacement program, as proposed by Mr. Francis in his supplemental testimony.

Q. Please discuss objection 36c.

A. With respect to the amount of the cap (to the extent a cap is required) associated with the monthly DRR increase applicable to residential and general service customers, VEDO is unclear whether Staff intends that the Company will continue to capture, beyond the next effective date of the DRR, Post-in-Service Carrying Charges ("PISCC") for investments recoverable from this group of customers but not includable in the DRR due to the cap. VEDO believes, as recommended by Staff, that it is appropriate to capture PISCC for applicable investments until such time as they are included in the DRR, and that it is therefore appropriate to continue to capture PISCC for that portion of the revenue requirement applicable to residential and Group 1 general service customers that VEDO is unable to include in the DRR due to the cap applicable to the annual increase to the monthly charge applicable to this group of customers.

Q. Please explain objection 37.

A. The Staff Report indicates that VEDO will include in its first annual DRR filing on May 1, 2009 all costs incurred prior to 2008 in compliance with the Commission's riser investigation. VEDO also believes that Staff has included amortization of riser investigation costs in the Company's base rates. VEDO included amortization of deferred riser investigation costs in base rates, and Staff did not deny the inclusion of these costs in the annual revenue requirement. To the extent Staff is proposing that these riser investigation costs be recovered in the DRR rather than in base rates, VEDO agrees with that proposal. VEDO would reduce its revenue requirement by the riser investigation amortization amount to reflect the recovery of these costs in the DRR.

Q. Does this conclude your supplemental testimony?

A. Yes, at this time.

VECTREN ENERGY DELIVERY OF OHIO, INC.
Case Nos. 07-1080-GA-AIR & 07-1081-GA-ALT
DRR Customer Impact *

Line	Year	Annual Impact of DRR on Residential Bill (#)	Annual Increase	Monthly Increase
	(a)	(b)	(c)	(d)
				(c/12)
1	0	$ -	$ -	$ -
2	1	$ 8.71	$ 8.71	$ 0.73
3	2	$ 17.25	$ 8.54	$ 0.71
4	3	$ 25.61	$ 8.36	$ 0.70
5	4	$ 33.80	$ 8.19	$ 0.68
6	5	$ 41.81	$ 8.01	$ 0.67
7	6	$ 49.64	$ 7.83	$ 0.65
8	7	$ 57.31	$ 7.67	$ 0.64
9	8	$ 64.79	$ 7.48	$ 0.62
10	9	$ 72.10	$ 7.31	$ 0.61
11	10	$ 79.24	$ 7.14	$ 0.60
12	11	$ 86.20	$ 6.96	$ 0.58
13	12	$ 92.99	$ 6.79	$ 0.57
14	13	$ 99.60	$ 6.61	$ 0.55
15	14	$ 106.04	$ 6.44	$ 0.54
16	15	$ 112.30	$ 6.26	$ 0.52
17	16	$ 118.39	$ 6.09	$ 0.51
18	17	$ 124.30	$ 5.91	$ 0.49
19	18	$ 130.04	$ 5.74	$ 0.48
20	19	$ 135.60	$ 5.56	$ 0.46
21	20	$ 140.99	$ 5.39	$ 0.45
22	Average Annual Bill Impact	$ 79.84		
23	Average Monthly Bill Impact	$ 6.65		
24	Average Increase - Annual Charge		$ 7.05	
25	Average Increase - Monthly Charge			$ 0.59

26 * - As illustrated in SEA-Exhibit 1; includes impact of GRET; excludes impact of replacement
27 of prone to fail risers as recommended by Staff

28 # - As reflected in SEA-Exhibit 3; also applicable to Group 1 general service customers

VECTREN ENERGY DELIVERY OF OHIO, INC.
Case Nos. 07-1080-GA-AIR & 07-1081-GA-ALT
DRR Customer Impact *

