

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service.

Case No. 07-829-GA-AIR

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Rate Plan for its Gas Distribution Service

Case No. 07-830-GA-ALT

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods

Case No. 07-831-GA-AAM

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment

Case No. 08-169-GA-ALT

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading Deployment Through an Automatic Adjustment Clause, and for Certain Accounting Treatment

Case No. 06-1453-GA-UNC

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THIRD SUPPLEMENTAL DIRECT TESTIMONY OF
JEFFREY A. MURPHY
ON BEHALF OF
DOMINION EAST OHIO

___ Management policies, practice and organization

___ Operating income

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- Rate base
- Allocations
- Rate of return
- Rates and tariffs
- Other (PIR Application)

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1 **Third Supplemental Direct Testimony of**

2 **Jeffrey A. Murphy**

3 **I. INTRODUCTION**

4 **Q1. Please state your name, occupation and business address.**

5 A1. My name is Jeffrey A. Murphy. I am employed by The East Ohio Gas Company d/b/a
6 Dominion East Ohio ("DEO" or "Company") as its Director, Rates and Gas Supply. My
7 business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

8 **Q2. Are you the same Jeffrey A. Murphy that previously submitted Direct Testimony,**
9 **Supplemental Direct Testimony, and Second Supplemental Direct Testimony in**
10 **Case Nos. 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT**
11 **and 06-1453-GA-UNC?**

12 A2. Yes.

13 **Q3. What is the purpose of this supplemental direct testimony?**

14 A3. My testimony supports the Company's Objection Nos. 34 to 36 to the Staff Report of
15 Investigation of DEO's Pipeline Infrastructure Replacement Application filed June 12,
16 2008, in Case No. 08-169-GA-ALT ("PIR Staff Report"), all of which are related to the
17 PIR Cost Recovery Charge section of the PIR Staff Report.

18 **Q4. To which aspects of Staff's recommended PIR Cost Recovery Charge provisions**
19 **does the Company object?**

20 A4. DEO objects to three aspects of Staff's recommendations regarding the PIR Cost
21 Recovery Charge:

- 22 1. In calculating its proposed capped charge for the PIR Cost Recovery Charge for
23 General Sales/Energy Choice Transportation Service customers, Staff failed to
24 recognize the additional costs associated with new curb-to-meter service-line
25 installations and the repairs or replacements of existing service lines.

- 1 2. In calculating those capped charges, Staff also failed to recognize that the cost
2 estimates submitted by DEO in support of the estimated rider charges were stated in
3 2007 dollars.
- 4 3. Staff did not recommend inclusion of all ongoing pipeline infrastructure investment
5 as part of the PIR program.

6 **II. OBJECTIONS**

7 **A. Recovery of Costs Related to New Curb-to-Meter Service-Line Installations**
8 **and Repairs and Replacements of Existing Lines – DEO Objection No. 34**

9 **Q5. How did you determine that Staff failed to recognize the additional costs associated**
10 **with new service lines and those repaired or replaced outside the areas where the**
11 **Company is replacing older vintage bare steel, cast and wrought iron and copper**
12 **pipelines?**

13 A5. As noted in Paragraph 12 of the Application, the cost figures used to prepare the PIR
14 program cost estimates excluded the costs of new curb-to-meter service-line installations
15 and repairs or replacements of existing service lines, including risers. The \$1.12 estimate
16 of the initial PIR Cost Recovery Charge and the subsequent increases of less than \$0.90
17 per year were thus based on program costs that excluded those investments.

18 **Q6. Why didn't the Company include those costs in its estimate of PIR program**
19 **expenditures?**

20 A6. As noted in Footnote 2 on page 6 of the Application, DEO's estimated costs of the PIR
21 program did not include the cost of those investments because customers would bear
22 those costs even if DEO does not assume ownership and responsibility for curb-to-meter
23 service lines. In other words, those costs are not incremental because customers would
24 have to pay them with or without the PIR program.

