BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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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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DEPOSITION of JEFFREY A. MURPHY

taken before me, Maria DiPaolo Jones, a Notary Public in and for the State of Ohio, at the offices of Jones Day, North Point, 901 Lakeside Avenue, Cleveland, Ohio, on Monday, July 14, 2008, at 10:00 a.m.

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APPEARANCES:

Jones Day
By Mr. David Kutik
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On behalf of the Dominion East Ohio.

Janine L. Migden-Ostrander, Ohio Consumers' Counsel
By Mr. Joseph P. Serio
and Mr. Larry Sauer (via speakerphone)
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On behalf of the Office of Consumers' Counsel.

Nancy H. Rogers, Ohio Attorney General
Duane W. Luckey
Senior Deputy Attorney General
Public Utilities Section
By Ms. Anne L. Hammerstein (via speakerphone)
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On behalf of the staff of the Public Utilities Commission of Ohio.

ALSO PRESENT:

Ms. Barbara Bossart (via speakerphone);
Ms. Beth Hixon;
Mr. Ibrahim Soliman (via speakerphone).

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Monday Morning Session,

July 14, 2008.

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STIPULATIONS

It is stipulated by and among counsel for the respective parties that the deposition of Jeffrey A. Murphy, a witness called by the Office of Consumers Counsel under the applicable Rules of Civil Procedure, may be reduced to writing in stenotypy by the Notary, whose notes thereafter may be transcribed out of the presence of the witness; and that proof of the official character and qualification of the Notary is waived.

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Monday Morning Session,

July 14, 2008.

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(Witness sworn.)

MR. SERIO: Good morning. We're here for the deposition of Jeffrey A. Murphy in a series of East Ohio Gas Company cases before the Public Utilities Commission of Ohio, case numbers 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT, and 06-1453-GA-UNC.

I'll provide the court reporter with the written document with all those names so that you can record those.

My name is Joe Serio, I'm an attorney with the Ohio Consumers' Counsel, and with me is Beth Hixon, a member of our analytical staff. We're here with Mr. Murphy and his attorney, Mr. Kutik.

Also on the phone we have Larry Sauer, an attorney with the office of the Consumers' Counsel, Anne Hammerstein, an attorney with the Public Utilities Commission of Ohio, and with Ms. Hammerstein are Ibrahim Soliman and -- I'm sorry, I didn't catch the other name. Anne.

MS. BOSSART: Sorry, Anne stepped out.

It's Barb Bossart.

MR. SERIO: Barb Bossart. They are both staff members of the Public Utilities Commission of Ohio. And there's no one else on the phone, correct?

(No response.)

MR. SERIO: Okay.

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JEFFREY A. MURPHY

being by me first duly sworn, as hereinafter certified, deposes and says as follows:

EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Murphy.

A. Good morning.

Q. You've been deposed before, correct?

A. Yes.

Q. In fact, I've deposed you before, correct?

A. That is correct.

Q. So you understand how depositions go. If you have any questions or need a clarification, just let me know and we'll try to get through it as quick as we can this morning.

Can you tell me what your title is with

East Ohio?

A. I'm the Director of Rates and Gas Supply.

Q. And can you briefly explain to me what is involved in your job description?

A. In the rates area I'm responsible for the regulatory affairs of Dominion East Ohio at both the Public Utility Commission of Ohio and the Federal Energy Regulatory Commission. And on the gas supply end of my responsibilities I'm responsible for maintaining capacity needed to provide operational balancing and other gas supply acquisition activities.

Q. Your involvement in the current proceedings, you're involved in the rate case portion which would be the AIR parts of the case, correct?

A. Yes.

Q. You're also involved in the alternative regulation portions of this proceeding?

A. Yes.

Q. You're also involved in the automatic meter reading aspect of the case, the AMR?

A. Yes.

Q. And the pipeline infrastructure replacement proposal, you're involved with that also.

A. Yes.

Q. So it's safe to say that you have involvement in all aspects of all five of the different cases that have been consolidated for purposes of hearing in this case.

A. That is correct.

Q. I have questions about all three pieces of -- you filed three pieces of testimony, correct? A prefiled direct testimony, an initial supplemental testimony, and then a second supplemental testimony, correct?

A. Yes.

Q. That's the total of the testimony that you've submitted in the proceeding?

A. Yes, it is.

Q. And you're also testifying regarding various schedules that are related to your testimony and all those schedules are listed in the testimony that you filed, correct?