Line	Year	Annual Impact of DRR on Residential Bill (#)	Annual Increase	Monthly Increase
	(a)	(b)	(c)	(d)
				(c/12)
1	0	$ -	$ -	$ -
2	1	$ 14.82	$ 14.82	$ 1.24
3	2	$ 29.33	$ 14.51	$ 1.21
4	3	$ 43.53	$ 14.20	$ 1.18
5	4	$ 51.32	$ 7.78	$ 0.65
6	5	$ 58.92	$ 7.61	$ 0.63
7	6	$ 66.36	$ 7.43	$ 0.62
8	7	$ 73.62	$ 7.26	$ 0.60
9	8	$ 80.70	$ 7.08	$ 0.59
10	9	$ 87.61	$ 6.91	$ 0.58
11	10	$ 94.34	$ 6.73	$ 0.56
12	11	$ 100.90	$ 6.56	$ 0.55
13	12	$ 107.28	$ 6.38	$ 0.53
14	13	$ 113.49	$ 6.21	$ 0.52
15	14	$ 119.53	$ 6.03	$ 0.50
16	15	$ 125.38	$ 5.86	$ 0.49
17	16	$ 131.07	$ 5.68	$ 0.47
18	17	$ 136.58	$ 5.51	$ 0.46
19	18	$ 141.91	$ 5.33	$ 0.44
20	19	$ 147.07	$ 5.16	$ 0.43
21	20	$ 152.05	$ 4.98	$ 0.42

22 Average Annual Bill Impact $ 93.79

23 Average Monthly Bill Impact $ 7.82

24 Average Increase - Annual Charge $ 7.60

25 Average Increase - Monthly Charge $ 0.63

26 * - includes impact of GRET; includes impact of replacement of prone to fail risers over three years

27 # - As reflected in Supplemental SEA-Exhibit 2; also applicable to Group 1 general service customers

VECTREN ENERGY DELIVERY OF OHIO, INC.
Case Nos. 07-1080-GA-AIR & 07-1081-GA-ALT
DRR Customer Impact *

Line	Year	Annual Impact of DRR on Residential Bill (#)	Annual Increase	Monthly Increase
	(a)	(b)	(c)	(d)
				(c/12)
1	0	$ -	$ -	$ -
2	1	$ 12.38	$ 12.38	$ 1.03
3	2	$ 24.50	$ 12.12	$ 1.01
4	3	$ 36.36	$ 11.87	$ 0.99
5	4	$ 47.97	$ 11.61	$ 0.97
6	5	$ 59.33	$ 11.35	$ 0.95
7	6	$ 66.76	$ 7.43	$ 0.62
8	7	$ 74.02	$ 7.26	$ 0.60
9	8	$ 81.10	$ 7.08	$ 0.59
10	9	$ 88.01	$ 6.91	$ 0.58
11	10	$ 94.74	$ 6.73	$ 0.56
12	11	$ 101.30	$ 6.56	$ 0.55
13	12	$ 107.69	$ 6.38	$ 0.53
14	13	$ 113.89	$ 6.21	$ 0.52
15	14	$ 119.93	$ 6.03	$ 0.50
16	15	$ 125.79	$ 5.86	$ 0.49
17	16	$ 131.47	$ 5.68	$ 0.47
18	17	$ 136.98	$ 5.51	$ 0.46
19	18	$ 142.31	$ 5.33	$ 0.44
20	19	$ 147.47	$ 5.16	$ 0.43
21	20	$ 152.46	$ 4.98	$ 0.42
22	Average Annual Bill Impact	$ 93.22		
23	Average Monthly Bill Impact	$ 7.77		
24	Average Increase - Annual Charge		$ 7.62	
25	Average Increase - Monthly Charge			$ 0.64

26 * - includes impact of GRET; includes impact of replacement of prone to fail risers over five years

27 # - As reflected in Supplemental SEA-Exhibit 2; also applicable to Group 1 general service customers

DISTRIBUTION REPLACEMENT RIDER

Determination of Cap on Annual Increase to DRR Charge for *Residential and Group 1 General Service Customers - 3 Year (1)*

Year	1	2	3	4	5	6	7	8	9	10
Rate 310/315 Revenue Requirement (2)	$4,286,425	$8,483,348	$12,590,768	$14,841,777	$17,042,193	$19,192,018	$21,291,251	$23,339,893	$25,337,943	$27,285,402
Annual Dollars - Bill Impact (2)	$14.82	$29.33	$43.53	$51.32	$58.92	$66.36	$73.62	$80.70	$87.61	$94.34

Year	11	12	13	14	15	16	17	18	19	20
Rate 310/315 Revenue Requirement (2)	$29,182,268	$31,028,544	$32,824,227	$34,569,319	$36,263,819	$37,907,728	$39,501,045	$41,043,770	$42,535,904	$43,977,446
Annual Dollars - Bill Impact (2)	$100.90	$107.28	$113.49	$119.53	$125.38	$131.07	$136.58	$141.91	$147.07	$152.05

