

FILE

OCC EXHIBIT NO. _____

**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) **Case No. 07-1080-GA-AIR**
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) **Case No. 07-1081-GA-ALT**
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 Difference Between Actual and)
Approved Revenues, and Inclusion in)
Operating Expense of the Costs of Certain)
Reliability Programs.)

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**DIRECT TESTIMONY
OF
WILSON GONZALEZ**

**ON BEHALF OF THE
OFFICE OF THE OHIO CONSUMERS' COUNSEL
10 West Broad St., Suite 1800
Columbus, OH 43215**

July 23, 2008

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1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

4 ***A1.*** My name is Wilson Gonzalez. My business address is 10 West Broad Street,
5 Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the
6 Ohio Consumers' Counsel ("OCC" or "Consumers' Counsel") as a Senior
7 Regulatory Analyst.

8

9 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
10 ***PROFESSIONAL EXPERIENCE.***

11 ***A2.*** I have a Bachelor of Arts degree in Economics from Yale University and a Master
12 of Arts degree in Economics from the University of Massachusetts at Amherst. I
13 have also completed coursework and passed my comprehensive exams towards a
14 Ph.D. in Economics at the University of Massachusetts at Amherst. I have been
15 employed in the energy industry since 1986, first with the Connecticut Energy
16 Office (Senior Economist, 1986-1992), then Columbia Gas Distribution
17 Companies ("Columbia Gas"), (Integrated Resource Planning Coordinator, 1992-
18 1996) and American Electric Power ("AEP") (Marketing Profitability Coordinator
19 and Market Research Consultant, 1996-2002). I have been spearheading the
20 Resource Planning activities within OCC since 2004.

21

**Q3. PLEASE DESCRIBE YOUR EXPERIENCE DIRECTLY RELATED TO
UTILITY DEMAND-SIDE MANAGEMENT ("DSM") PROGRAMS AND
RATE DESIGN, COST-BENEFIT ANALYSIS AND PROGRAM
MONITORING AND EVALUATION.**

A3. I have been involved with many aspects of DSM programs since 1986. While at the Connecticut Energy Office I represented the office in one of the first DSM collaborative processes in the country (Connecticut Department of the Public Utilities Commission Docket No. 87-07-01). There I analyzed the performance and cost-effectiveness of many efficiency programs for Connecticut's electric and gas utilities that led to demonstration projects, policy recommendations, DSM programs (including rate design) and energy efficiency standards. At Columbia Gas, I was responsible for coordinating the Company's Integrated Resource Plan within the corporate planning department and DSM program development activities in the marketing department. I designed and managed residential DSM programs in Maryland and Virginia. At AEP, I conducted numerous cost benefit analyses of programs being sponsored by AEP's corporate marketing department, including their residential load control water heater program. For the past 4 years at OCC I have:

- Been involved in DSM negotiations resulting in over \$140 million in Energy Efficiency programs with Ohio's investor owned utilities;
- Prepared Demand Side Management testimony in six Public Utility Commission of Ohio cases;
- Testified before the Ohio House Alternative Energy Committee in support of Energy Efficiency; and

- 1 • Assisted in the preparation of Energy Efficiency and Renewable
- 2 Energy testimony and amendments for SB 221, HB 357, and HB
- 3 487.

4

5 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE***

6 ***PUBLIC UTILITIES COMMISSION OF OHIO?***

7 ***A4.*** Yes. I submitted testimony in the following cases before the Public Utilities

8 Commission of Ohio (“Commission” or “PUCO”): Vectren Energy Delivery of

9 Ohio, Case No. 04-571-GA-AIR; Dominion East Ohio, Case No. 05-474-GA-

10 ATA; Dominion East Ohio, Case No. 07-829-GA-AIR; Vectren Energy Delivery

11 of Ohio, Case No. 05-1444-GA-UNC; Columbus Southern Company/Ohio Power

12 Company, Case No. 06-222-EL-SLF; Duke Energy of Ohio, Case No. 07-589-

13 GA-AIR, and FirstEnergy Companies, Case No. 07-551-EL-AIR.

14

15 ***Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF***

16 ***YOUR TESTIMONY?***

17 ***A5.*** I have reviewed the DSM discussion in the Vectren Energy Delivery Company of