A. Correct.

Q. Okay. Let's get started. I have a few questions about some of the ways that Dominion provides service to other entities. You're familiar with the term "peak-day service," correct?

A. Could you be more specific, please?

Q. You understand what a peak day is in terms of the natural gas industry?

A. Yes; it has various meetings.

Q. With regard to providing service to customers, the peak day is the day that customers use the most service, on a theoretical basis, throughout the year, correct?

A. It could be theoretical or actual.

Q. Service is based on being able to provide customers what they would need on their peak day, correct?

A. Yes.

Q. And in addition to providing service to its own customers, does Dominion provide peak day supply services --

MR. KUTIK: Hold on a second.

Go ahead. My pen ran out.

Q. Does Dominion also provide peak day supply service to other local distribution companies?

A. No.

Q. It does not. Does Dominion have any type of peaking service arrangements with Columbia Gas of Ohio, Inc.?

A. I don't know.
Q. And can you tell me who would know?
A. Yes.
Q. And who would that be?
A. Mr. Anthony Sanabria, our manager of Transportation Services.
Q. Is Mr. Sanabria listed currently as a witness in this proceeding? Has he provided testimony?
A. No.
Q. No. Is there any of the Dominion witnesses in this proceeding that would be familiar with those type of peaking arrangements?
A. I don't know.
Q. Can you tell me who Mr. Sanabria reports to? What division he works in.
A. He reports to me.
Q. He reports to you. But you don't know if Dominion has that type of arrangement with Columbia Gas of Ohio.
MR. KUTIK: Object; asked and answered.
A. No, I don't know.
Q. Do you know if Dominion has any type of peaking arrangements with any other local

distribution companies other than Columbia Gas of Ohio?

A. There are none that I'm aware of.

Q. And to the best of your knowledge Mr. Sanabria would have knowledge about those also?

MR. KUTIK: Objection; assumes that they exist.

Q. If such contracts existed, would Mr. Sanabria be the person that would know about those contracts?

A. Yes.

Q. Do you know if Dominion provides peak day supply service to any other companies such as electric utilities?

MR. KUTIK: When you say "Dominion," we're talking Dominion East Ohio.

MR. SERIO: Dominion East Ohio, yes.

A. Dominion East Ohio does not provide any peak day supply services to any party other than its own sales customers.

Q. So you don't know of any electric utilities that might be a sales customer of Dominion.

A. No.

Q. And when you say "customers," would that include marketers or suppliers?

A. No, it would not.

Q. It would not. Would it --

MS. HAMMERSTEIN: Joe, excuse me. I'm sorry. This is Anne. Jeff's voice fades out and we are having difficulty hearing him.

MR. SERIO: We will try to move the microphone so that it's closer to Mr. Murphy.

MS. HAMMERSTEIN: Thank you.

MR. KUTIK: That should work.

Q. I was about to ask, when you said "Dominion customers," would industrial customers be included among the customers that would have peak day supply service?

A. Yes, they would be if they were a sales customer.

Q. And then the other customers would be commercial and residential customers, correct?

A. Yes.

Q. So other than residential, commercial, and possibly industrial customers, Dominion doesn't have any other peak day supply service customers that you're aware of, correct?

A. That is correct.

Q. And if there were any other customers, then Mr. Sanabria would know about it.

A. Yes.

Q. To the best of your knowledge does Dominion have any plans to try to provide peak day supply service to other local distribution companies?

A. No.

Q. Is it no you're not aware of it, or no dominion doesn't have any plans?

A. No, Dominion has no plans to provide peak day supply service.

Q. And you would know about it if Dominion did have any plans to offer that type of service, correct?

A. Yes.

Q. Are you familiar with any of Dominion's sister distribution companies, Hope and Peoples Gas?

A. Could you describe what you mean by "familiar"? I know of course they exist.

Q. You know who they are, correct?

A. Yes.

Q. You're aware that Dominion's parent company is in the process of selling Hope and Peoples?

A. Yes, I am.

Q. Are you aware if the sale of Hope and Peoples will have any impact on Dominion East Ohio?

MR. KUTIK: Objection.

A. What kind of impact might you be referring to?

Q. You're familiar with shared services expenses that Dominion gets from your parent company?

A. Yes.

Q. To the best of your knowledge will any of the shared services expenses be affected by the sale of Hope and Peoples?

A. Yes.

Q. It will. Can you explain how the sale of Hope and Peoples may affect the shared services that Dominion receives from the parent company?