(1) Replacement of prone to fail risers over 3 years
(2) Inclusive of GRET

Maximum Increase (Annual Charge)	$14.82
GRET Adjustment	1.048767
Maximum Increase (Annual Charge) - No GRET	$ 14.13
Maximum Increase (Monthly Charge)	$ 1.18
Indicated Cap on Increase to Monthly DRR Charge	$ 1.20

DISTRIBUTION REPLACEMENT RIDER

Determination of Cap on Annual Increase to DRR Charge for Residential and Group 1 General Service Customers - 5 Year (1)

Year	1	2	3	4	5	6	7	8	9	10
Rate 310/315 Revenue Requirement (2)	$3,579,661	$7,085,384	$10,517,169	$13,875,016	$17,158,925	$19,308,750	$21,407,983	$23,456,625	$25,454,675	$27,402,133
Annual Dollars - Bill Impact (2)	$12.38	$24.50	$36.36	$47.97	$59.33	$66.76	$74.02	$81.10	$88.01	$94.74

Year	11	12	13	14	15	16	17	18	19	20
Rate 310/315 Revenue Requirement (2)	$29,299,000	$31,145,275	$32,940,958	$34,686,050	$36,380,551	$38,024,459	$39,617,776	$41,160,501	$42,652,635	$44,094,177
Annual Dollars - Bill Impact (2)	$101.30	$107.69	$113.89	$119.93	$125.79	$131.47	$136.98	$142.31	$147.47	$152.46

(1) Replacement of prone to fail risers over 5 years
(2) Inclusive of GRET

Maximum Increase (Annual Charge)		$12.38
GRET Adjustment		1.048767
Maximum Increase (Annual Charge) - No GRET	$	11.80
Maximum Increase (Monthly Charge)	$	0.98

Indicated Cap on Increase to Monthly DRR Charge	$	1.00

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. For Approval of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY
OF WILLIAM S. DOTY
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
_X_ Operating income
___ Rate base
___ Allocations
___ Rate of return
___ Rates and tariffs
_X_ Other – ARP – System Integrity and Reliability Programs

July 23, 2008

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. For Approval of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

WILLIAM S. DOTY

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SUPPLEMENTAL TESTIMONY OF WILLIAM S. DOTY

INTRODUCTION

Q. Please state your name, business address, and occupation.

A. My name is William S. Doty. My business address is One Vectren Square, Evansville, Indiana 47708. I am the Executive Vice President of Utility Operations for Vectren Corporation ("Vectren"), which is VEDO's ultimate corporate parent.

Q. What are your duties in your present position?

A. As Executive Vice-President, I have overall responsibility for the operation of VEDO facilities and the provision of utility service for our customers.

Q. Are you the same William S. Doty who previously submitted direct testimony in these proceedings?

A. Yes, I am.

PURPOSE

Q. What is the purpose of this supplemental testimony?

The Staff of the Commission filed its Staff Report of Investigation in these proceedings on June 16, 2008. VEDO timely filed its objections to the Staff Report on July 16, 2008. My supplemental testimony describes and supports certain of the Company's objections to the Staff Report.

Q. What specific objections to the Staff Report do you discuss in your supplemental testimony?

A. The specific objections supported by this testimony are objection 16, Alternative Regulatory Treatment; and objection 17, System Integrity and Reliability Expenses.

Q. More specifically, how have you organized your supplemental testimony to address these objections?

A. I will begin by describing why VEDO filed certain integrity and reliability programs as appropriate for alternative regulatory treatment and explain why these costs should be borne by the Applicant's customers. I will then provide additional support for the proactive maintenance efforts proposed by VEDO for dealing with its aging infrastructure and aging workforce phenomenon as referenced in M. Susan Hardwick's Supplemental Testimony MSH-Exhibit 3.

VEDO has proposed various proactive preventative maintenance programs targeting improvements to the gas distribution system. These programs, combined with the existing transmission pipeline integrity program, and the potential for a similar distribution integrity program, increase the training requirements of the workforce. The training requirements proposed are related to these additional program expenditures and are critical to develop our less experienced workforce and to provide refresher training for more experienced employees where required.

I will also continue to stress the need for several incremental employee positions necessary to implement the proactive maintenance programs.

Q. What exhibit supports your supplemental testimony?

A. The following exhibit supports this supplemental testimony:

- MSH-Exhibit 3, referenced in M. Susan Hardwick's supplemental testimony.

OBJECTION # 16 – ALTERNATIVE REGULATORY TREATMENT

Q. Do you agree with Staff's basis for determining that VEDO's System Integrity and Reliability Programs do not qualify for alternative regulation?