18 Ohio (“VEDO” or “the Company”) Rate Case Application, the testimony of

19 Company witnesses Douglas A. Karl and Matthew F. Rose, and the June 16,

20 2008, Staff Report of Investigation (“Staff Report”) on this topic. I have also

21 reviewed the relevant Company responses to OCC discovery and Commission

22 Staff data requests pertaining to DSM.

1 **II. PURPOSE OF TESTIMONY**

3 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

4 ***A6.*** My testimony will support the Company's DSM proposal and Staff's
5 recommendations of that proposal. I concur with the funding levels proposed by
6 VEDO and the portfolio of programs selected for implementation.

8 However, I have concerns over the high share of program funds directed towards
9 marketing and administration of the programs, and recommend a 20% cap on
10 such expenditures. I also recommend that VEDO consider the joint delivery
11 with Dayton Power & Light ("DP&L") of their Home Performance Programs and
12 initiate discussion with DP&L upon Commission approval of VEDO's portfolio
13 of programs.

15 **III. VEDO'S DSM PROPOSAL**

17 ***Q7. PLEASE DESCRIBE VEDO'S DSM PROPOSAL.***

18 ***A7.*** VEDO has proposed a DSM program portfolio with an aggregate annual budget
19 of \$4 million.¹ Of the \$4 million, \$1.1 million is specifically directed at low-
20 income weatherization with the remaining \$2.9 million for broader
21 comprehensive programs.² The DSM programs are scheduled to be implemented

¹ Prefiled Direct Testimony of Douglas A. Karl, (December 4, 2007), at 2.

² Id. at 2.

1 over a five year period and consist of five residential and three commercial
2 programs.³

3
4 **Q8. WHAT IS YOUR ASSESSMENT OF THE COMPANY'S DSM PORTFOLIO?**

5 **A8.** The Company has at last made a serious effort at devising DSM programs that
6 will benefit its customers. VEDO's DSM planning approach as articulated in
7 VEDO Witness Matthew Rose's testimony is sound and the six program design
8 criteria that the Company used to evaluate the programs are appropriate.⁴ All but
9 one of the programs selected for implementation screened cost-effective using the
10 Total Resource Cost Test.⁵

11
12 The one program that was marginally not cost- effective is the Home Performance
13 Program and it is being recommended as a pilot. I recommend that VEDO
14 consider jointly delivering this program with DP&L, now that DP&L is mandated
15 to implement energy efficiency programs under SB 221. Jointly delivering the
16 Home Performance program should reduce the administration and program
17 delivery costs, increase customer participation, and maximize total energy and
18 emissions savings.

19

³ Prefiled Direct Testimony of Matthew F. Rose, (December 4, 2007, 2007) at 6-10.

⁴ Rose Testimony at 11-14.

⁵ See MFR Exhibit 1, Table 2, "Cost Effectiveness Results by Program," page 2 of 6.

1 ***Q9. PLEASE DESCRIBE THE STAFF'S DSM RECOMMENDATION.***

2 ***A9.*** Staff stated that "VEDO's proposed DSM program appears to be well conceived
3 and designed providing a variety of DSM measures for residential and
4 commercial customers. These incentives should promote greater efficiency in the
5 usage of natural gas in the VEDO service market while assisting customers in
6 reducing their natural gas energy bills."⁶ Staff recommends approval of VEDO's
7 proposed DSM program and program funding level. Staff further recommends
8 that VEDO's DSM Program "include the coordination with their DSM
9 stakeholder or collaborative group for guidance in managing and implementing
10 the DSM Program for maximum effect in reducing ratepayer energy costs."⁷ Staff
11 also recommends that VEDO continue to fund the \$1 million Project TEEM 2
12 Low-Income Weatherization Program from shareholder dollars.⁸

13

14 ***Q10. DO YOU SUPPORT STAFF'S RECOMMENDATION CONCERNING THE***
15 ***COMPANY'S PROPOSED DSM PROGRAM?***

16 ***A10.*** Yes.

