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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

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**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)	Case No. 07-1080-GA-AIR
to Increase the Rates and Charges for)	
Gas Services and Related Matters.)	

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)	Case No. 07-1081-GA-ALT
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.)	

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

Samuel C. Randazzo (Trial Attorney)
Gretchen J. Hummel
Lisa G. McAlister
Joseph M. Clark
MCNEES WALLACE & NURICK LLC
21 East State Street, 17th Floor
Columbus, OH 43215
Telephone: 614-469-8000
Telecopier: 614-469-4653
sam@mwncmh.com
ghummel@mwncmh.com
lmcaster@mwncmh.com
jclark@mwncmh.com

Lawrence K. Friedeman
Vice President and Deputy General Counsel
Vectren Energy Delivery of Ohio, Inc.
PO Box 209
Evansville, IN 47709-0209
Telephone: (812) 491-4284
Telecopier: (812) 491-4238
lfriedeman@vectren.com

July 23, 2008

**Attorneys for Vectren Energy Delivery
of Ohio, Inc.**

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.



Robert Berntsen

David Rinebolt
Colleen Mooney
Ohio Partners for Affordable Energy
337 S. Main St., 4th Floor, Suite 5
PO Box 1793
Findlay, OH 45839-1793

Maureen Grady
Joseph Serio
Michael Idzkowski
Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, OH 43215-3485

John Bentine
Mark Yerick
Chester, Willcox & Saxbe, LLP
65 East State Street, Suite 1000
Columbus, OH 43215-4213

John M. Dosker
Stand Energy Corporation
1077 Celestial Street
Suite 110
Cincinnati, OH 45202-1629

Vern Margard
Assistant Attorney General
Public Utilities Commission of Ohio
180 East Broad Street, 9th Floor
Columbus, OH 43215

Trent Dougherty, Attorney
Ohio Environmental Council
1207 Grandview Ave.
Columbus, OH 43212-3449

W. Jonathan Airey
Gregory D. Russell
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street, PO Box 1008
Columbus, OH 43216-1008

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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 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
☒ Rate base
☐ Allocations
☒ Rate of return
☐ Rates and tariffs
☐ Other

July 23, 2008

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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ROBERT L. GOOCHER
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SUPPLEMENTAL TESTIMONY OF ROBERT L. GOOCHER

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

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

7
8 **Q. Please generally describe the nature of VEDO's objection 27 to the capital
9 structure reflected in the Staff Report.**

10 A. Objection 27 addresses the Staff Report's overall cost of capital analysis, which is
11 based on the use of a hypothetical capital structure comprised of an average of the
12 capital structures of 5 companies selected by Staff. VEDO's Application Schedule
13 D-1 used Vectren Corporation's actual consolidated capital structure at August 31,
14 2007, as adjusted for the receipt of \$125.3 million of common equity proceeds
15 expected in the Spring 2008 from the settlement of the February 20, 2007 equity
16 forward agreement. Proceeds from the equity forward were received in June 2008
17 as expected. Both Staff and the Company agree with the adjustment to reflect the
18 expected equity proceeds from the equity forward agreement. However, the use
19 by the Staff of the 5 company average to arrive at the starting capital structure for
20 use in determining the weighted average cost of capital in this case is unnecessary
21 and has no basis in practice by the Commission. In fact, I have been advised by
22 counsel that the use of a hypothetical capital structure is not permitted in Ohio.

23
24 **Q. Is the capital structure used by VEDO significantly different from the
25 hypothetical capital structure proposed by Staff?**

26 A. No. The Staff's hypothetical capital structure is comprised of 48.66% long-term
27 debt and 51.34% common equity. This compares to 47.8% long-term debt and
28 52.2% common equity that was included in VEDO's filing, which is a reasonable
29 and appropriate capital structure for determining VEDO's weighted average cost of
30 capital in this proceeding. There is less than a 1% difference between the capital
31 structure components of Vectren Corporation and the average of the 5 companies

1 selected by Staff. This further supports the reasonableness of Vectren
2 Corporation's capital structure as shown in VEDO's Application Schedule D-1.

3
4 **Q. What is the appropriate return on equity recommended in this proceeding.**

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

9
10 **Q Do you have concerns about VEDO's ability to earn its return on common**
11 **equity that is authorized in this proceeding?**

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

21
22 **Q. Please generally describe the nature of VEDO's objection 6 to the revenue**
23 **lag days reflected in the Staff Report used in determining the appropriate**
24 **cash working capital allowance in this proceeding.**

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

1 revenue lag days from the settlement schedule were reduced by three days to
2 38.5, to reflect a change in VEDO's scheduled due date for customer's bills.

3

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

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

18

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

20 **A. Yes, it does.**

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<input type="checkbox"/>	Management policies, practices, and organization
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<input checked="" type="checkbox"/>	Rate of return
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<input type="checkbox"/>	Other

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1 **SUPPLEMENTAL TESTIMONY OF PAUL R. MOUL**

2
3 **INTRODUCTION AND SCOPE OF TESTIMONY**

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

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

9
10 **Q. Have you previously submitted direct testimony in this proceeding?**

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

13
14 **Q. What is the purpose of your testimony?**

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

21
22 **OBJECTIONS TO THE STAFF REPORT**

23
24 **Q. Please identify the objections to the Staff Report concerning the cost of
25 equity issue?**

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

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

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

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

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

- 4 (4) The Staff's calculation of the cost of equity using the non-constant DCF is
5 understated because it improperly used an average stock price that
6 consisted of twelve-months of data, which is too long to reflect the
7 prospective nature of public utility ratesetting.
- 8 (5) The Staff's calculation of the cost of equity using the non-constant DCF is
9 understated because two of the inputs used to calculate the growth rate are
10 inapplicable for measuring investors' growth expectations.
- 11 (6) The Staff's calculation of the cost of equity using the non-constant DCF is
12 understated because it is not adjusted for application to a book value capital
13 structure used to calculate the weighted average cost of capital.
- 14 (7) The Staff's calculation of the cost of equity using the CAPM is understated
15 because it fails to consider the forecast yields on Treasury bonds that are
16 used as the risk-free rate of return. In particular, yields reaching back to
17 March 26, 2007 are too far removed from current market fundamentals.
- 18 (8) The Staff's calculation of the cost of equity using the CAPM is understated
19 because it is not adjusted for application to a book value capital structure
20 used to calculate the weighted average cost of capital.
- 21 (9) The Staff's calculation of the cost of equity using the CAPM is understated
22 because the relative size of the four companies that comprise the Staff's
23 proxy group, after removal of NFG, has not been considered.

24
25 The balance of my supplemental testimony addresses directly each of my
26 objections. I will identify the numerical impact of each of the specific objections
27 that follow using the Staff Report models and proxy group after removing NFG.

28
29 **Q. Please explain the basis for the first two objections listed above.**

30 A. Objections 1 and 2 involve the issues that differentiate the overall approach taken
31 in the Staff Report and the direct evidence submitted by the Company supporting
32 its proposed cost of equity. The Staff Report does not mention the Company's
33 direct evidence of its cost of equity, nor the reasoning for using a different
34 approach. Moreover, the Staff Report uses just two models to measure the cost of
35 equity. While the Staff Report uses just two models for measuring the cost of

1 equity, the Company's direct evidence used four methods/models for this purpose.
2 The Staff Report never explains the reasons for ignoring the other two
3 methods/models. Due to the imprecise nature of measuring the cost of equity, the
4 use of additional methods/models provides a sounder foundation for establishing
5 the cost of equity.
6

7 **COMPARABLE COMPANIES**

8

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

11 A. No. As noted in Objection 3, the Staff Report employs a different set of screening
12 criteria, which produces a proxy group different from the one submitted in the
13 Company's direct evidence, without ever explaining why a change in criteria was
14 necessary or warranted. For example, the Company's criteria limited the
15 comparable companies to those that are classified as natural gas utilities by Value
16 Line. Without explanation, the Staff Report neglected to impose these criteria for
17 its comparable group. By failing to employ these criteria, the Staff Report has
18 erroneously included National Fuel Gas Company ("NFG") in the Staff's proxy
19 group, even though Value Line classifies NFG as a diversifiable natural gas
20 company. The other companies used in the Staff Report are all classified as
21 natural gas utilities according to Value Line. Indeed, I have also used the
22 remaining four companies in my proxy group along with four additional natural gas
23 utilities.
24

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

26 A. As noted in Objection 3, NFG is not classified as a natural gas utility. Indeed, an
27 analysis of the business segments of NFG shows that only 54% of revenues, 25%
28 of operating income, and 40% of identifiable assets are related to its natural gas
29 distribution utility. Revenue percentages are less meaningful in this regard
30 because they are dominated by the commodity cost of gas, which represents a
31 pass-through that does not contribute to the profitability of NFG. In contrast, the
32 average utility percentage for the other four companies in the proxy group
33 contained in the Staff Report are 72% revenues, 65% operating income, and 87%
34 identifiable assets. Clearly, NFG does not belong in this group. In addition, the
35 Staff Report shows a calculation of growth using the Value Line earnings per share

1 forecasts that show negative growth for NFG. Any calculation of negative growth
2 cannot possibly represent investor expectations for NFG, or any other natural gas
3 utility. Finally, the Discounted Cash Flow ("DCF") results for NFG are clearly an
4 outlier. Setting aside the results for NFG, the remaining four natural gas utilities
5 have DCF results that are clustered within a one percentage point band, with an
6 average of 10.33%. On the other hand, the DCF result for NFG is 1.39 percentage
7 points lower than the average of the other four companies. NFG is an obvious
8 outlier that must be removed from the proxy group in the Staff Report.

9
10 **DISCOUNTED CASH FLOW**
11

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

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

24
25 **Q. Is the time period used in the Staff Report acceptable for measuring the**
26 **historical price per share?**

27 A. No. As stated in Objection 4, a twelve-month time period is entirely too long for
28 measuring historical prices. As I have done in my direct testimony, six-months is
29 adequate for measuring stock prices. Moreover, stock prices reaching back to
30 March 26, 2007 are too far removed from current market fundamentals, which
31 have been dominated by the credit crisis that developed in the third quarter of
32 2007 and continues to the present. By eliminating the old stock prices that pre-
33 date six months, the divided yields increase to the levels shown below:

	<u>ATG</u>	<u>ATO</u>	<u>PNY</u>	<u>SJI</u>
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 investor 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:

	<u>ATG</u>	<u>ATO</u>	<u>PNY</u>	<u>SJI</u>
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:

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

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

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

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

$$ku = ke - (((ku - i) 1-t) D / E) - (ku - d) P / E$$

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

11 where ku = cost of equity for an all-equity firm, ke = market determined cost equity,
12 i = cost of debt¹, d = dividend rate on preferred stock², D = debt ratio, P = preferred
13 stock ratio, and E = common equity ratio. The formula shown above indicates that
14 the cost of equity for a firm with 100% equity is 9.33% in the case of the non-
15 constant DCF. Having determined that the cost of equity for a firm with 100%
16 equity, the rate of return on common equity associated with the book value capital
17 structure is:

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

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

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

25 **CAPITAL ASSET PRICING MODEL**

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

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

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.