A. No. The Staff Report, at page 10, concludes these programs do not "rise to the standards of alternative regulation" because "they are regular construction and maintenance activities and as such should be subject to normal regulation practices for test year expenses." I have been informed by counsel that Section 4929.01, Revised Code, defines an alternative rate plan as an alternate to the method in Section 4909.15, Revised Code, for setting rates for a distribution service that may include, among other things, methods that provide adequate and reliable natural gas services, and that there is no legal standard that exempts the costs of utility activities that are, or will become, routine activities from alternative rate treatment. VEDO's proposals simply request that, for the limited purpose of permitting establishment and implementation of its proposed System Integrity and Reliability Programs, the requirement of Section 4909.15, Revised Code, against post-test year expenses be relaxed. As demonstrated in VEDO's application, these programs represent proactive enhancements to current maintenance programs which are designed to accommodate new distribution system integrity management rules expected to be issued by USDOT in the near future, address growing security concerns which are unfortunate but warranted, and generally improve reliability and safety, as well as new programs to address the work force erosion issues endemic in the industry nationally. It is undisputed that these programs directly benefit customers; and, Staff has indicated that the described activities are prudent (Staff Report at page 41). The nature of the programs proposed compels that they be funded in the amount requested.

OBJECTION # 17 – SYSTEM INTEGRITY AND RELIABILITY PROGRAMS

Q. Please explain the Company's objection 17.

A. The initial report by the Staff of the Public Utilities Commission of Ohio which disallowed the majority of the System Integrity and Reliability program expenses proposed by VEDO, fails to recognize that these programs are proposed modifications to existing programs, an expansion of program scope, or the addition of new programs which were not fully implemented during the test year period.

As previously described in witness Daniel G. Berry's direct testimony, VEDO recently completed a self critical assessment which identified that, like many utilities within Ohio and around the country, VEDO is increasingly sensitive to, and vulnerable to, the age of its facilities. Aging equipment and infrastructure reliability and safety can benefit from operating philosophies and practices which emphasize more structured, proactive and preventative focused programs. As such, going forward, VEDO proposes to transition toward an enhanced preventative and proactive operations and maintenance approach, with the first phase being the development and proposed implementation of the maintenance programs described herein. Every one of these programs will accomplish at least one of the following purposes: (1) preservation of existing facilities through greater maintenance; (2) enhanced reliability through activities that reduce the likelihood of facility failures; and/or (3) improved public and employee safety.

While many of the program improvements described in MSH-Exhibit 3 began to be implemented within the first five months of 2008, the Staff report only evaluated expenses associated with these programs through January 2008. As such, the programs that were started remained unnoticed in the Staff report.

The following program summaries describe the increased annualized expenses required to implement VEDO's proposed System Integrity and Reliability programs.

Gas Distribution System Maintenance Programs

Q. Please describe VEDO's objections related to regulator station maintenance activities.

A. VEDO proposed implementing more formal preventative maintenance programs associated with rock and fence maintenance within regulator stations. The rock preventative maintenance program will include a scheduled approach to repair erosion, fill holes, protect pipe, and ensure adequate coverage. The fence preventative maintenance program will utilize a similar approach to repair damaged mesh, paint, and repair any other structural problems. In addition to fencing and rock maintenance at regulator station facilities, VEDO also proposed to implement a formal program for the maintenance and repair of buildings within regulator stations which would include repairs to the roofs, gutters, doors, asphalt and other general building repairs. VEDO also proposed establishing a program to inspect and remediate its commercial and industrial regulator stations.

Collectively $82,569 was expensed within the first five months of 2008 on these programs. Since the test year did not contain twelve months of expense and since these programs were at various stages of implementation, an increase of $811,521 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $887,689.

Q. Please describe VEDO's objections related to regulator vault and curb box maintenance activities.

A. VEDO has 384 underground regulator vaults in the distribution system. To preserve the useful life and defer capital costs of relocating the regulator station above ground, a five-year cycle of inspection and remediation is planned. Inspections will identify and remediate conditions of the vault which challenge integrity such as security, entrance way, ceiling, wall sides, floor, seals around pipe entrance/exit, venting, drainage, and susceptibility to flooding.

Throughout VEDO's territory, there are approximately 100,600 customers with indoor meters. VEDO proposed implementing a curb box inspection/maintenance program, which will operate on a ten-year cycle, for all of these meters where maintaining curb valve access is more critical.