17

⁶ Staff Report at 49.

⁷ Staff Report at 50.

⁸ This million dollars per year shareholder funding is in addition to the \$1.1 million for TEEM 1 and \$2.9 million for other residential and commercial DSM funding

1 **Q11. DO YOU HAVE ANY CONCERNS WITH THE PROPOSED DSM**
2 **PROGRAM BUDGETS IN THE AREAS OF MARKETING AND**
3 **ADMINISTRATION COSTS?**

4 **A11.** Yes. The Company has indicated that its administrative cost accounts for 26
5 percent of the total program portfolio budget.⁹ I recommend that ratepayer
6 funding of administrative expenses and advertising/educational expenses
7 associated with comprehensive energy efficiency programs be determined in the
8 DSM stakeholder process, but that administrative expenses and
9 advertising/educational expenses should not exceed, in total, 20 percent of the
10 program cost, unless otherwise modified for a specific program by the DSM
11 stakeholder group. This goal is reasonable and was used in the recent Columbia
12 Gas of Ohio DSM Filing.¹⁰

13
14 **Q12. ARE VEDO'S PROPOSED DSM PROGRAMS NEEDED AND TIMELY?**

15 **A12.** Yes. According to the U.S. Energy Information Administration ("EIA"), natural
16 gas prices in Ohio have doubled in the last six years.¹¹ OCC has serious concerns
17 about the impact of increasing residential bills due to the increasing cost and
18 volatility of natural gas. Because of these concerns, OCC is interested in
19 promoting programs and policies that mitigate those increases and their impacts
20 on residential customers.

⁹ Response to Staff Data Request No.3

¹⁰ *In the Matter of the Application of Columbia Gas of Ohio, Inc., for Approval of a Demand Side Management Program for Residential and Commercial Consumers*, Case No. 08-0833-GA-UNC, Application (July 1, 2008).

¹¹ EIA, "Natural Gas Prices," http://tonto.eia.doe.gov/dnav/ng/ng_pri_sum_dc SOH a.htm.

1 To illustrate these concerns, natural gas, the fuel used to heat approximately 69
2 percent of all homes in Ohio,¹² “will cost about 52 percent more this year and in
3 2009 compared to 2007. The EIA’s new forecast has increased 35 percent over
4 the price increase for 2008 that the government had projected just last month.”¹³
5 Natural gas prices are expected to further escalate with the expected passage of
6 Federal Greenhouse Gas Legislation as natural gas is a cleaner fuel than coal for
7 generating electricity.¹⁴

8
9 ***Q13. IS THERE SUPPORT FOR NATURAL GAS DSM IN OHIO AND***
10 ***REGIONALLY IN THE MIDWEST AT THIS TIME?***

11 ***A13.*** Yes. Given the impact of rising natural gas costs around the country, Ohio and
12 many other states are promoting DSM as a low cost solution for providing energy
13 services.¹⁵ In Ohio, the PUCO approved significant DSM funding as part of the
14 Duke Energy (Case No. 06-91-EL-UNC), and Columbia Gas (Case No. 05-221-
15 GA-GCR) cases that together stand to increase natural gas DSM funding to over
16 \$52.8 million over the next three years.

17
18 On January 17, 2007 Governor Strickland issued Executive Order 2007-02S,
19 Coordinating Ohio Energy Policy and State Energy Utilization that recognized the

¹² U. S. Census Bureau American Community Survey, Selected Housing Characteristics, Ohio (2006).