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

3 A. No. First, the use of a twelve-month average is inappropriate, especially in the
4 context of the credit crisis that developed in the third quarter of 2007. Second, it
5 appears obvious that if interest rates rise from their current levels, the cost of
6 equity determined from recent data will understate future capital costs. Currently
7 Treasury yields have been strongly influenced by the actions taken by the FOMC
8 to deal with the credit crisis. According to the most recent meeting of the FOMC, it
9 appears that further reductions in the Fed Funds rate do not seem to be imminent.
10 Indeed, the FOMC has now increased its focus on fighting inflation. As such, there
11 is more potential for higher rather than lower interest rates for the future.
12

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

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

	<u>Aaa-rated Corporate</u>	<u>Baa-rated Corporate</u>	<u>10-year Treasury</u>	<u>30-Year Treasury</u>
20 2010	6.0%	7.1%	4.3%	4.8%
21 2011	6.3%	7.3%	4.9%	5.3%
22 2012	6.4%	7.4%	5.2%	5.5%
23 2013	6.5%	7.5%	5.3%	5.6%
24 2014	6.5%	7.5%	5.3%	5.5%
25 2010-14 (avg).	6.3%	7.4%	5.0%	5.3%
26 2015-19 (avg)	6.5%	7.5%	5.3%	5.5%

27
28 These forecasts show that interest rates will likely increase in the future based
29 upon the consensus of a panel of forty-three (43) prominent economists.
30

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

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

1
2 **Q. Should the 10.69% CAPM result be applied to the book value capitalization?**

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

15
16
$$\beta l = \beta u [1 + (1 - t) D/E + P/E]$$

17

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

27
28 **Q. Have you re-calculated the CAPM for the Staff's comparable group by**
29 **incorporating each of the factors noted above?**

30 A. Yes. The CAPM for the Staff's group excluding NFG is 11.75% when using the
31 5.25% risk-free rate of return taken from the Blue Chip forecasts and the leveraged
32 adjusted beta of 1.00 developed above.

33
34 **Q. Would these CAPM results fully reflect the cost of equity for these**
35 **companies?**

1 A. No. There would be an understatement of the cost of equity using the CAPM
2 unless the size of a firm is considered. That is to say, as the size of a firm
3 decreases, its risk, and hence its required return increases. This issue was
4 discussed and quantified in my direct testimony and is enumerated as Objection 9.
5 Indeed, it was demonstrated in the SBB Yearbook that the returns for stocks in
6 lower deciles (i.e., smaller stocks) had returns in excess of those shown by the
7 simple CAPM.
8

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

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

	<u>Value Line</u>	
	<u>Published</u>	<u>Category</u>
16 AGL Resources	\$2.7 billion	Mid Cap
17 Atmos Energy	\$2.4 billion	Mid Cap
18 Piedmont Natural Gas	\$2.0 billion	Mid Cap
19 South Jersey Industries	<u>\$1.1 billion</u>	Mid Cap
20 Average	<u>\$2.1 billion</u>	Mid Cap

21 According to the SBB 2008 Yearbook, the mid-cap adjustment is 0.92% and
22 would apply to the group average CAPM cost rate.
23

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

25 A. In response to Objection 9, the CAPM result would be 12.67%(11.75%+0.92%).
26

27 **SUMMARY**

28
29 **Q. Please summarize your supplemental testimony.**

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

	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>
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%
	<u>High</u>	<u>Low</u>	<u>Midpoint</u>
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 ($11.35\% + 11.75\% = 23.10\% \div 2 = 11.55\%$) 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) Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)
Related Matters.)

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval) Case No. 07-1081-GA-ALT
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.)

**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
☒ Operating income
☒ Rate base
☒ Allocations
☐ Rate of return
☐ Rates and tariffs
☐ Other

July 23, 2008

BEFORE

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M. SUSAN HARDWICK
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SUPPLEMENTAL TESTIMONY OF M. SUSAN HARDWICK

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

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

4
5 **Q. Are you the same M. Susan Hardwick who previously submitted direct**
6 **testimony in these proceedings?**

7 A. Yes, I am.

8
9 **Q. What is the purpose of this supplemental testimony?**

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

15
16 Throughout my supplemental testimony, I will attempt to use specific dollar
17 amounts to illustrate the ratemaking implications of individual objections.
18 Because the ultimate dollar amount implicated by an objection may be
19 dependent on how other issues or objections are resolved, the specific dollar
20 amounts that I use throughout my supplemental testimony should be treated as
21 indicated values.

22
23 **Q. What specific Company objections to the Staff Report are you sponsoring**
24 **in this testimony?**

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

28
29 **Q. Please explain Company's objection 1.**

30 A. Company objection 1 is an objection to Staff's overall revenue increase finding
31 that modifies and reduces the revenue requirement supported by the Company's
32 standard filing requirement data. I believe the Company's test year data and

1 expert witness testimony fully support the Company's filing, with limited
2 exceptions that I reference later herein, and should be found to be reasonable for
3 rate-making purposes in this proceeding. Anything less will jeopardize the
4 Company's continued ability to render the quality service that our customers
5 have come to expect.
6

7 **Q. Please explain Company's objection 2.**

8 A. Objection 2 relates to the Company's disagreement with the treatment by the
9 Staff of unrecorded retirements related to plant in service. As detailed on Staff
10 Schedule B-2.2a, with the related proposed adjustment to the depreciation
11 reserve detailed on Staff Schedule B-3.1 (Lines 2-5 (Distribution Plant) and lines
12 8-9 (General Plant)), Staff excludes \$27,745 of net plant associated with
13 unrecorded retirements in the determination of the appropriate rate base that is
14 used and useful in providing natural gas service. These assets were properly
15 retired prior to the date certain, August 31, 2007, and, therefore, the proposed
16 adjustment is not necessary.
17

18 **Q. Please describe Company's objection 3.**

19 A. Company objection 3 pertains to the Staff's exclusion of certain items from plant
20 in service that could not be located during the Staff's field inspection or related to
21 the Choice program implementation. Staff's plant in service proposed
22 adjustment is detailed on Staff Schedules B-2.2b and B-2.2c, with the related
23 proposed adjustment to the depreciation reserve detailed on Staff Schedule B-
24 3.1 (Lines 1 (Intangible Plant) and Lines 4-7 (General Plant)). The items, six in
25 total with a net book value of \$724,772, are assets that were acquired from The
26 Dayton Power and Light Company (DPL) as part of the asset acquisition
27 completed by VEDO's parent company in 2000 or were recorded as a
28 component of the Choice program implementation costs. VEDO agrees the
29 retirements should be reflected on the Company's books and records. However,
30 the accounting method proposed by the Staff is not consistent with utility
31 accounting practice in that Staff suggests a direct charge off of the net plant
32 balance instead of recording the net retirement to the accumulated depreciation
33 reserve.
34

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

13
14 **Q. Please describe Company's objection 4.**

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

20
21 **Q. Please describe Company's objection 5 and objection 26.**

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

26
27 **Q. What is the impact on rate base, as compared to Staff's proposal, of the
28 objections described herein and in other Company testimony?**

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

1 Staff adjustments to which we are not objecting are adjustments related to
2 materials and supplies inventory as a component of cash working capital.
3

4 **Q. Please describe Company's objection 7.**

5 A. Company objection 7 is an objection to the Staff's failure to accept the
6 Company's adjustment to the overall test year customer count by tariff. The Staff
7 removed this adjustment, and maintained the budgeted level of customers for the
8 test year. The Company proposed to adjust the customer counts to a level
9 consistent with actual data at the time of the Application. The budget data we
10 used as a starting point for purposes of developing our Application was based on
11 a projection that our tariff-specific customer count would increase at a rate that
12 was in excess of the prior experience. As the actual information became
13 available, we were able to determine that the projection of a higher customer
14 count growth rate was not reasonable and the need to correct the budgeted data.
15 Through May 2008, actual data supports the modifications made to the budgeted
16 assumptions as proposed by the Company in its Application. In fact, if the actual
17 test year customer count data were used to develop test year revenue, the
18 adjustment to the budgeted assumption would need to be even greater because
19 the actual test year customer count is even less than the level used in the
20 Application. The Staff's customer count adjustment resulted in an overstatement
21 of test year adjusted revenues of \$393,305.
22

23 **Q. Please describe Company's objection 8.**

24 A. Company's objection 8 addresses the Staff's removal of the Customer Migration
25 adjustment proposed by the Company in its Application. The Company proposed
26 to adjust test year revenues to capture migration of customers between both
27 proposed and existing tariff rates. First, this adjustment captured the effects on
28 the Company's revenues due to the creation of Tariff Rate 360. This tariff rate, if
29 approved, would require certain qualifying customers on Rates 330 and 345 to
30 migrate to this new tariff schedule, creating changes in all revenue aspects
31 inclusive of expense recovery riders. The Staff removed this adjustment, stating
32 that the adjustment "...is based on hypothetical changes that are unknown."
33 Staff Report at page 8. However, the Staff supported the creation of Rate 360
34 and recommended approval – "Qualifying customers have been migrated to this

1 rate class from Rates 330 and 345. Staff recommends approval." Staff Report at
2 page 22. The approval of Rate 360 requires customers that qualify based on the
3 volumetric threshold to move to this new rate. Thus, this migration is mandatory,
4 not hypothetical as Staff contends. As such, Applicant made a migration
5 adjustment to properly reflect the test year results of establishing Rate 360.

6
7 Second, this adjustment captured the modifications to the budgeted assumptions
8 made in the test year to reflect actual billing data for those customers that had
9 migrated between existing tariffs. The Staff, explaining that it thought there were
10 hypothetical assumptions in this adjustment, failed to include these items in the
11 computation of the Staff Report's adjusted operating revenue. However, actual
12 billing data for the test year through May 2008 supports the Company's
13 migration-related adjustment and should be accepted to properly reflect the test
14 year billing determinants that will be used to establish revenue requirements and
15 to set rates.

16
17 The Staff's failure to include these migration-related adjustments in the
18 computation of the test year revenue requirement improperly overstates test year
19 adjusted revenues by \$287,064, thereby reducing the Company's requested
20 increase. Absent recognition of the revenue impact linked directly to this
21 mandatory customer migration, the Company cannot proceed with the
22 recommended tariff change.

23
24 **Q. Please describe Company's objection 9.**

25 **A.** Company objection 9 addresses the changes made to the uncollectible revenue
26 and expense synchronization adjustment, the percentage of income plan (PIPP)
27 revenue and expense synchronization adjustment, MCF excise tax revenue and
28 expense synchronization adjustment, gas cost recovery (GCR) revenue and
29 expense synchronization, and the gross receipts tax revenue and expense
30 synchronization adjustment as a result of the adjustments noted in objections 7
31 and 8. Any adjustment to the overall volumes and gross revenues billed and
32 collected by the Company will impact each of these riders. As a result, all of
33 these items should be recalculated in alignment with the test year revenue and

1 billing determinants used to set rates in this proceeding and as a mathematical
2 necessity.