$76,598 was expensed within the first five months of 2008 on these two programs. Since the test year did not contain twelve months of expense and since these programs were at various stages of implementation, an increase of $243,791 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $320,389.

Aging Workforce

Q. Please generally describe VEDO's objections related to the Aging Workforce Program.

A. The report by the Staff of the Public Utility Commission of Ohio disallowed VEDO's request for additional Aging Workforce related expense based-on a very general review of the company-wide turn-over rate as reflected through a Stability Index. The Stability Index was calculated using the total number of employees retiring and the existing total employee count.

Summarily, VEDO's objection is that this company-wide approach to evaluating this request is not aligned with the very specific request made by VEDO to address the aging workforce issue as it relates to specific skilled-craft bargaining unit positions. VEDO specifically targeted the Regulation Specialist, Instrument Repairman, and Service Technician bargaining unit positions which require lengthy apprenticeship programs before new employees are fully qualified to perform the work functions. The skill set and resulting apprenticeship periods are notably different than more general human resource replacement requirements. VEDO's experience and anticipated challenges in this respect are consistent with industry observations and are very real, requiring a measured and forward-looking perspective.

Q. How did VEDO arrive at the very specific approach to only request regulatory support for these key bargaining unit positions?

A. It is commonly known across the utility industry that, as baby boomers reach retirement age, a large number of skilled and experienced employees are preparing to retire over the next fifteen years. VEDO has invested significant resources reviewing how this industry-wide problem specifically impacts their Ohio-based utility business. While the results of this review yielded planning initiatives covering a variety of disciplines, the only aging workforce related proforma identified pertained to recovery for increased expenditures required to cover a hire-early strategy in areas that will experience significant attrition and are known to have a finite labor pool.

Q. How many future retirements are expected within these specific bargaining unit positions?

A. The VEDO bargaining unit work force had 164 positions at the end of 2006 which includes the following job classifications:

Job Classification	# of Employees
Service Technician (Type I, II, III, or Senior)	34
Regulation Specialist (Type II, III, Senior, and T&D Operator)	29
Instrument Repairman (Type A or B)	5
Total	**68**

Using a projected retirement age of 62 years, VEDO will lose 38 of these employees over the next 12 years (3 four year apprenticeship cycles). Thus, in a 12 year planning period, we will lose 56% of this workforce within these specific bargaining unit positions. Just focusing on the number of retirements that will occur over one apprenticeship period (2007-2010) indicates that VEDO will lose 14 employees.

The following table shows the number of active bargaining unit employees and eligible retirements in the years 2007–2018 by job categories and, over the planning horizon, gives a picture of what the company faces:

Service Technician, Regulation Specialist, and Instrument Repairman Retirements

	# Retiring
2007-2011	14
2012-2015	15
2016-2018	9
Total over 12 Years	**38**

Q. Why is a hire-early strategy necessary to fill the anticipated crest of retirements in these specific bargaining unit positions?

A. The specific skills required to become qualified to perform these job functions must be developed through an apprenticeship program. These apprenticeship programs typically take 4 years to complete. This lag-time between hiring and completion of the apprenticeship program means that the productivity of each new hire rises gradually over this period, both due to time dedicated to training activities and the natural learning curve. This lengthy training period must be started early since the demand for experienced skilled craft workers is anticipated to be high since all utilities are experiencing similar aging workforce issues.

Q. When does VEDO plan to hire these apprentices?

A. VEDO plans to hire these apprentices and begin their training in 2008.

Q. Are there any additional expenses associated with this hire early strategy?

A. As described in my original testimony, in conjunction with hiring the next generation of workers, we must anticipate their training needs and increase our resources to assure the apprenticeship program yields well trained, skilled employees. VEDO's apprenticeship program will be improved, including the refinement of training methods built around progression measures and on the job training requirements. Focus will also be placed on ensuring that the program aligns with performance evaluations necessary to meet mandated Operator Qualification activities. Train-the-trainer sessions will incorporate experts required to educate and train the apprentices on critical equipment and system operation. These positions will provide face to face training, performance evaluations and status oversight, while ensuring a consistent approach throughout VEDO. This process will improve employee education, consistency of performance and the level of training needed to replace our experienced retirees.

Q. What is the impact of the aging workforce adjustment for VEDO operations?

A. Utilizing the four year planning approach previously discussed, VEDO plans to add fourteen apprentices in 2008. These new employees result in additional labor costs of $785,256. This is based on properly loaded contractual bargaining unit rates with 90% charged to O&M.