¹³ See “Add natural gas to worries,” Cincinnati Enquirer, June 11, 2008.

¹⁴ Ken Costello, “Natural Gas in a Carbon-Constrained World,” National Regulatory Research Institute (March 2008). For example, Mr. Costello cites a recent Natural Gas Council Study that estimates that the passage of the McCain-Lieberman Bill will sharply increase the demand for natural gas and increase the price of natural gas by \$4.00 per Mcf by 2030.

¹⁵ See Midwest Natural Gas Energy Efficiency Initiative at <http://www.mwnaturalgas.org/>.

1 need for energy efficiency programs. The Governor's Order sets forth a number
2 of actions that state agencies, commissions, and boards are required to undertake
3 to reduce and improve the energy consumption state government. The
4 Governor's Order states that "it is the responsibility of state government to lead
5 by example in reducing energy consumption in this era of steep energy prices,
6 mounting environmental concerns, and persistent energy security risk."¹⁶ It
7 further states that "by improving energy efficiency and adopting advanced energy
8 utilization technologies, we can make the most of our existing energy resources
9 and also stimulate activity and investment in the energy efficiency services
10 sector."¹⁷

11
12 More recently, continuing state support for energy efficiency is demonstrated by
13 the signing into law of Senate Bill 221 with its aggressive energy efficiency
14 requirements on electric utilities and its natural gas revenue decoupling language
15 provisions to remove the disincentive of making energy efficiency investments by
16 Ohio's gas utilities.

17
18 Finally, increased DSM funding in this case is consistent with the Energy Security
19 and Climate Stewardship Platform for the Midwest ("MESCS"¹⁸) that Governor
20 Strickland agreed to on November 15, 2007. The MESCS recommends that 22

¹⁶ Id. at 2.

¹⁷ Id. at 2.

¹⁸ The State's energy efficiency commitment is as follows: "Meet at least 2 percent of regional annual retail sales of *natural gas* and electricity through energy efficiency improvements by 2015, and continue to achieve an additional 2 percent in efficiency improvements every year thereafter." (emphasis added) See http://www.midwesterngovernors.org/Publications/MGA_Platform2WebVersion.pdf.

1 percent of Ohio's energy needs by 2025 be met through the use of energy
2 efficiency.

3
4 ***Q14. WHAT OHIO STATUTORY OR REGULATORY MANDATES DO THE***
5 ***ENERGY EFFICIENCY PROGRAMS SUPPORT?***

6 ***A14.*** Based on my experience with energy efficiency programs, my review of the
7 related Ohio regulations, and discussions with OCC counsel, it is my
8 understanding that the energy efficiency programs I propose support the
9 following:

- 10 • R.C. 4905.70: The public utilities commission shall initiate
11 programs that will promote and encourage conservation of energy
12 and a reduction in the growth rate of energy consumption, promote
13 economic efficiencies, and take into account long-run incremental
14 costs.
- 15 • R.C. 4929.02 (A)(4): Encourage innovation and market access for
16 cost-effective supply-and demand-side natural gas services and
17 goods;
- 18 • R.C. 4935.01(A)(1): In its forecasting duties, the commission will
19 [estimate needs for energy that] reasonably balance requirements
20 of state and regional development, protection of public health and
21 safety, preservation of environmental quality, maintenance of a
22 sound economy, and conservation of energy and material
23 resources.

1 **IV. CONCLUSION**

2

3 ***Q15. DOES THIS CONCLUDE YOUR TESTIMONY?***

4 ***A15.*** Yes. However, I reserve the right to incorporate new information that may
5 subsequently become available. I also reserve the right to supplement my
6 testimony in the event the PUCO Staff fails to support the recommendations made
7 in the Staff Report and/or changes positions made in the Staff Report.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Direct Testimony of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel* has been served via First Class US Mail , this 23rd day of July, 2008.



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