3
4 **Q. Please describe Company's objection 10.**

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

12
13 **Q. Please describe Company's objection 11.**

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

26
27 **Q. Please describe Company's objection 12.**

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

1 Schedule A-1. However and as discussed above with regard to objection 9, the
2 gross receipts tax rider revenues ultimately used for ratemaking purposes in this
3 proceeding should be recalculated based upon the test year revenue which the
4 Commission authorizes the Company to collect in this proceeding.
5

6 **Q. Please describe Company's objection 13.**

7 A. Company objection 13 addresses the Staff's calculation of the late payment fees
8 captured in the test year adjusted miscellaneous revenues. Staff proposed to
9 use a three (3) year average of late payment fees based on March 2008 data as
10 a percentage of total revenue. The Company agrees with the Staff's change to
11 the overall percentage factor. But the late payment fees ultimately used for
12 ratemaking purposes in this proceeding should be recalculated based on the test
13 year revenue which the Commission authorizes the Company to collect in this
14 proceeding consistent with the treatment of other revenue and volumetric based
15 riders noted previously.
16

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

19 A. As a result of the revenue changes made as a result of objections 7 through 13,
20 we object to \$3,257,768 (MSH-Exhibit 2, Column F, Line 3) of Staff's proposed
21 revenue adjustments, inclusive of synchronized expense riders.
22

23 **Q. Please describe Company's objection 14.**

24 A. Company objection 14 challenges the Staff's calculation of the gross revenue
25 conversion factor listed on Staff Schedule A-1.1. The Staff removed both the
26 PUCO and OCC assessment fees and the gross receipts tax from the calculation
27 of the gross revenue conversion factor utilized to determine the overall revenue
28 increase on Staff Schedule A-1.
29

30 Based on advice of counsel, it is my understanding that Section 4905.10,
31 Revised Code (Assessment for Expenses) specifically states that the
32 assessment "shall be apportioned among and assessed against each railroad
33 and public utility within this state by the commission by first computing an
34 assessment as though it were to be made in proportion to the intrastate gross

1 earnings or receipts." I understand that similar language can be found in Section
2 4911.18, Revised Code addressing the assessments for the Consumers'
3 Counsel operating fund. Given these legal foundations, utilities that experience
4 an increase in base rates in a given calendar year will experience an increase in
5 the intrastate gross earnings or receipts utilized to calculate the allocated
6 assessment of the PUCO and OCC operating costs. By excluding
7 mathematically these fees from the gross revenue conversion factor, the Staff
8 has improperly denied the Company a reasonable opportunity to collect sufficient
9 revenue to fully reflect the effect of these mandated assessments.

10
11 The Company's payment obligation for the gross receipts tax is derived in much
12 the same manner. Because the gross receipts tax obligation of the Company is
13 determined based on the gross revenue subject to the tax, the amount of
14 revenue authorized by the Commission must include an appropriate allowance
15 for the gross receipts tax. The Staff's approach, if adopted, will preclude the
16 Company from having a reasonable opportunity to earn the rate of return
17 determined to be reasonable in this proceeding regardless of the level of that
18 return.

19
20 These adjustments to the gross revenue conversion factor understate by
21 \$600,000 the amount of the overall revenue increase which the Commission
22 should authorize in this proceeding.

23
24 **Q. Was a reasonable level of test year operating and maintenance expense**
25 **proposed in the Staff Report?**

26 **A. No.**

27
28 **Q. Please Explain.**

29 **A.** As reflected on the attached supplemental schedule, MSH-Exhibit 1, Staff's
30 proposal reduces total operating and maintenance expense (excluding gas
31 costs), to \$63,793,485 (Staff Schedule C-2, Column C, Line 10). This expense
32 level is less than actual test year operating and maintenance expense of
33 \$65,661,018 (MSH-Exhibit 1, Line 8). As the Staff Report acknowledges, the
34 actual test year operation and maintenance expense does not include expenses

1 for such things as the \$2.9 million expansion of the conservation program, the
2 amortization of natural gas riser investigation, and the amortization of rate case
3 expenses. I have shown these items as examples of costs that both the
4 Company and the Staff agree are incremental to the actual test year on MSH-
5 Exhibit 1, Lines 3-5. Once the actual test year level of expense and these items
6 are considered, it is clear that the operating and maintenance expense level in
7 the Staff Report is over \$5.0 million (MSH-Exhibit 1, Line 9) less than the actual
8 test year expense. The over \$5 million shortfall in a reasonable level of test year
9 operating and maintenance expense results from erroneous assumptions or
10 mathematical errors contained within the Staff's proposed test year adjustments,
11 which is denoted on the Supplemental Schedule, MSH-Exhibit 2. Each of these
12 errors is more specifically addressed below. But the information provided above
13 shows, based on actual data, that the amount of operation and maintenance
14 expense included in the Staff Report for purposes of developing Staff's
15 recommendations is not adequate.

16
17 **Q. Please describe Company's objection 15.**

18 A. In objection 15, the Company addresses the synchronization of expense to
19 revenue related riders and taxes such as Uncollectible Expense Rider, MCF
20 Excise Tax Rider and Gross Receipts Tax Rider reflected on Staff Schedules C-
21 3.14, C-3.17, and C-3.18 respectively. As noted previously, these expenses
22 should be synchronized to the appropriate level of revenue authorized by the
23 Commission in this case. The overall increase proposed by both the Company
24 and the Staff is not impacted by this synchronization.

25
26 **Q. Please describe Company's objection 17.**

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

1 Application's expense level; however, most programs associated with this
2 expense were initiated in the months of January 2008 – May 2008 or in the latter
3 part of the test year. Since the test year did not contain twelve months of
4 expense, the pro forma adjustment of \$2,275,626 (MSH-Exhibit 2, Column D,
5 Line 5) is required to annualize the effects of the programs on related expenses
6 reflected on the Company's Application WPC-3.12. As reflected on the attached
7 Supplemental Schedule, MSH-Exhibit 2, Column F, Line 5, if this objection is
8 sustained, the impact would be to increase Staff recommended revenue by
9 \$3,127,186.

10
11 The Company's position on the expense level that should be used for ratemaking
12 purposes is related to the program purposes and explanations provided in the
13 testimony of William S. Doty, Aging Workforce, Gas Distribution Maintenance,
14 Propane Air Facilities Maintenance, Training and Employee Additions; and
15 James M Francis, ROW clearance and Engineering Additions and related
16 training.

17
18 **Q. Please describe Company's objection 18.**

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

1 the expense level included in rates, subject only to the final capital structure and
2 return on equity approved in this case.

3
4 Shared assets, owned by VEDO's parent Vectren Utility Holdings, Inc. ("VUHI"),
5 are assets that are jointly used by the various companies within Vectren and
6 include such things as customer information and financial systems. The cost of
7 these assets, including an appropriate return on the investment, is charged to the
8 operating companies. The benefit of this approach is that each company can
9 pay a representative share of these assets at a lower cost than if each Company
10 had to develop, operate and pay for their own unique systems.

11
12 The Staff Report utilized a VUHI net asset balance as of December 31, 2007 as
13 the basis for the return calculation in the asset charge. The Staff's position
14 appears to be based on the view that the 2007 VUHI asset base best reflects the
15 book balance. The Staff position therefore improperly removes any impact in the
16 2008 budgeted periods that reflect the return on the 2008 projected VUHI net
17 asset base which is ever growing. The actual test year experience during 2008
18 supports the Company's adjustment, as the expense to the Company during this
19 period is based on the 2008 projected VUHI net plant balance. The Company's
20 proposed annualization of expense to capture the going level of shared asset
21 costs is proper and necessary to accurately reflect the Company's test year
22 revenue requirement.

23
24 In addition, the level of the asset charge is impacted by the rate of return
25 approved in this proceeding. In the test year, adjusted, the Company used an
26 equity return of 11.50% to calculate the asset charge, whereas Staff applied its
27 midpoint of recommended returns of 10.3%. The Staff Report also adjusted the
28 overall return for the modified Capital Structure proposed by the Staff on
29 Schedule D-1, which is addressed in objection 27 and discussed by Witness
30 Robert L. Goocher. In MSH-Exhibit 4, the Company has provided the calculation
31 methodology. This methodology should be used, with the authorized return level
32 and capital structure, if different from the requested level in the Application, to
33 calculate the test year asset charge ultimately used in this proceeding. These
34 shared assets, such as the Customer Information System, are as critical as any

1 other rate base asset and, while shared among VUHI's utilities to achieve scale
2 and scope economies, the Company is entitled to the same level of return as if
3 these assets were part of its rate base. The approach adopted by the Staff
4 works to discourage the Company from sharing resources in instances when the
5 sharing is in the best interests of both the Company and its customers.

6
7 If the objection is sustained, the total impact would be to increase the Staff
8 recommended revenue by \$2,320,375 as reflected on MSH-Exhibit 2, Column F,
9 Line 9.

10
11 **Q. Please describe Company's objection 19.**

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

19
20 **Q. Please describe Company's objection 21.**

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

31
32 Further, on Staff Schedule C-3.10, the Staff has incorrectly captured test year
33 amortization expense in its adjustment calculation. The Company agrees that
34 the test year contains \$202,447 of amortization expense from the prior base rate

1 case, Case No. 04-0571-GA-AIR; however, amortization of the prior case
2 expenses extends to April 2010 as approved in Case No. 04-0571-GA-AIR.
3 Therefore, to allow full recovery of these expenses, it is proper for ratemaking
4 purposes to capture the unamortized balance as reflected on the Company's
5 Application Schedule C-3.18. The Company agrees this calculation should be
6 updated to the unamortized balance as of the date of the order. On the attached
7 Supplemental Schedule, MSH-Exhibit 2, the Company supports its original filed
8 position; however, the Company agrees that the final adjustment should be
9 determined at the conclusion of this case based on actual expenses incurred and
10 remaining amortization from the prior case.

11
12 **Q. Please describe Company's objection 22**

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

19
20 a. The Staff compared the three year average of injury and damage claims
21 expense to the total expense included in FERC Account 925. FERC
22 Account 925 includes injuries and damages claims expense and risk
23 related insurance premiums; therefore, the Staff's recommended
24 adjustment on Staff Schedule C-3.13, Line 2 erroneously removes
25 insurance premiums. The Company's treatment of the cost of insurance
26 premiums is consistent with the accounting requirements set forth for
27 FERC Account 925 in the FERC Uniform System of Accounts. Therefore,
28 these are appropriate expenses that are properly includable in the test
29 year for ratemaking purposes. Sustaining the Company's objection with
30 regard to this expense item will increase the Staff's recommended
31 revenue increase by \$792,856.

32
33 b. The Staff recommended a reduction in the Company's proposed expense
34 for FERC Account 921, Office Supplies. The Company's proposed

1 expense level properly annualizes operating expense at the test year
2 level for ratemaking purposes. Sustaining the Company's objection with
3 regard to this expense item will increase the Staff's recommended
4 increase by \$924,127.
5

6 c. The Staff recommended that the Company's contributions to the Dayton
7 Air Show be excluded from miscellaneous expenses on Staff Schedule C-
8 3.13, Line 4. The Staff's adjustment is in error and unnecessary because
9 these contributions were already excluded by the Company in its
10 Application. The Company did not propose that this expense be included
11 in the Company's test expenses and the Staff adjustment to the
12 Company's test year expense is therefore unreasonable. Sustaining the
13 Company's objection with regard to this expense item would upwardly
14 adjust the Staff recommended increase by \$105,000.
15

16 d. On Schedule C-3.13, Line 5, the Staff recommends the exclusion of all
17 expenses included in FERC Account 930.2, miscellaneous general
18 expense. Staff's exclusion was based on the incorrect assumption that
19 this account includes only charges for industry and business related dues
20 that are not properly chargeable to ratepayers. In fact, this account also
21 contains charges for general corporate expense and share-based
22 compensation expense that is part of a total compensation package
23 necessary to attract and retain qualified employees, which are proper
24 above-the-line expenses for ratemaking purposes. Moreover, the dues
25 expense which do not relate to political or lobbying activities, for
26 organizations such as the American Gas Association and Midwest Gas
27 Association, are proper and allowable expenses for ratemaking purposes
28 and should be included for purposes of reasonably determining the
29 amount of revenue which the Company should be authorized to collect.
30 Sustaining the Company's objection with regard to this item would cause
31 an upward adjustment to the Staff recommended revenue increase in the
32 amount of \$574,972.
33

1 e. The Staff includes an adjustment reflected on Staff Schedule C-3.13, Line
2 6 which removed labor expense associated with vacant incremental
3 positions in the amount of \$144,532. However, the Staff had already
4 removed these positions on Staff Schedules C-3.4, C-3.7, and C-3.8.
5 Therefore, Staff's adjustment on Schedule C-3.13, Line 6 is duplicative,
6 unreasonable and not necessary. The Company objects to the Staff's
7 duplication of this labor expense adjustment. Sustaining the Company's
8 objection with regard to this expense item would result in an upward
9 adjustment to the Staff's recommended revenue increase in the amount
10 of \$144,532.