We have included an offset to that adjustment amount of $(475,333) reflecting a reduction in labor costs due to the anticipated retirements over the four year planning period.

Also included in this program are costs for two Engineering Coop Students to provide cost effective engineering expertise to VEDO and also identify excellent prospective engineering employees in the future. The cost associated with the Engineering Coops is $2,336. The total annual cost for the program items noted above is $312,259.

Other Distribution Maintenance Programs

Q: Please describe VEDO's objections related to the Other Distribution Maintenance Programs shown in MSH-Exhibit 3.

A. An automated emergency crew callout system to automatically call in crews in a manner that is consistent with bargaining unit agreements and which allows the crews to be mobilized much faster than the current manual call process is implemented at VEDO. In addition to the automated callout system, VEDO is proposing to add an after-hour Supervisor to provide supervision to VEDO field employees working second and third shifts, as well as weekends and holidays.

$79,714 was expensed within the first five months of 2008 on the automated callout system. Since the test year did not contain twelve months of expense, an increase of $18,356 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $98,070.

VEDO proposes to implement a routine practice of flyover inspections for its gas transmission system twice per year. These inspections assist in evaluating development, construction, and other public activities adjacent to our lines that must be assessed as part of our pipeline safety programs. These flyovers will typically be executed in the spring and fall of each year.

This program is planned for implementation beginning in the fall of 2008. Since the test year does not contain any expense, an increase of $14,117 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $14,117.

<u>Propane Air Facilities</u>

Q. Please describe VEDO's objections related to Propane Air Facility programs.

A. VEDO is expanding the existing general propane training activities to incorporate plant specific operational guidelines, with hands-on training for potential operators. VEDO also expects to incur some new security expenses to comply with the Department of Homeland Security's Rule establishing anti-terrorism standards for chemical facilities (DHS CFAT rule) which has not yet been finalized. VEDO has conservatively estimated the cost to comply with DHS's new rule at $15,000.

$6,800 was expensed within the first five months of 2008 on general propane training activities. Since the Department of Homeland Security's Rule establishing anti-terrorism standards for chemical facilities (DHS CFAT rule) has not yet been finalized, an increase of $15,075 is required to fully implement these two programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $21,875.

<u>Training</u>

Q. Please describe VEDO's objections related to Engineering Training and Gas Employee Refresher Training.

A: The addition of four Engineering employees requires an increase in annual training expenses to ensure these employees receive the engineering and technical training necessary to effectively administer engineering related standards, policies, and processes. One Engineer is dedicated to VEDO and three Engineers are shared resources across all of Vectren's utilities. Gas Employee Refresher Training program is also being implemented for existing field employees to: (1) ensure that all employees are current on safety training related to equipment utilized by VEDO employees in the field: and, (2) ensure all employees are up to date and aware of current procedures to safely address emergency situations such as the odor of gas, actual gas leaks, building fires, accidents involving gas meters, severed underground gas lines, and other situations involving risk of fire or explosion from natural gas.

Collectively $33,326 was expensed within the first five months of 2008 on these programs. Since the test year did not contain twelve months of expense and since these programs were at various stages of implementation, an increase of $67,714 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $101,040.

Q. Please describe VEDO's objections related to SCBA Equipment and Other Safety Projects and Implementation expenses.

A. VEDO is incurring additional costs associated with training, fitting, and medical qualification costs associated with the use of required Self-Contained Breathing Apparatus (SCBA) Equipment. These costs are incremental because VEDO currently administers the SCBA program on a voluntary basis and this does not provide predictable coverage of all employees. Therefore, the SCBA program is being expanded and applied to all eligible employees within the VEDO divisions. The training also includes initial training to review OSHA standards, fit testing each individual, and training on the proper inspection and use of the SCBA equipment. Annual refreshers are an OSHA requirement.

VEDO is also enhancing its current training requirements to existing safety programs in order to achieve best in class safety performance. In order to achieve best in class safety performance we must enhance our current safety program which, at a minimum, includes: (1) providing better initial OSHA/DOT safety training for all newly hired employees: (2) studying the most physically demanding high exposure jobs and providing better equipment or processes to reduce strain and sprain injuries that occur in our aging workforce and training our employees in the use of the equipment or processes; and, (3) providing more safety management training to include a field safety audit program to insure safety responsibility/accountability on the job site where the work is being performed.

While these two safety programs have expensed only $676 within the first five months of 2008, an increase of $60,796 is required to fully implement the programs as proposed. If this objection is sustained, the impact would be to increase Staff recommended revenue by $61,472.