25 **Q7. Will those costs be substantial?**

26 A7. Yes. As noted in my Supplemental Direct Testimony submitted in this case on May 30,
27 2008, the cost of the new service line installations alone is likely to exceed \$10 million

1 per year. DEO estimates that it will also replace five to six thousand existing service
2 lines per year apart from those replaced under the PIR program. Using an average cost of
3 \$1,000 per replacement, that portion of excluded costs is approximately \$5 million to \$6
4 million.

5 **Q8. How should the capped charges be adjusted to reflect the inclusion of those costs?**

6 A8. There are several options available to address that issue. For example, one option is to
7 increase the caps for the PIR Cost Recovery Charge for General Sales/Energy Choice
8 Transportation Service customers by 14.6% based on an expected annual spend of \$15.5
9 million (\$10 million for new installations plus \$5.5 million for replacements) above the
10 average annual PIR program spend of approximately \$106 million. That would result in
11 an initial capped charge of \$1.28, with annual increases not to exceed \$1.15. Another
12 option would be to clarify that the capped charges exclude any amounts associated with
13 new curb-to-meter service-line installations and repairs or replacements of existing
14 services. Under this option, the Company would be permitted to include the additional
15 costs in the PIR Cost Recovery Charge after they are reviewed in the annual adjustment
16 proceedings.

17 **B. Failure to Account for Inflation – DEO Objection No. 35**

18 **Q9. Why is it important to recognize the effect of inflation on capped charges?**

19 A9. In short, because the costs to carry out the PIR program will be effected by inflation.
20 Staff's proposed caps for the PIR Cost Recovery Charge for General Sales/Energy
21 Choice Transportation Service customers are stated in nominal terms. However, the costs
22 used as the basis for those recommended charges are stated in "real" or "constant" dollar
23 terms based on costs in effect at the end of 2007 when the program expenditures were

1 estimated. If the proposed recovery charges are based on constant rather than nominal
2 prices, they will significantly undercollect the actual program costs over the 25-year life
3 of the program, which will rise due to the increases in labor and material costs that will
4 occur over two-and-a-half decades.

5 **Q10. How should the capped charges be adjusted to reflect cost increases due to**
6 **inflation?**

7 A10. Because Staff's recommended caps are based on 2007 dollar estimates, they should be
8 adjusted to reflect increases in prices beyond that point in time. DEO recommends one of
9 two general approaches to adjust those capped charges: (1) use a broad gauge of inflation
10 such as the Implicit Price Deflator for Gross Domestic Product or (2) use a weighted
11 average of indices to reflect the price of materials, such as the producer price index for
12 plastic pipe and the cost of labor using the wage escalation provisions of DEO's
13 collective bargaining agreement.

14 **C. Cost Recovery of Ongoing Pipeline Infrastructure Investments – DEO**
15 **Objection No. 36**

16 **Q11. What did Staff recommend with regard to the inclusion of ongoing pipeline**
17 **infrastructure investments as part of the PIR program?**

18 A11. Staff recommended that DEO be permitted to include ongoing infrastructure investments
19 in the PIR Cost Recovery Charge only to the extent that the costs to be included do not
20 cause the charge to increase more than \$1.00 per customer. Staff's basis was that this
21 limitation is consistent with those that Staff has agreed to in other proceedings dealing
22 with infrastructure replacement programs.

1 **Q12. Does that limitation provide as much benefit as the inclusion of all ongoing**
2 **infrastructure investments in pipeline replacements and relocations, system**
3 **improvements, pressure regulation, pipeline integrity and environmental**
4 **compliance?**

5 A12. No, it does not. The Company understands and appreciates the fact that Staff's proposed
6 capped charges may accommodate the inclusion of a portion of those investments in the
7 PIR Cost Recovery Charge. DEO also agrees with Staff's conclusion that the value of
8 deferring future rate cases must be balanced against the impact that the inclusion of those
9 costs will have on the PIR Cost Recovery Charge. Nevertheless, these ongoing
10 investments will provide real benefits to customers and enhance the performance of
11 DEO's system. And excluding some or potentially all of those ongoing investments will
12 not yield the benefits associated with less frequent rate cases that would be yielded by
13 including all such investments in the charge.

14 **III. CONCLUSION**

15 **Q13. Does this conclude your testimony?**

16 A13. Yes.

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