11
12 In summary, as reflected on MSH-Exhibit 2, Column F, Line 14, if Company
13 objection 22, items (a) through (e) as discussed above, is sustained, the impact
14 would be to increase the Staff recommend revenue increase by \$2,541,487.

15
16 **Q. Please describe Company's objection 23.**

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

27
28 The Company's objection on this item is further supported by the fact, discussed
29 previously, that the Staff's recommended operating and maintenance expense
30 level is significant less than actual test year expense level as reflected on the
31 attached supplemental schedule MSH-Exhibit 1. Sustaining the Company's
32 objection with regard to this item would cause an upward adjustment to the
33 Staff's recommended revenue increase in the amount of \$1,650,578, which is
34 demonstrated on MSH-Exhibit 2, Column F, Line 16.

1
2 **Q. Please describe Company's objection 24.**
3 A. Company objection 24 addresses the Staff's calculation of depreciation expense,
4 which is attributed to the Staff's adjustments to utility plant in service described in
5 objections 2 and 3 (above). The Company agrees that its Application
6 depreciation expense is overstated due to the unrecorded retirements and
7 miscellaneous intangible asset adjustment described in objection 3; however,
8 unrecorded retirements described in objection 2 would not impact the
9 depreciation calculation as these assets were excluded from the Application
10 depreciation calculation, on the Company's Application Schedule B-3, as the
11 assets were retired prior to the date certain, August 31, 2007. Therefore, while
12 the Company agrees that depreciation expense should decrease by \$67,900
13 related to the unrecorded retirements (MSH-Exhibit 2, Column E, Line 18) the
14 Staff recommended depreciation expense would need to increase by \$4,158,
15 MSH-Exhibit 2, Column F, Line 18, due to error noted in objection 2.
16
17 **Q. Please describe Company's objection 25.**
18 A. Objection 25 relates to the determination of Federal income taxes detailed on
19 Staff Schedule C-3.21. While both Staff and the Company agree on the
20 methodology, the final Federal income tax expense should be calculated based
21 upon the final pre tax operating income approved in this case.
22
23 **Q. Has the Company accepted any of the test year adjustments proposed by**
24 **the Staff?**
25 A. Yes. The adjustments proposed with which we agree are reflected on the
26 attached Supplemental Schedule A-1 attached hereto as MSH-Exhibit 5. The
27 detail of the adjustments is reflected on the attached Supplemental Schedule
28 titled MSH-Exhibit 2.
29
30 **Q. What is the impact of all objections made by the Company on the amount**
31 **of the revenue increase recommended in the Staff Report?**
32 A. I have summarized the impact of all objections which are discussed by me and
33 other witnesses in this case on Supplemental Schedule A-1 attached to this
34 testimony. Supplemental Schedule A-1 is offered to illustrate the overall effect of

1 the Company's objections on the results recommended by the Staff. If the Staff
2 Report were to be modified as suggested by the Company's objections, the result
3 is an adjusted revenue increase of \$26,068,483, on an adjusted rate base of
4 \$232,972,148.

5

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

7 **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

		<u>Amount</u>
1	Staff Recommended Operating and Maintenance Expense, Excluding Gas Costs	\$ 63,793,485
2	<u>Staff Agreed to Incremental Test Year Costs</u>	
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)	<u>\$ (3,767,476)</u>
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 Expense	<u>\$ 65,661,018</u>
10	Actual Test Year O&M Greater Than Staff Report O&M (Line 9 - Line 8)	<u>\$ 5,635,009</u>

* - 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-AR; 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 C-24

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	\$ (5,440,063)	\$ 3,404,565	\$ (1,188,431)
2	C-3.2	C-3.10	7 - 13	Gas Cost	59,278,987	(4,028,289)	63,308,258	57,209,851	61,238,920	(2,069,336)
3				Total Operating Revenue	55,027,335	(12,873,917)	67,901,253	51,769,569	64,643,485	(3,237,768)
Operating Expenses										
Operating & Maintenance										
4	C-3.3	C-3.10	7 - 13	Gas Cost	59,278,987	(4,028,289)	63,308,258	57,209,851	61,238,920	(2,069,336)
5	C-3.4	C-3.12	18-17	System Integrity and Reliability Programs	(601,900)	2,275,826	(3,127,186)	2,275,826	-	3,127,186
6	C-3.5	C-3.13	-	Natural Gas Riders	610,000	610,000	-	610,000	-	-
7	C-3.6	C-3.14	-	Customer Related	(198,086)	318,739	(517,825)	(198,086)	(517,825)	(0)
8	C-3.7	C-3.15	19 - 20	Conservation	2,987,557	2,984,557	(117,000)	2,984,557	-	117,000
9	C-3.8	C-3.16	18	Shared Services	(1,016,892)	1,438,128	(2,454,710)	1,383,794	(134,334)	2,320,376
10	C-3.9	C-3.17	-	Labor Adjustment	(99,886)	48,840	(118,726)	(69,886)	(118,726)	-
11	C-3.10	C-3.18	-	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	(692,457)	(61,369)	(631,066)	(692,457)	(621,068)	-
14	C-3.13	N/A	22	Miscellaneous	(2,345,543)	(2,345,543)	-	(4,066)	(4,066)	-
15	C-3.14	C-3.5	8	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 Operating & Maintenance Expenses	57,944,582	5,605,335	63,549,917	66,448,246	59,842,911	7,503,564
18	C-3.16	C-3.21	24	Depreciation	(17,142)	54,918	(72,060)	(12,984)	(67,900)	4,158
19	C-3.17	C-3.8	9-10	Taxes Other Than Income Taxes	(9,191)	46,582	(55,773)	46,582	-	55,773
20	C-3.18	C-3.11	9	MCF Excise Tax	2,863,506	(454,267)	3,317,773	2,399,201	3,082,568	(235,306)
21	C-3.19	C-3.22	-	Gross Receipts Taxes	158,656	158,656	-	158,656	-	-
22	C-3.20	C-3.20	14	Property Taxes	633,350	-	633,350	729,378	-	65,078
23				Total Taxes Other Than Income Taxes	3,843,275	(252,127)	4,095,402	3,328,817	3,780,944	(114,456)
24	C-3.21	C-3.23	25	Income Taxes	(2,159,434)	(6,285,652)	4,078,218	(5,940,420)	387,232	(3,988,596)
25				Total Operating Expenses	59,411,281	(627,828)	60,039,109	63,115,659	63,843,187	3,704,378
26				Net Operating Income Adjustments (Line 3 - Line 25)	(4,383,945)	(12,046,289)	7,662,344	(11,346,081)	700,288	(5,942,148)

LINE NO.	NAME OF ADJUSTMENT	SCHEDULE REFERENCE	ADJUSTMENT DESCRIPTION	2007	2008
1	Gas Distribution System Maintenance Program	C-3, 12	Replace gravel and rock at regulator stations and perform fence maintenance including painting and repair. Includes \$53,111 sq ft of gravel and 24,538 linear feet of fencing. Total cost \$1,152,089 on a five year cycle.	\$	\$ 1,413,477
2	Regulator station rock/fence maintenance			\$	\$ 230,418
3	Regulator station maintenance			\$	\$ 6,401
4	Regulator station maintenance			\$	\$ 8,066
5	Regulator station maintenance			\$	\$ 72,573
6	Commercial and Industrial Regulator Station Inspection and Repair			\$	\$ 42,058
7	Regulator valve maintenance			\$	\$ 34,800
8	Curb box maintenance			\$	\$ 400,314
9	Risk-averse (RMA)			\$	\$ 363,563
10	POW Clearance-Transmission			\$	\$ 42,631
11	POW Clearance-Distribution			\$	\$ -
12	ASMA Workshop			\$	\$ -
13	Service Technician Refresher			\$	\$ -
14	Service Technician Apprentices			\$	\$ -
15	Engineering Coops (2)			\$	\$ -
16	Other Distribution Maintenance Program			\$	\$ 686,582
17	ARCOS After Hours			\$	\$ 79,714
18	After Hours Supervisor			\$	\$ -
19	Ohio Minimum Gas Service Standards			\$	\$ 932,086
20	Aerial Pipeline Patrols			\$	\$ -
21	Pressure Air Facilities			\$	\$ 6,800
22	Pressure Air Training Program			\$	\$ -
23	Security Improvements			\$	\$ -
24	Training			\$	\$ 34,002
25	Engineering Training			\$	\$ -
26	Gas Employees Refresher Training			\$	\$ 33,328
27	SCSA Equipment O&M Costs			\$	\$ -
28	Safety projects and implementation			\$	\$ 876
29	Employee Addition			\$	\$ 27,492
30	Two Gas Technical Trainers			\$	\$ 94,360
31	Gas Training Supervisor			\$	\$ -
32	Safety/Industrial Hygiene Consultant			\$	\$ 21,965
33	Safety and Training Employee Refresher Consultant			\$	\$ 10,000
34	Contract Administration Manager and Clerk			\$	\$ 21,965
35	Contract Analyst			\$	\$ -
36	Engineer, Compliance			\$	\$ 96,720
37	Engineer, Enforcement			\$	\$ -
38	Enrollment Supervisor			\$	\$ 11,474
39	Enrollment Supervisor			\$	\$ -
40	Program/Project Manager			\$	\$ 3,321

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	28,246,998
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	<u>48.10%</u>	11.50%	<u>5.53%</u>	<u>8.51%</u>
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	<u>100.00%</u>		<u>9.37%</u>	<u>12.35%</u>

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	\$ 283,532,983	\$ 232,135,650	\$ 232,135,650	\$ 232,972,148
2	Current Operating Income	C-1	\$ 4,989,480	\$ 12,651,907	\$ 12,651,907	\$ 5,989,761
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	\$ 5,963,555	\$ 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	\$ 374,136,866	\$ 442,038,111	\$ 442,038,111	\$ 438,780,343
11	Revenue Requirement (Line 9 + Line 10)		\$ 401,467,925	\$ 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) Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)
Related Matters.)

In the Matter of the Application of Vectren)
Energy Delivery of Ohio, Inc. for Approval) Case No. 07-1081-GA-ALT
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.)

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
☒ 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)	Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)	
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Energy Delivery of Ohio, Inc. for Approval)	Case No. 07-1081-GA-ALT
Of an Alternative Rate Plan for a Distribution)	
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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.)	