Employee Additions

Q. Please describe VEDO's objections related to the two Gas Technical Trainer additions that were not adequately addressed in the Ohio Staff Report.

A. In conjunction with hiring the next generation of workers, we must anticipate their training needs and increase our resources to assure the apprenticeship program yields well trained, skilled employees. Consequently, VEDO needs to hire two full-time Gas Technical Trainers who will provide direct support of the apprentice programs as well as assist in performing actual refresher training and performance evaluations to existing qualified employees throughout the VEDO divisions to meet mandated Operator Qualification activities. Only one of these two resources has been hired thus far; however, both positions are required to improve employee education, consistency of performance and the level of training needed to replace our experienced retirees.

The Staff Report recognized that one of these two Gas Technical Trainers had been hired and recommended the sum of $94,000 which nearly covers the requested expense of one employee which is $94,380. Since both Gas Technical Trainers are required to successfully implement the programs described, an increase of $94,760 is required to the Staff recommended revenue to fully implement the programs as proposed.

Q. Are there further incremental employee additions not adequately addressed in the Ohio Staff Report?

A. Yes. Incremental expense is required for employee additions to improve VEDO's procurement process. Vectren currently manages approximately 300 contracts per year. These contracts require initial negotiations, re-negotiations or amendments in some form to accommodate appropriate adjustments to reflect new terms. In addition there are hundreds of existing contracts that must be monitored on an ongoing basis. Examples of monitoring include periodically updating fixed pricing agreements and auditing contract escalators to ensure increases are reflected appropriately.

Vectren plans to add a Contract Administration Manager and Clerk to establish a Contract Administrations group which will have the task of ensuring contracts entered into by VEDO are being properly executed as per the contract preparation guidelines developed by the Strategic Procurement and Legal departments. According to these guidelines, all contracts entered into by VEDO are required to be reviewed by numerous departments including legal, strategic sourcing, credit and risk management. The Contract Administration group will ensure that contracts are being properly prepared, reviewed, approved, filed and monitored.

Vectren also plans to add a Buyer to its Procurement group. To support the extensive build out of the company's infrastructure over the next few years, many materials and services will need to be procured, expedited, and managed in order to keep projects within budget and within timeline completion requirements. The expediting of materials and services to ensure timely delivery is becoming more and more critical to successful project completions. The current procurement staffing levels are inadequate to accommodate the need going forward.

Finally, Vectren plans to add a Contract Analyst who will work within the Operations Support organization of Energy Delivery and be responsible for managing all Energy Delivery operational contracts. This analyst will be responsible for proper completion and enforcement of contracts and will provide analyses of vendor performance against the contract terms and specific performance criteria. This centralized knowledge of vendor contracts will allow greater uniformity with the ability to recommend contract changes favorable to the company.

Q. What is the pro forma expense associated with adding the additional positions required to support Vectren's strategic procurement process?

A. The VEDO operations allocated annual cost for the Contract Administration Manager and Clerk is $16,209, the Buyer is $12,870 and the Contract Analyst is $6,552.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Authority To Amend Its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters.	)	Case No. 07-1080-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval Of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of A Program for the Accelerated Replacement Of Cast Iron Mains and Bare Steel Mains And Service Lines, a Sales Reconciliation Rider to Collect Differences between Actual And Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain System Reliability Programs.	)	Case No. 07-1081-GA-ALT

SUPPLEMENTAL TESTIMONY OF
L. DOUGLAS PETITT
ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
SUPPORTING APPLICANT'S OBJECTIONS TO THE STAFF'S REPORT OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES

___ Management policies, practices, and organization
_X_ Operating income
___ Rate base
___ Allocations
___ Rate of return
___ Rates and tariffs
___ Other

July 23, 2008

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THE PUBLIC UTILITIES COMMISSION OF OHIO

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SUPPLEMENTAL TESTIMONY OF L. DOUGLAS PETITT

INTRODUCTION

Q. Please state your name, business address and occupation.

A. My name is L. Douglas Petitt. My business address is One Vectren Square Evansville, Indiana 47708. I am Vice President of Marketing and Conservation for Vectren Utility Holdings.

Q. What are your duties in your present position?

A. I am responsible for all market research and marketing programs, economic development and relationships with commercial and industrial customers. I am also responsible for all conservation, weatherization and demand side management programs in our utilities. These duties specifically include responsibility for the proposed Conservation Connection education and programs proposed in this case.