A. When you say "affect the shared services," do you mean cost or in some other manner?

Q. Well, I absolutely would like to know about cost, but in addition to cost when you indicated that you were aware that there would be changes, if there's other noncost items, I'd like to know about those also.

A. I know of no impact on the quality or range of services that will be offered to East Ohio as a result of this sale. The cost of those services may change.

Q. Have you been given any indication as to how those costs might be affected by the sale of those companies?

A. No.

Q. And the cost that Dominion pays during the test year has not been impacted by the sale, correct?

A. That is correct, because the sale did not occur during the test year.

Q. And you've gotten no communications or indications from the service company as to how any costs might change on a going-forward basis; is that correct?

A. Yes.

Q. Now, to the extent that the service company provides services to the various different distribution affiliates and to the extent that each affiliate paid a percentage based on the cost, I assume there's various different allocation factors; you're familiar with that, correct?

MR. KUTIK: Objection.

A. I'm generally familiar with the allocation factors.

Q. So, for example, there might be a service that was allocated among five different distribution companies equally, there could be other allocation factors that might be based on number of customers or volumetric throughput, correct?

A. I'm not aware of any cost allocations that were done equally, it was predominantly based on certain factors based upon the type of cost incurred.

Q. To the extent that two of the distribution companies are being sold are you aware if those companies are going to continue to take any services from the service company? The Dominion service company.

A. I don't know.

Q. And whether they continue to take service or not would be a major factor in determining whether there might be any cost implications for Dominion East Ohio on a going-forward basis, correct?

THE WITNESS: Could you repeat the question, please?

(Record read.)

MR. KUTIK: Objection; incomplete

hypothetical.

A. Could you rephrase the question, Joe, please?

Q. To the extent that Hope and Peoples no longer would take service from the service company, then there's a possibility that East Ohio may get a greater percentage of the remaining costs because there's fewer customers to spread those costs over; is that a possibility?

MR. KUTIK: Objection. Same objection.

A. As a hypothetical it's possible.

Q. The flip side being if they continued to take service at the same level that they're taking them today, then you wouldn't expect there to be any change in the cost of the services that Dominion gets, correct?

MR. KUTIK: Objection.

A. Because costs constantly change there may still be differences in costs even if the service company were to continue to provide certain services to the companies that were sold.

Q. Any changes, based on your answer, though, would generally be much smaller in magnitude than the changes that might occur if a company took no services from the service company, correct?

MR. KUTIK: Objection; incomplete hypothetical. We're really in the realm of wild speculation at this point.

A. Generally speaking, on a hypothetical basis, that would be true.

Q. Now, are you aware of any other changes that might occur with Dominion regarding the sale of Hope and Peoples other than potential cost implications from the service company?

MR. KUTIK: May I have the question read, please?

(Record read.)

A. When you mean implications for Dominion, are you referring to Dominion East Ohio, or Dominion in its entirety?

Q. No; Dominion East Ohio. I think earlier on in our exchange you'd indicated that you were aware of potentially some cost changes and that there might be other. I'm now exploring the other.

MR. KUTIK: Why don't we also get this agreement on the record, anytime you say "Dominion," you're talking about Dominion East Ohio.

MR. SERIO: Yes.

MR. KUTIK: Unless you say otherwise.

MR. SERIO: Yes, unless I indicate otherwise, "Dominion" or "the company" would refer to the local distribution company that has filed the various proceedings that we're here talking about.

A. The other changes that I referred to were related to the type or quality of service that would be provided, and I indicated previously that I did not believe there would be any such changes.

Q. Okay. So when we look at any potential changes from the sale, you don't believe there will be any from any quality standpoint and anything that will come from costs we previously discussed. There's no other changes that you can think of that might occur, correct?

A. There are none that I can think of at the present time.

Q. Do you know if Dominion has any plans to hire any additional employees to do any shared -- to do work that otherwise might have been provided as a result of any arrangements between either Dominion and either Hope or Peoples?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. No.

Q. Do you know if Dominion has contributed to the cost of any developmental computer system programs or programming billing systems as a result -- strike that.

Do you know if Dominion has contributed to the cost of the development of any computer system programming or program such as billing or customer information systems?

A. Yes.

Q. And can you tell me what programming or programming systems Dominion has contributed to the development of?

A. I don't know all of the systems, but some of them would include the billing system.

Q. Are there any other types that you're familiar with?

A. The eScript electronic bulletin board.

Q. Can you explain what the eScript or the electronic bulletin board, what their function is?

A. The bulletin board is a means of allowing customers and marketers to nominate volumes to be delivered to East Ohio and, in turn, delivered to their customers.