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

**DESCRIPTION OF
TESTIMONY**

**TESTIMONY
PAGE NO.**

Introduction and Overview	1
Distribution of Revenue Between Rate Classes	1
Avoided Customer Charge Provision of Reconnection Charge	5
Staff's Proposed Schedule E-5	7

SUPPLEMENTAL TESTIMONY OF KERRY A. HEID

1

2 **INTRODUCTION AND OVERVIEW**

3

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

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

6

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

10 A. Yes, I am.

11

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

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

15

16 **Q. What exhibits are you sponsoring in this proceeding?**

17 A. I am sponsoring the following exhibits:

18

19 KAH-1 Excerpts from Application Schedule E-3.2, Pages 28-30

20 KAH-2 Derivation of Rate Class Impacts Under Staff's Recommended
21 Revenue Distribution

22 KAH-3 Comparison of Resulting Dollar Subsidy Levels at Applicant's and
23 Staff's Proposed Revenue Distributions

24

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

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

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

1

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

4 A. No.

5

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

7 A. No.

8

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

10 A. The effect of Staff's recommended revenue distribution is to shift costs from Rates
 11 310/315 (residential) to the remaining rate classes,¹ thus increasing the rates of the
 12 General Service customers (Rate 320/325) and large volume customers (Rate 330/345
 13 and Rate 360) significantly. Moreover, it also increases the dollar subsidies of each
 14 rate class. The rate class impacts proposed by VEDO and by Staff are reflected on
 15 the following table, along with the present earnings indices.

	(A)	(B)	(C)
	Applicant's	Staff's	Present
	Proposed	Proposed	Earnings
Rate	Increase (1) (2)	Increase (1) (3)	Index (4)
<u>Schedule</u>			
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)
<u>360</u>	<u>1.18%</u>	<u>31.42%</u>	<u>7.27</u>
Total	23.72%	23.76%	1.00

26

27 (1) Bill impacts excluding gas costs.

28 (2) Petitioner's Supp. Exhibit KAH-1 (Application Schedule E-3.2, Page 30 of 40).

29 (3) Petitioner's Supp. Exhibit KAH-2.

30 (4) Petitioner's Supp. Exhibit KAH-1 (Application Schedule E-3.2, Page 29 of 40).

31

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

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

36

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

1 **Q. Please explain**

2 **A. Staff's proposed revenue distribution creates inappropriate rate class impacts in that**
3 subsidized rate classes (i.e., classes having an earnings index below 1.00) receive
4 below-average percentage increases, whereas the subsidizing rate classes (i.e.,
5 classes having an earnings index above 1.00) receive above-average percentage
6 increases. This result is counter-intuitive and unfair. A rate class (such as Rate
7 310/315) receiving a subsidy should generally have a rate increase percentage greater
8 than the overall system average as the subsidy is reduced and the rates move toward
9 cost of service. Conversely, rate classes providing subsidies (e.g., all of the remaining
10 rate classes) should generally have rate increase percentages below the overall
11 system average. VEDO's revenue distribution proposal provides this appropriate
12 result, whereas Staff's proposal produces the opposite, inappropriate result.

13
14 Specifically, as reflected in the above table, Staff's recommended revenue distribution
15 results in the residential (Rates 310/315) customers (who are being subsidized) having
16 a below-average percentage increase (22.34% compared to the system average of
17 23.76%)². On the other hand, Rate 320/325, Rate 330/345 and Rate 360 (which are
18 providing subsidies to Rate 310/315) have above-average percentage increases. The
19 result, then, is that under Staff's recommended revenue distribution, Rate 320/325,
20 Rate 330/345 and Rate 360, which are subsidizing Rate 310/315, have higher
21 percentage increases than Rate 310/315. And, Rate 330/345 and Rate 360, who have
22 the highest earnings indices (meaning they are providing the greatest relative
23 subsidies to the other rate classes), receive the highest percentage increases. At
24 present rates, Rate 330/345 has an earnings index of 8.50 (meaning its class rate of
25 return is 8.5 times greater than the system average rate of return), and Rate 360 has
26 an earnings index of 7.27 (meaning its class rate of return is 7.27 times greater than
27 the system average rate of return). Therefore, VEDO believes that Rate 330/345 and
28 Rate 360 should receive much smaller percentage increases than the other rate
29 classes. As can be seen on the above table, VEDO proposed a 0.00% increase for
30 Rate 330/345, whereas Staff proposed a 29.06% increase (far above the overall
31 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 Applicant's Supp. Exhibit KAH-1), 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 Applicant's Supp. Exhibit KAH-1), 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,

1 Column H). The dollar subsidy at the Staff's recommended revenue distribution is
2 shown on Applicant's Supp. Exhibit KAH-3. This exhibit shows that for Rates 310/315,
3 the dollar subsidy has actually increased from \$14,173,619 to \$15,526,087 (Line 1,
4 Column F), an increase of \$1,352,468 (Line 1, Column G). An inspection of the other
5 rate classes shows similar results i.e. Staff's proposed revenue distribution results in
6 an increase in dollar subsidies, thus moving away from cost of service-based rates.

7
8 In summary, it is appropriate and necessary to consider both the movement in the
9 earnings index as well as the movement in the dollar subsidies. If the dollar subsidies
10 are increasing, rates cannot be deemed to be moving toward cost-of-service based
11 rates. Under VEDO's proposed revenue distribution, each rate class dollar subsidy
12 would be reduced, while under Staff's proposal these dollar subsidies would be
13 increased. Therefore, Staff's recommended revenue distribution should not be
14 accepted.

15
16
17 **AVOIDED CUSTOMER CHARGE PROVISION OF RECONNECTION CHARGE**
18 **(OBJECTIONS NOS. 31 and 35b)**

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

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

23
24 **Q. Did Staff provide any explanation for its proposed denial of the Avoided**
25 **Customer Charge provision?**

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

28
29 **Q. Do you agree with Staff's recommendation to deny the Avoided Customer**
30 **Charge provision of the Reconnection Charge?**

31 **A.** No.

32
33 **Q. What was the basis for the proposed Avoided Customer Charge provision of the**
34 **Reconnection Charge?**

1 A. As VEDO transitions from low Customer Charges and Volumetric Charges to higher
2 Customer Charges, spaceheating-only customers may find it advantageous to turn
3 service off for as much as six or seven months rather than pay the Summer Customer
4 Charges. Upon reconnecting, the current Reconnection Charge provisions require
5 those customers to only pay for the actual cost of physically disconnecting the
6 customer from and reconnecting the customer to the system. Even though no costs
7 would have been avoided as a result of the customers temporarily disconnecting, the
8 customers would have avoided the payment of Customer Charges designed to recover
9 VEDO's fixed costs. The result is that the seasonal customers who disconnect during
10 the summer months will receive a substantial subsidy related to the unrecovered
11 portion of the fixed cost of facilities.
12

13 **Q. Please explain.**

14 A. As the Staff correctly recognizes, virtually all of VEDO's distribution costs are fixed.
15 When a customer temporarily disconnects during the summer months, none of
16 VEDO's costs are avoided. The customer's meter and regulator remain in place, and
17 VEDO continues to read the meter indefinitely to ensure no unauthorized gas usage.
18 Moreover, all of VEDO's other fixed distribution costs continue to be incurred. Yet,
19 when a customer temporarily disconnects from the system, it avoids paying the
20 monthly Customer Charge during those months and thus makes no contribution to
21 VEDO's fixed costs, even though no costs are being avoided. The fixed costs, then,
22 are inequitably shifted to other customers who remain on the system during the
23 summer months. Moreover, as VEDO progresses toward full straight fixed variable
24 rate design, the incentive to disconnect during the summer months will become even
25 more pronounced. This result, besides being intuitively inequitable, violates certain of
26 the Rate Guidelines as set forth on pages 22-23 of the Staff Report that the results
27 should provide fairness and equity.
28

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

32 A. Yes. VEDO expends considerable service personnel resources in disconnecting and
33 reconnecting customers. If the Avoided Customer Charge provision discouraged

1 these wasteful and inappropriate summer disconnections, service personnel resources
2 could be better directed to other customer service activities.

3
4 **Q. Do the summer shut-offs create potential operations issues for the customer?**

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

9
10 **Q. Are you aware of other regulatory commissions that have approved the Avoided**
11 **Customer Charge provision?**

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

17
18
19 **STAFF'S PROPOSED SCHEDULE E-5 (OBJECTION NO. 34)**

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

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

26
27 **Q. Does this conclude your Supplemental Testimony?**

28 A. Yes.

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

DATA: SUPPLEMENTAL

APPLICANT'S SUPP. EXHIBIT KAH-1

TYPE OF FILING: OBJECTIONS TO PUCO STAFF REPORT

WITNESS: HEID

WORK PAPER REFERENCE NO(S): NONE

**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 ESTIMATE
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				
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)	Subsidy Reduction Amount (H)	Subsidy Reduction 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	22.83%
3	Rates 330/345	\$9,123,577	\$6,379,552	\$2,744,025	\$7,611,622	\$9,157,983	\$1,546,361	\$1,197,684	43.85%
4	Rate 341	\$25,450	\$25,769	(\$319)	\$25,755	\$25,755	\$0	(\$319)	100.00%
5	Rate 360	\$6,108,016	\$2,992,186	\$3,115,850	\$4,869,704	\$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	

**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**

<u>Line No.</u>	<u>Rate Schedule (A)</u>	<u>PRESENT RATES</u>		<u>PROPOSED RATES</u>	
		<u>Present Rates of Return (B)</u>	<u>Present Earnings Index (C)</u>	<u>Proposed Rates of Return (D)</u>	<u>Proposed Earnings Index (E)</u>
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%	15.19%	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

SCHEDULE E-3.2
PAGE 30 OF 40
WITNESS: HEID

PROFORMA 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)	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	\$81,019,842	\$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)
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	\$388,054,390	\$142,363,898	\$253,021,146	\$395,384,839	\$27,330,449	23.76%
7	Miscellaneous Revenue	\$6,082,466		\$6,082,466	\$6,082,068		6,082,468		
8	Total Revenue	\$121,115,710	\$253,021,146	\$374,136,856	\$148,445,962	\$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

Rate Schedule (A)	Present Subsidy(1) (B)	Applicant's Proposed Subsidies			Staff's Proposed Subsidies		
		Ending Subsidy (1) (C)	Subsidy Reduction Amount (1) (D)	Percentage (2) (E)	Ending Subsidy (1) (F)	Subsidy Reduction Amount (1) (G)	Percentage (2) (H)
310/315	(\$14,173,619)	(\$9,587,158)	(\$4,606,410)	32.50%	(\$15,528,087)	\$1,362,488	-9.54%
320/325	\$8,314,063	\$6,432,601	\$1,881,481	22.63%	\$8,097,446	(\$783,382)	-9.42%
330/345	\$2,744,025	\$1,548,362	\$1,197,665	43.65%	\$3,011,801	(\$267,777)	-9.76%
341	(\$319)	\$0	(\$390)	100.00%	(\$348)	\$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)	Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)	
Related Matters.)	

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc. for Approval)	Case No. 07-1081-GA-ALT
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.)	