Q. Please describe your work experience.

A. My professional experience began in 1986 at the Copeland Corporation based in Sidney, Ohio. I worked there for three years as a financial analyst and later as a cost analyst. I began working at The Dayton Power & Light Company ("DPL") in 1989. I worked in various positions beginning as the Coordinator of Line Clearance, then as a Supervisor in various operational capacities including gas and underground distribution. I then served as an Assistant Manager in a large fully-decentralized operation center, and then as Manager in various other regions, where I was responsible for functionalities including customer care, construction, operations and maintenance, and marketing for both gas and electric for defined regions of the company.

After that, I was Manager of the Energy Resource Center where I had responsibility for electric and natural gas conservation and demand side management programs. I was responsible for all aspects of these programs, including managing the collaborative process with external parties. Later, I helped to lead the separation of DPL's natural gas business and the ultimate transition to Vectren Energy Delivery of Ohio ("VEDO"). I served as President of

VEDO from 2000 until the spring of 2003, at which time I became Vice President of Government Affairs for the corporation. I held that position until early this year.

Q. What is your educational background?

A. I obtained a bachelors of science in Economics from the University of Louisville in 1985 and an MBA from the University of Dayton in 1995.

Q. Are you involved in any gas industry association activities?

A. I represent the company at the American Gas Association on the Public Relations and Marketing Committee. I also am on the Leadership Group of the National Action Plan for Energy Efficiency.

Q. Have you previously testified before this Commission?

A. Yes. I previously testified in VEDO's last rate case - Case No. 04-571-GA-AIR.

PURPOSE

Q. Are you familiar with Mr. Doug Karl who sponsored testimony in this proceeding?

A. Yes, Mr. Karl was a colleague of mine at Vectren until he retired in early 2008.

Q. Do your current employment responsibilities include those previously assigned to Mr. Karl?

A. Yes. I am now responsible for a significant portion of Mr. Karl's responsibilities. Most importantly and with respect to this testimony, I am responsible for the area of natural gas conservation.

Q. Are you familiar with the testimony in this proceeding sponsored by Mr. Karl?

A. Yes I am.

Q. Are you in agreement with the statements contained in that testimony?

A. Yes. I am in agreement with virtually all statements.

Q. If asked the same questions, would your responses be the same as those offered by Mr. Karl?

A. My answers would be the same with only two exceptions. In his testimony, Mr. Karl described the need for the creation of a new Director of Sales. Since the testimony was filed, that position has been changed to Director of Conservation. That position has been filled by an internal candidate whose name is Robbie Sears.

The only other change I would make is that since Mr. Karl's testimony was filed, we have reconsidered the need to create a new position entitled Field Sales Representative and have eliminated that position.

Q. Do you wish to adopt Mr. Karl's testimony?

A. I wish to adopt Mr. Karl's testimony, with the two exceptions listed above.

SUPPLEMENTAL TESTIMONY

Q. What is the purpose of your supplemental testimony?

A. The Staff of the Commission filed its Staff Report of Investigation in these proceedings on June 16, 2008. VEDO timely filed its objections to the Staff Report on July 16, 2008. My supplemental testimony describes and supports certain of the Company's objections to the Staff Report.

Q. What specific objections to the Staff Report do you discuss in your supplemental testimony?

A. I will support objection 19 related to the position of Conservation Manager.

Q. In what respect do you wish to address VEDO's objection to the Staff Report in regard to this employment position?

A. The Staff dismissed the need for a Conservation Program Manager, which was described on page 6 of Mr. Karl's testimony. The testimony indicated that the Conservation Program Manager "will be responsible for VEDO conservation programs, which will include the primary management oversight of the natural gas conservation program portfolio. This position will also coordinate all collaborative efforts that will engage in program design and implementation, evaluation and measurement, and coordination of any subcontractors performing services within the program portfolio."

My objection is that $2.9 million has been targeted to be spent on a broad array of important, cost-effective conservation measures. The Conservation Program Manager is essential to manage and otherwise oversee the portfolio of measures proposed and to assure maximum efficiencies in delivering the intended benefits. As evinced in its report, Staff's position appears to be that the resources for the position are being rejected due to the fact that the position has not already been filled; or put another way, the expenditures have not been made in the test year. This perspective represents a classic dilemma. It would be imprudent to fill the position prior to knowing whether the proposed program expenditures would be approved in the case. But, it would also be imprudent to allocate funds for a suite of conservation programs without providing appropriate oversight and management.

Q. Does this complete your supplemental testimony?

A. Yes.