Q. Now, to the extent that Dominion gets services from your affiliate service company, that's done as a result -- is there a contract that you have with the service company?

A. Yes.

Q. Are you familiar with the terms of that contract, generally speaking?

A. Yes.

Q. Do you know, to the extent that Dominion service company were to continue to provide services to Hope or Peoples after the sale, if there were revenues from that, would any of those flow back to the remaining distribution companies in recognition of the fact that they contributed to the cost of the development of the programs?

A. I don't know.

Q. Do you know who might know a situation like that?

A. No.

Q. What area would information like that fall under, if you know?

A. I don't know the specific area where it would be addressed.

Q. Okay. Do you know if Dominion's parent company has any plans to sell Dominion East Ohio?

A. No.

Q. To the extent that there were such plans, would you be aware of it?

A. Not necessarily.

Q. You report to Mr. Bruce Klink, correct?

A. Yes.

Q. Mr. Klink's president of Dominion East Ohio.

A. Yes.

Q. If there were plans to sell Dominion, Mr. Klink would be, to the best of your knowledge, involved in those discussions or would know about it?

MR. KUTIK: Objection; calls for speculation as to what Mr. Klink might know.

A. Certainly he would know at some point, but I don't know at what point he would be made aware.

Q. You indicate in your testimony, I think it's in your direct testimony, you talk about understanding the difficult financial conditions that are located in the Dominion East Ohio service territory. Do you recall that?

A. Yes.

Q. And that generally has to do with the economic conditions in the city of Cleveland, Cuyahoga County, surrounding areas, correct?

A. Many of the references cited in the testimony related to the Cuyahoga County area although it's my understanding that those conditions may be across our entire service territory in some fashion.

Q. I didn't mean to limit it to only Cuyahoga, but because Cuyahoga County is the largest county of your service territory, what happens in Cuyahoga County impacts the company to a little greater degree than what happens in the rest of the territory, correct?

A. Generally speaking, that's correct.

Q. Are you familiar with, from a customer service standpoint, any policies that the company has where they've initiated different policies in order to respond to the difficult economic conditions that we're facing today?

MR. KUTIK: Objection.

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Could you be more specific?

Q. When you indicated in your testimony that the economic conditions are down, that's a recognition that the economic conditions today have taken a downward turn from three to five years ago, correct?

A. Correct.

Q. And it's been a serious enough economic downturn that it's also affected the company's revenues, correct?

A. That is correct.

Q. Now, to the extent that we've had these difficult economic conditions, are you familiar with any customer service initiatives that East Ohio has implemented, if there are any, to address the economic downturn that East Ohio's -- that the East Ohio service territory's experienced in the last three to five years?

A. I can't think of any specific initiatives that the company has initiated on its own.

Q. Are you familiar with any policies that the company has participated in with other parties?

A. Yes.

Q. And could you elaborate on those?
A. For example, in the past winter the Commission issued a moratorium on residential disconnects for households at or below 175 percent of the poverty level; Dominion East Ohio participated in implementing that particular moratorium on its service territory.
Q. Do you know if the Commission has implemented moratoriums like that in the past?
A. It has not done so recently to my knowledge.
Q. Are you aware of any other situations other than the Commission's order this past winter?
A. None that come to mind at the present time.
Q. Do you know -- are you familiar with East Ohio's billing and collection practices?
A. I'm generally familiar with those practices.
Q. Do you know if there have been any changes or modifications to billing and collection practices as a result of the economic conditions in the last three to five years?
A. I'm not aware of any changes to the

billing practices.

Q. Are you aware of any changes to collection practices?

A. The company has looked at alternatives to its approach to disconnecting customers for nonpayment, one of the initiatives involved behavioral scoring to try and assess what customers are most likely to default on payment to the point where they would need to be disconnected as opposed to others who are behind on their bills and may self-correct.

So there have been some reviews of alternative credit and collection practices.

Q. When you talk about alternative collection practices, would different billing options fall under that category?

MR. KUTIK: Objection.

A. No.

Q. So as far as anything with different types of billing, that would have been under the prior response where you indicated you weren't aware of any billing changes, correct?