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

<input type="checkbox"/>	Management policies, practices, and organization
<input type="checkbox"/>	Operating income
<input type="checkbox"/>	Rate base
<input type="checkbox"/>	Allocations
<input type="checkbox"/>	Rate of return
<input checked="" type="checkbox"/>	Rates and tariffs
<input checked="" type="checkbox"/>	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)	Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)	
Related Matters.)	

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc. for Approval)	Case No. 07-1081-GA-ALT
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.)	

**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.

DESCRIPTION OF <u>TESTIMONY</u>	TESTIMONY <u>PAGES</u>
Introduction and Purpose	1
Objection 32, Sales Reconciliation Rider – B (SRR-B)	1
Objection 33, Full Straight Fixed Variable Rate Design	8
Objection 35, Tariff Language	10

1 **SUPPLEMENTAL TESTIMONY OF JERROLD L. ULREY**

2

3 **INTRODUCTION AND PURPOSE**

4

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

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

7

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

10 A. Yes.

11

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

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

18

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

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

25

26

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

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

29

30 A. VEDO objects to the Staff Report's failure to recommend approval of its
31 proposed Sales Reconciliation Rider – B ("SRR-B"). At Page 34, the Staff Report
32 states that "Staff is recommending that the SRR-B not be implemented in favor of
33 a more direct implementation of a full SFV rate design in this case." However,
34 the Staff Report does not recommend a more direct implementation of a full

1 straight fixed variable ("SFV") rate design in this case. Rather, the Staff Report
2 has proposed only a partial movement to full SFV rate design, leaving a
3 significant amount of fixed costs to be recovered in the remaining volumetric or
4 usage-sensitive charges of the Residential and General Service rate classes.
5 The mismatch between what the Staff Report says it is recommending (a more
6 direct implementation of SFV) and what it actually proposes, in combination with
7 the Staff Report's rejection of Applicant's proposed SRR-B, will deny Applicant a
8 reasonable opportunity to recover the revenue requirement approved in this
9 case.

10
11 **Q. Does VEDO currently have in effect a Sales Decoupling mechanism?**

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

21
22 **Q. What is your understanding of the reasons the Commission approved the**
23 **decoupling mechanism addressed in Case No. 05-1444-GA-UNC?**

24 **A.** My understanding is based on the language used by the Commission to describe
25 its decision. In the Supplemental Opinion and Order ("Supplemental Order")
26 issued June 27, 2007 approving the SRR, the Commission stated at Page 18:
27 "The Commission continues to believe it is in the public interest, in order to
28 promote energy efficiency, to decouple the link between gas consumption and
29 the company's ability to meet its revenue requirement. As we stated in the
30 Opinion and Order in this proceeding, the Commission believes that the linking of
31 gas consumption with the public utility's ability to meet its revenue requirement is
32 counterproductive to energy efficiency (Opinion and Order at 16)". And, on Page
33 19 of the Supplemental Order, the Commission stated: "In addition, the
34 Commission notes that the implementation of the SRR only will allow VEDO the

1 opportunity to collect the revenue requirement ordered by the Commission in
2 VEDO's last rate case. The Commission has already determined that these
3 revenues are required for VEDO to earn a fair and reasonable rate of return.
4 Vectren, Case No.04-571-GA-AIR, Opinion and Order (April 13, 2005) at 16".
5

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

9 **A.** Full SFV rate design provides for recovery of a utility's base revenues through
10 charges that are not based on customer usage. It allows the utility a fair
11 opportunity to recover the costs approved for recovery by the Commission in rate
12 cases and removes a disincentive for the utility to support the provision of energy
13 efficiency services and incentives. It does this by eliminating the linkage between
14 base revenue recovery and sales volumes.
15

16 In its Application, VEDO proposed a phased introduction of full SFV rate design
17 and the elimination of its Volumetric Charges over the period of two rate case
18 cycles – this rate case and the next – for its distribution rate schedules. Until the
19 Volumetric Charges in Residential and General Service rate schedules are fully
20 eliminated, VEDO proposes to implement a modified, full decoupling rider – its
21 proposed SRR-B – to have a reasonable opportunity to recover the costs
22 authorized by the Commission for recovery in VEDO's rate cases and to remove
23 the disincentive related to energy efficiency that exists with volumetric rates.
24

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

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

1 \$22.00 to \$20.04) to which the Company does not object. However, unlike the
2 Company's proposal, the Staff Report does not include an interim full decoupling
3 mechanism.
4

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

7 A. No, it does not. The Staff Report proposal leaves a significant amount of the
8 Company's fixed costs to be recovered in the Volumetric Charges of the
9 Residential and General Service rate schedules, where, absent the approval of
10 the SRR-B, their recovery will be adversely impacted by reductions in sales
11 volumes, resulting in the inability of VEDO to earn its return authorized in this
12 proceeding.
13

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

17 A. No. At Page 34, the Staff Report states: "Decoupling will also eliminate the
18 disincentive a utility otherwise would have to promote energy efficiency and
19 conservation.Once sales volumes and revenues are decoupled, utilities are in
20 position to more aggressively assist customers in their efforts to consume less
21 energy."
22

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

26 A. For the Residential class, \$20.2 million remains in the Volumetric Charge under
27 Stage 1 rates, and \$13.4 million remains in the Volumetric Charges under Stage
28 2 rates.
29

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

31 A. As customers continue to reduce usage in response to rising natural gas prices,
32 as well as other factors, fixed cost recovery from Volumetric Charges can be
33 expected to decline. For instance, a 5% reduction in sales volumes for the
34 Residential rate classes alone would result in an under-recovery of about \$1

1 million under the Staff's proposed Stage 1 rates in a single year. And that annual
2 under-recovery amount would undoubtedly compound over time during the
3 expected life of the rates as customers continue to reduce usage volumes. For
4 instance, an additional decrease in Residential customer usage of 5% per year in
5 the second and third years would result in fixed cost under-recovery of nearly \$2
6 million in year 2, and, in year three, of nearly \$3 million.

7
8 Similarly, because of fixed costs remaining in the Volumetric Charges of General
9 Service rate classes under the Staff Report's partial SFV proposal, reductions to
10 General Service usage volumes would result in additional fixed cost under-
11 recoveries for VEDO.

12
13 **Q. Is the price of natural gas expected to increase in the months ahead?**

14 **A.** Yes. As shown by the gas futures prices reflected on the New York Mercantile
15 Exchange ("NYMEX") the price of natural gas can be expected to be much higher
16 this winter than in previous winters. Based on the July 18, 2008 closing NYMEX
17 prices, winter prices for the upcoming 2008-2009 winter heating season average
18 \$11.441 per MMBtu compared to the average closing NYMEX prices last winter
19 (2007-2008 season) of \$7.714 per MMBtu. This \$3.727 difference represents a
20 48.3 % increase in commodity gas prices over the previous year and will
21 undoubtedly result in lower customer usage, as customers attempt to avoid the
22 full impact of the higher prices by implementing usage reduction techniques,
23 including dialing down their thermostats to a lower temperature setting.

24
25 **Q. Please describe VEDO's Alternative Rate Plan proposal related to the Sales**
26 **Reconciliation Rider-B (SRR-B).**

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

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

3
4 **Q. Is the SRR-B necessary to achieve the decoupling of VEDO's sales from its**
5 **revenue recovery?**

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

21
22 **Q. Is the Staff Report's recommendation to approve the Company's DSM**
23 **programs reconcilable with its recommendation to deny the Company's**
24 **proposed full decoupling mechanism, the SRR-B?**

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

33
34 **Q. Did the Staff Report specify why It prefers movement to a fixed rate (i.e.**

1 **SFV rate design) over the SRR-B?**

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

6

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

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

20

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

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

1 normalized actual volumes (in the SRR-B) will eliminate impacts on fixed cost
2 recovery resulting from non-normal weather and provide the same revenue
3 recovery result to VEDO that would occur from an immediate movement to a full
4 SFV rate design
5

6 **Q. Please summarize your objection.**

7 A. The SRR-B proposal is the necessary companion to VEDO's and the Staff
8 Report's proposed phased transition to a full SFV rate design applicable to
9 distribution service, allowing VEDO a reasonable opportunity to recover its
10 approved revenue requirement and eliminating disincentives to VEDO to
11 advocate and support customer conservation efforts. VEDO has previously
12 demonstrated commitments to the implementation of conservation programs that
13 benefit customers and enabling a corporate culture that includes a dedication of
14 associates to help customers cost effectively reduce consumption and the bill
15 they would otherwise be required to pay. VEDO's commitment and its ability to
16 sustain and grow this commitment require approval and implementation of the
17 proposed SRR-B mechanism until a full SFV rate design becomes effective and
18 all deferred amounts have been recovered/passed back.
19

20 **OBJECTION NO. 33, FULL STRAIGHT FIXED VARIABLE RATE DESIGN**

21 **Q. Please describe objection No. 33.**

22 A. In view of the Staff Report's recommended rejection of the SRR-B, VEDO
23 objected to the Staff Report's failure to recommend the use of a full SFV rate
24 design. Full SFV rate design would require the complete elimination of
25 Volumetric Charges for the Residential and General Service rate classes and in
26 the case of the General Service customers, the introduction of Billing Demand
27 Charges based on individual customer usage characteristics. The Staff Report's
28 recommended rejection of the SRR-B in the face of the expiration of the deferral
29 and recovery authority for the Sales Reconciliation Rider (SRR-A) approved in
30 Case No. 05-1444-GA-UNC without the imposition of full SFV rate design denies
31 Applicant a reasonable opportunity to recover the revenue requirement approved
32 in this case and reinstitutes for VEDO a disincentive to encouraging customers to
33 pursue energy efficiency and conservation measures.
34

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

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

8

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

17

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

21

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

29

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

34

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

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

16
17 **OBJECTION NO. 35, TARIFF LANGUAGE**

18
19 Q. Please describe objection No. 35.

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

22
23 a. **Sheet No. 62 – Termination of Service at Customer's Request.** VEDO
24 objected to the language recommended by the Staff Report that any Customer
25 who wishes to discontinue Gas Service because Customer is vacating the
26 Premises, or for any other reason, shall notify Company at least 72 hours prior to
27 the date of the requested service termination. VEDO suggests that the language
28 be modified to read "...at least three (3) business days prior to the date of the
29 requested service termination." At least three (3) business days notice prior to
30 the requested disconnect date is necessary to assure that the Company has
31 notice of the voluntary disconnect with sufficient lead time in order to efficiently
32 schedule its daily service calls. For instance, a notification on Friday afternoon
33 would require a disconnection on the following Monday, effectively a one (1)
34 Business Day notice that could disrupt other previously scheduled work for that

1 day. Similarly, the 72 hours language would cause the field organization
2 problems for three and four day holiday weekends, when a Friday afternoon
3 request could not be filled within the 72 hour period absent holiday overtime
4 pay. For VEDO's Ohio labor contract, that would include Good Friday, Memorial
5 Day, Labor Day, Thanksgiving, and every few years, the date specific holidays
6 like Christmas, New Year's Day, etc. VEDO's proposed substitute language
7 specifying three (3) business days would provide more efficient and cost-effective
8 service to VEDO's customers than would the Staff Report's recommended 72-
9 hour period.

10
11 **b. Sheet No. 63 – Disconnection-Reconnection of Service at Customer's**
12 **Request.** For reasons stated in the Supplemental Testimony of VEDO's
13 Witness Kerry A. Heid, in Objection 31 and 35 b - Avoided Customer Charge
14 Provision, VEDO objects to the Staff Report's denial of this proposed new
15 charge.

16
17 **Q. Does this conclude your Supplemental Testimony?**

18 **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)	Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)	
Related Matters.)	

In the Matter of the Application of Vectren)	
Energy Delivery of Ohio, Inc. for Approval)	Case No. 07-1081-GA-ALT
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.)	

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

☒ Operating income

☐ Rate base

☐ Allocations

☐ Rate of return

☐ Rates and tariffs

☒ Other -ARP DRR and specified Alt Reg Exhibits

July 23, 2008

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THE PUBLIC UTILITIES COMMISSION OF OHIO

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JAMES M. FRANCIS

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SUPPLEMENTAL TESTIMONY OF JAMES M. FRANCIS

INTRODUCTION

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

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

6 **Q. What are your duties in your present position?**

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

14 **Q. Have you previously testified before this Commission?**

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

PURPOSE

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

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

24 **Q. What Exhibits are attached to your testimony?**

25 A. The following exhibits are attached to my testimony:

- 26 • Supplemental JMF-1- Riser Replacement Program Estimate

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

3 **RISER REPLACEMENT PROGRAM**

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

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

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

10 A. When the riser inventory program was completed and the scope of the
11 replacement program was known, VEDO began discussions with several
12 contracting resources to gain a better understanding of the costs and resource
13 needs for the program as proposed. Assuming a consistent workforce is
14 maintained throughout the year, in order to achieve the replacement in a three
15 year time period as recommended by Staff a construction staff of approximately
16 70 contract personnel would be required. Conversely, to achieve the program
17 over a five year period a construction staff of approximately 40 contract personnel
18 would be required.

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

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

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

27 A. Yes. All of the major utilities are currently underway or soon will be with major
28 infrastructure replacement programs. Columbia Gas is just beginning a 3 year
29 riser replacement program. Duke Energy is in the midst of its AMRP program and
30 will be starting a 5 year riser replacement program. Dominion – East Ohio is
31 preparing to begin a \$2.6 billion infrastructure replacement program. Each of

1 these programs is significant in scope and will place a heavy strain on the
2 availability of contract resources. Additionally, there are a number of significant
3 infrastructure replacement programs underway in close geographic proximity,
4 including Vectren's infrastructure replacement programs in Indiana.

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

7 A. VEDO proposes to complete the replacement of the prone to failure risers over a
8 5 year period. This will allow us to maximize the use of our existing contractor
9 and company workforce; which will allow us to maintain a more cost competitive
10 position than having to bring in additional contractors for a short term program.

11 **Q. What will the riser replacement program cost?**

12 A. The current estimate to complete the riser replacement program is approximately
13 \$33,500,000. VEDO worked with its material suppliers and construction
14 contractors to estimate the unit replacement costs. Additional assumptions for
15 restoration costs and after hour relight costs are included in the estimate.
16 Supplemental JMF-1 provides the detailed cost estimate for the program.

17 **RIGHT-OF-WAY MAINTENANCE PROGRAM**

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

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

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

30 A. No. The program is designed to complete initial clearing on 10% (or
31 approximately 45 miles) of the total pipeline mileage included in the program that

1 had not been previously cleared on an annual basis. Once the initial clearing is
2 completed, that mileage and all previously cleared mileage will be maintenance
3 cleared (mowing and spraying) annually going forward. The amount of
4 maintenance clearing will continue to increase by 45 miles each year until the
5 entire pipeline mileage, included in the program, has been initially cleared and
6 then all of the work will be maintenance cleared annually. The program estimates
7 for this model are shown in the top table in Supplemental JMF-2 and were the
8 basis for our pro forma adjustment for the right-of-way maintenance program.

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

18 The test year amount of \$571,493 will fund the completion of maintenance
19 clearing only on approximately 223 pipeline miles. At VEDO's current clearing
20 rate and schedule we will have accumulated 223 miles of cleared right-of-way by
21 the end of 2011. This amount does not even achieve the maintenance of the
22 entire mileage of transmission pipelines. Supplemental JMF-2 provides a
23 comparison of the production rates and ability to achieve the program goals of a
24 10 year right-of-way maintenance program.

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

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

1 **ENGINEERING STAFF ADDITIONS AND TRAINING**

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

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

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

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

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

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

26 **Q. Does this conclude your testimony?**

27 A. Yes.

Vectren Energy Delivery of Ohio

Work Order Estimate

Project Name: Riser Replacement Program

Work Group	Basic Unit	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

Summary Totals	
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	56.88	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	\$164,809	\$169,967	\$175,485	\$181,170	\$187,025	\$193,055	\$199,267	\$205,665	\$23,485	\$0	
Maintenance Clearing \$	\$42,419	\$73,837	\$107,101	\$142,298	\$179,504	\$232,329	\$274,245	\$318,467	\$366,096	\$428,443	\$481,558	\$486,108	
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	226.54	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 \$	\$63,784	\$108,114	\$165,655	\$228,551	\$290,951	\$362,634	\$435,224	\$507,824	\$581,211	\$674,354	\$815,204	\$839,660	
Total Annual ROW Maintenance Costs	\$824,478	\$872,988	\$778,942	\$880,836	\$1,008,319	\$1,169,243	\$1,309,542	\$1,439,328	\$1,584,836	\$1,778,568	\$1,381,436	\$1,338,768	\$1,114,841

* Note: Originally 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	7.82	5.50	2.75	1.72	0.88	0.21	0.00	0	0	
Maintenance Clearing*	34.70	55.30	88.80	79.18	88.80	92.30	95.08	98.78	97.58	97.88	97.88	97.88	
Initial Clearing Estimate \$	\$125,444	\$86,441	\$75,258	\$57,630	\$42,947	\$22,200	\$14,298	\$7,590	\$1,899	\$0	\$0	\$0	
Maintenance Clearing \$	\$43,039	\$72,042	\$93,224	\$110,853	\$125,536	\$146,283	\$164,185	\$180,853	\$168,585	\$188,483	\$188,483	\$188,483	
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	60.08	77.61	91.82	102.66	111.23	116.55	120.46	123.18	124.91	124.91	124.91	
Initial Clearing Estimate \$	\$315,068	\$256,778	\$211,291	\$171,621	\$137,131	\$87,710	\$66,409	\$47,621	\$37,094	\$0	\$0	\$0	
Maintenance Clearing \$	\$87,912	\$146,231	\$191,719	\$231,389	\$266,879	\$315,300	\$338,601	\$355,389	\$371,916	\$403,010	\$403,010	\$403,010	
Total Annual ROW Maintenance Costs	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493	\$871,493

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

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)	Case No. 07-1080-GA-AIR
Rates and Charges for Gas Service and)	
Related Matters.)	

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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.)	

SUPPLEMENTAL TESTIMONY OF
SCOTT E. ALBERTSON
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
☒ 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)	Case No. 07-1080-GA-AIR
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SCOTT E. ALBERTSON

INDEX

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

Description of Testimony	Testimony Pages
Introduction and Purpose	1
Objection 20 Customer Commitments	2
Objection 36a DRR ("Distribution Replacement Rider") Impact	2
Objection 36b Proposed Cap on DRR Increase	3
Objection 36c Post-in-Service Carrying Charges	4
Objection 37 Riser Investigation Costs	5

1 **SUPPLEMENTAL TESTIMONY OF SCOTT E. ALBERTSON**

2

3 **INTRODUCTION AND PURPOSE**

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

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

8

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

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

16

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

19 A. Yes.

20

21 **Q. What is the purpose of your supplemental testimony?**

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

26

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

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

31

32 **Q. What exhibits are attached to your supplemental testimony?**

1 A. The following exhibits, which have been prepared by me or under my supervision,
2 are attached to my supplemental testimony:
3 Supplemental SEA-Exhibit 1 – “DRR Customer Impact”
4 Supplemental SEA-Exhibit 2 – “Determination of Cap on Annual Increase to DRR
5 Charge for Residential and Group 1 General Service Customers”
6

7 **Q. Please explain objection 20.**

8 A. The Staff has recommended in its discussion of VEDO's accelerated distribution
9 replacement program that VEDO's shareholders provide funding in the amount of
10 \$1 million for low-income weatherization as an adequate commitment to comply
11 with Rule 4901:1-19-05(C)(3), O.A.C. I have been informed by counsel that Rule
12 4901:1-19-05(C)(3), O.A.C., requires a company seeking rate setting methods
13 alternative to those in Section 4909.15, Revised Code, to detail commitments to
14 customers related to the degree to which its proposal deviates from the rate setting
15 requirements of Section 4909.15, Revised Code. VEDO's proposal for an
16 accelerated distribution replacement program and the Distribution Replacement
17 Rider for recovery of associated costs is consistent with the cost-based or rate-of-
18 return rate setting principles set out in Section 4909.15, Revised Code. VEDO
19 seeks no relief or deviation from the specifications that qualify the costs sought to
20 be recovered from those permitted by law. Staff has not explained what deviation
21 it believes VEDO is seeking from cost-based rate-of-return regulation for its
22 accelerated distribution replacement program that Staff believes requires any
23 commitment.
24

25 **Q. Please explain objection 36a.**

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

1 \$7.05 is the average annual increase in the DRR associated with these customers
2 over the proposed 20-year main/service line replacement program. The average
3 annual cost to these customers, as illustrated by the Company in SEA-Exhibit 3
4 and in Supplemental SEA-Exhibit 1, page 1 of 3, over the 20-year period is \$79.84,
5 inclusive of the impact of gross receipts excise tax. Second, Staff also indicated
6 that the \$7.05 average annual cost "translates to a monthly charge of \$0.73 per
7 month including the gross receipts excise tax." In fact, an annual increase of
8 \$7.05 translates to an increase of \$0.59 per month (\$7.05 divided by 12 equals
9 \$0.59); \$0.73 per month is the DRR charge applicable to this same group of
10 customers associated with the first annual DRR filing, assuming a full year's costs
11 and maintenance savings credits have been considered (as illustrated in
12 Supplemental SEA-Exhibit 1, page 1 of 3). The average monthly cost to these
13 customers over the 20-year replacement program period proposed by VEDO is
14 \$6.65 (as illustrated in SEA-Exhibit 3 and further explained in Supplemental SEA-
15 Exhibit 1, page 1 of 3).
16

17 **Q. Please discuss objection 36b.**

18 A. Objection 36b refers to the amount of the cap proposed by Staff associated with
19 the monthly DRR increase applicable to residential and general service customers.
20 Staff recommended that the annual increase to the DRR charge be capped at
21 \$0.90 per month to account for the unknown additional cost of replacement of
22 prone to fail risers. Based on Staff's recommendation that the Company replace
23 prone to fail risers, VEDO has estimated a cost of \$33.5 million for their
24 replacement, as described by witness James M. Francis. As shown in
25 Supplemental SEA-Exhibit 2, page 1 of 2, if the riser replacement program is
26 completed over the three year period recommended by Staff, and if a cap is
27 required, the more appropriate amount of the cap associated with the monthly
28 DRR increase applicable to residential and general service customers is \$1.20
29 (exclusive of gross receipts excise tax) rather than \$0.90 as proposed by Staff.
30 Similarly, as shown in Supplemental SEA-Exhibit 2, page 2 of 2, if the riser
31 replacement program is completed over five years, as proposed by VEDO and
32 described by Mr. Francis, to the extent a cap is required the more appropriate
33 amount of the cap associated with the monthly DRR increase applicable to
34 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 Supplemental SEA-Exhibit 1, pages 2 and 3 of 3.

A. Supplemental SEA-Exhibit 1, 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

1 continue to capture PISCC for that portion of the revenue requirement applicable
2 to residential and Group 1 general service customers that VEDO is unable to
3 include in the DRR due to the cap applicable to the annual increase to the monthly
4 charge applicable to this group of customers.
5

6 **Q. Please explain objection 37.**

7 A. The Staff Report indicates that VEDO will include in its first annual DRR filing on
8 May 1, 2009 all costs incurred prior to 2008 in compliance with the Commission's
9 riser investigation. VEDO also believes that Staff has included amortization of riser
10 investigation costs in the Company's base rates. VEDO included amortization of
11 deferred riser investigation costs in base rates, and Staff did not deny the inclusion
12 of these costs in the annual revenue requirement. To the extent Staff is proposing
13 that these riser investigation costs be recovered in the DRR rather than in base
14 rates, VEDO agrees with that proposal. VEDO would reduce its revenue
15 requirement by the riser investigation amortization amount to reflect the recovery
16 of these costs in the DRR.
17

18 **Q. Does this conclude your supplemental testimony?**

19 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 (a)	Annual Impact of DRR on Residential Bill (#) (b)	Annual Increase (c)	Monthly Increase (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	\$ 68.36	\$ 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	\$21,281,251	\$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	\$36,283,819	\$37,907,728	\$39,501,045	\$41,043,770	\$42,535,804	\$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	1,048,767
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	\$13,875,018	\$17,158,925	\$19,308,750	\$21,407,983	\$23,466,625	\$25,454,675	\$27,402,133
Annual Dollars - BIR Impact (2)	\$12.38	\$24.50	\$38.38	\$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	\$34,688,050	\$36,380,551	\$38,024,459	\$39,617,776	\$41,180,501	\$42,652,635	\$44,094,177
Annual Dollars - BIR 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
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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)	Case No. 07-1080-GA-AIR
to Increase the Rates and Charges for)	
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In the Matter of the Application of)	
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For Approval of an Alternative Rate)	
Plan for a Distribution Replacement)	Case No. 07-1081-GA-ALT
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.)	

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
<u>X</u>	Operating income
___	Rate base
___	Allocations
___	Rate of return
___	Rates and tariffs
<u>X</u>	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)	Case No. 07-1080-GA-AIR
to Increase the Rates and Charges for)	
Gas Services and Related Matters.)	

In the Matter of the Application of)	
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Rider to Recover the Costs of a)	
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Sales Reconciliation Rider to Collect)	
Differences between Actual and)	
Approved Revenues, and Inclusion in)	
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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

1 its aging infrastructure and aging workforce phenomenon as referenced in M.
2 Susan Hardwick's Supplemental Testimony MSH-Exhibit 3.

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

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

13 **Q. What exhibit supports your supplemental testimony?**

14 **A.** The following exhibit supports this supplemental testimony:

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

17 **OBJECTION # 16 – ALTERNATIVE REGULATORY TREATMENT**

18
19 **Q. Do you agree with Staff's basis for determining that VEDO's System Integrity
20 and Reliability Programs do not qualify for alternative regulation?**

21 **A.** No. The Staff Report, at page 10, concludes these programs do not "rise to the
22 standards of alternative regulation" because "they are regular construction and
23 maintenance activities and as such should be subject to normal regulation
24 practices for test year expenses." I have been informed by counsel that Section
25 4929.01, Revised Code, defines an alternative rate plan as an alternate to the
26 method in Section 4909.15, Revised Code, for setting rates for a distribution
27 service that may include, among other things, methods that provide adequate and
28 reliable natural gas services, and that there is no legal standard that exempts the
29 costs of utility activities that are, or will become, routine activities from alternative
30 rate treatment. VEDO's proposals simply request that, for the limited purpose of
31 permitting establishment and implementation of its proposed System Integrity and
32 Reliability Programs, the requirement of Section 4909.15, Revised Code, against

1 post-test year expenses be relaxed. As demonstrated in VEDO's application,
2 these programs represent proactive enhancements to current maintenance
3 programs which are designed to accommodate new distribution system integrity
4 management rules expected to be issued by USDOT in the near future, address
5 growing security concerns which are unfortunate but warranted, and generally
6 improve reliability and safety, as well as new programs to address the work force
7 erosion issues endemic in the industry nationally. It is undisputed that these
8 programs directly benefit customers; and, Staff has indicated that the described
9 activities are prudent (Staff Report at page 41). The nature of the programs
10 proposed compels that they be funded in the amount requested.

11 **OBJECTION # 17 – SYSTEM INTEGRITY AND RELIABILITY PROGRAMS**

12
13 **Q. Please explain the Company's objection 17.**

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

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

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

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

8 **Gas Distribution System Maintenance Programs**

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

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

22 Collectively \$82,569 was expensed within the first five months of 2008 on these
23 programs. Since the test year did not contain twelve months of expense and since
24 these programs were at various stages of implementation, an increase of
25 \$811,521 is required to fully implement the programs as proposed. If this
26 objection is sustained, the impact would be to increase Staff recommended
27 revenue by \$887,689.

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

30 A. VEDO has 384 underground regulator vaults in the distribution system. To
31 preserve the useful life and defer capital costs of relocating the regulator station

1 above ground, a five-year cycle of inspection and remediation is planned.
2 Inspections will identify and remediate conditions of the vault which challenge
3 integrity such as security, entrance way, ceiling, wall sides, floor, seals around
4 pipe entrance/exit, venting, drainage, and susceptibility to flooding.

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

9 \$76,598 was expensed within the first five months of 2008 on these two programs.
10 Since the test year did not contain twelve months of expense and since these
11 programs were at various stages of implementation, an increase of \$243,791 is
12 required to fully implement the programs as proposed. If this objection is
13 sustained, the impact would be to increase Staff recommended revenue by
14 \$320,389.

15 **Aging Workforce**

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

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

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

1 observations and are very real, requiring a measured and forward-looking
2 perspective.

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

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

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

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

18	<u>Job Classification</u>	<u># of Employees</u>
19	Service Technician (Type I, II, III, or Senior)	34
20	Regulation Specialist (Type II, III, Senior,	
21	and T&D Operator)	29
22	<u>Instrument Repairman (Type A or B)</u>	<u>5</u>
23	Total	68

24 Using a projected retirement age of 62 years, VEDO will lose 38 of these
25 employees over the next 12 years (3 four year apprenticeship cycles). Thus, in a
26 12 year planning period, we will lose 56% of this workforce within these specific
27 bargaining unit positions. Just focusing on the number of retirements that will
28 occur over one apprenticeship period (2007-2010) indicates that VEDO will lose 14
29 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:

<u>Service Technician, Regulation Specialist, and Instrument Repairman</u> <u>Retirements</u>	
	<u># Retiring</u>
2007-2011	14
2012-2015	15
<u>2016-2018</u>	<u>9</u>
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

1 to educate and train the apprentices on critical equipment and system operation.
2 These positions will provide face to face training, performance evaluations and
3 status oversight, while ensuring a consistent approach throughout VEDO. This
4 process will improve employee education, consistency of performance and the
5 level of training needed to replace our experienced retirees.

6 **Q. What is the Impact of the aging workforce adjustment for VEDO operations?**

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

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

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

19 **Other Distribution Maintenance Programs**

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

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

28 \$79,714 was expensed within the first five months of 2008 on the automated
29 callout system. Since the test year did not contain twelve months of expense, an
30 increase of \$18,356 is required to fully implement the programs as proposed. If

1 this objection is sustained, the impact would be to increase Staff recommended
2 revenue by \$98,070.

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

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

12 **Propane Air Facilities**

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

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

20 \$6,800 was expensed within the first five months of 2008 on general propane
21 training activities. Since the Department of Homeland Security's Rule establishing
22 anti-terrorism standards for chemical facilities (DHS CFAT rule) has not yet been
23 finalized, an increase of \$15,075 is required to fully implement these two programs
24 as proposed. If this objection is sustained, the impact would be to increase Staff
25 recommended revenue by \$21,875.

26
27 **Training**

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

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

13 Collectively \$33,326 was expensed within the first five months of 2008 on these
14 programs. Since the test year did not contain twelve months of expense and since
15 these programs were at various stages of implementation, an increase of \$67,714
16 is required to fully implement the programs as proposed. If this objection is
17 sustained, the impact would be to increase Staff recommended revenue by
18 \$101,040.

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

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

30 VEDO is also enhancing its current training requirements to existing safety
31 programs in order to achieve best in class safety performance. In order to achieve
32 best in class safety performance we must enhance our current safety program

1 which, at a minimum, includes: (1) providing better initial OSHA/DOT safety
2 training for all newly hired employees; (2) studying the most physically demanding
3 high exposure jobs and providing better equipment or processes to reduce strain
4 and sprain injuries that occur in our aging workforce and training our employees in
5 the use of the equipment or processes; and, (3) providing more safety
6 management training to include a field safety audit program to insure safety
7 responsibility/accountability on the job site where the work is being performed.

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

12 **Employee Additions**

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

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

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

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

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

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

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

26 Finally, Vectren plans to add a Contract Analyst who will work within the
27 Operations Support organization of Energy Delivery and be responsible for
28 managing all Energy Delivery operational contracts. This analyst will be
29 responsible for proper completion and enforcement of contracts and will provide
30 analyses of vendor performance against the contract terms and specific
31 performance criteria. This centralized knowledge of vendor contracts will allow

1 greater uniformity with the ability to recommend contract changes favorable to the
2 company.

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

5 **A. The VEDO operations allocated annual cost for the Contract Administration**
6 **Manager and Clerk is \$16,209, the Buyer is \$12,870 and the Contract Analyst is**
7 **\$6,552.**

8 **Q. Does this conclude your testimony?**

9 **A. Yes, it does.**

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L. DOUGLAS PETITT

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SUPPLEMENTAL TESTIMONY OF L. DOUGLAS PETITT

INTRODUCTION

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

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

5 **Q. What are your duties in your present position?**

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

12 **Q. Please describe your work experience.**

13 A. My professional experience began in 1986 at the Copeland Corporation based in
14 Sidney, Ohio. I worked there for three years as a financial analyst and later as a
15 cost analyst. I began working at The Dayton Power & Light Company ("DPL") in
16 1989. I worked in various positions beginning as the Coordinator of Line
17 Clearance, then as a Supervisor in various operational capacities including gas
18 and underground distribution. I then served as an Assistant Manager in a large
19 fully-decentralized operation center, and then as Manager in various other
20 regions, where I was responsible for functionalities including customer care,
21 construction, operations and maintenance, and marketing for both gas and
22 electric for defined regions of the company.

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

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

3 **Q. What is your educational background?**

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

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

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

10 **Q. Have you previously testified before this Commission?**

11 A. Yes. I previously testified in VEDO's last rate case - Case No. 04-571-GA-AIR.
12

13 **PURPOSE**

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

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

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

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

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

24 A. Yes I am.

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

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

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

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

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

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

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

11 SUPPLEMENTAL TESTIMONY

12 Q. What is the purpose of your supplemental testimony?

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

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

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

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

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

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

13 **Q. Does this complete your supplemental testimony?**

14 **A. Yes.**