A. That is correct.

Q. Do you know if the company has done any outreach with customers to determine any changes that customers might like to see or changes that customers would suggest that would make billing or collection practices more customer friendly other than the response you just gave?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Yes.

Q. And can you elaborate on those?

A. I was not involved in those discussions, but personnel from our Government Affairs and Customer Relations area have met with certain customer groups to hear what those customer groups have to say with regard to potential improvements in services or means by which certain issues related to billing or credit can be addressed.

Q. You indicated your government -- the folks that were involved, could you repeat that?

A. Yes. Government Affairs and Customer Relations.

Q. Let's take them one at a time. What would your Government Affairs section or department be? If you could describe briefly what they do.

A. Government Affairs meets with state and local officials to address issues related to gas utility service and occasionally will meet with customers to do the same.

Q. This would include various lobbyists that are employed by Dominion?

MR. KUTIK: Objection.

A. It could.

Q. The other government affairs would be actually individuals that go out in the community and meet with community groups; is that what you're referring to?

A. Yes. Specifically mayors or city service managers and the like.

Q. How does that differ from customer relations?

A. Customer Relations reports to our Customer Services area and those individuals deal more directly with customers regarding billing and payment issues.

Q. Those would actually be people that get phone calls from the general public?

A. They can.

Q. Or they might be the supervisors of the people that get the phone calls.

A. Correct.

Q. Other than those two types, is there anything else under Customer Relations that I'm missing?

MR. KUTIK: Objection.

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Sorry. What two types, Joe?

Q. Other than folks that actually get calls or the folks that supervise them, is there any other type of employee that would be in the customer relations?

A. Those would be the two primary roles which employees would have.

Q. Now, as part of the various proceedings that are before the Commission today the company's proposed a variety of different or new initiatives, one involves a potential change to rate design; are you familiar with that?

THE WITNESS: I'm sorry, could you repeat the question, please?

(Record read.)

A. Could you describe what you mean by the company's proposal to change rate design?

Q. The company proposed to maintain the current fixed customer charge for the majority of its service territory, the east Ohio and river areas, and to only bring the customer charge in the west Ohio area up to the level that the east Ohio and river companies are currently at. That's 5.70 a month, correct?

A. That's correct, for the general sales, service, and energy choice transportation service rate schedules.

Q. Right. So instead of increasing that fixed customer charge the company proposed a decoupling mechanism, correct?

A. The company proposed the decoupling mechanism in lieu of moving to other rate designs such as straight fixed variable.

Q. And the company currently doesn't have any decoupling as part of its tariffs; is that correct?

A. Yes.

Q. So you would agree with me the decoupling mechanism is a new proposal that the company put forth in this proceeding.

A. Yes.

Q. Do you know if prior to making the application whether the company did any outreach with consumers to determine how understandable or how receptive customers might be to a decoupling type mechanism?

A. No, we did not.

Q. And you're not aware of anybody in your Governmental Affairs or Customer Relations doing any type of outreach like that either, are you?

A. No.

Q. The company also has proposed an automatic meter reading or AMR proposal as part of this proceeding, correct?

A. That is correct, we filed a case in 2006 which has been consolidated with this rate case dealing with cost recovery of AMR deployment.

Q. That's the 06-1453-GA-UNC proceeding, correct?

A. Yes.

Q. Prior to filing the 06-1453 proceeding are you aware of any efforts that the company made to get any public input as to how the public would react or understand the company's proposal to install automatic meter reading devices, AMRs?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Could you describe what you mean by "public input"?

Q. Did you do any public forums to get reaction from the public to the plan that the company had to install the AMRs?

A. No.

Q. Are you aware of any actions by Governmental Affairs or Customer Relations with regard to the AMRs?

A. No, I'm not.

Q. A third aspect of this proceeding is the pipeline infrastructure replacement program, correct? Are you familiar with that?

A. Yes, that case was filed in 2008 and it too has been consolidated with the rate case.

Q. And that would be the 08-169-GA-ALT proceeding, correct?

A. Yes.

Q. And prior to filing that proceeding are you aware of any efforts that the company made to get any input from consumers regarding the company's proposal to engage in a program over 25 years to replace I think it's approximately 3,500 miles of bare steel and other types of pipe?

A. No, not aware of any efforts.

Q. And again, do you know if the Governmental Affairs or Customer Relations departments had any efforts into any kind of input on that?

A. No.

Q. Now, as part of I think it's your second supplemental testimony you indicated that the company was now accepting or adopting the straight fixed variable rate design recommendation that the staff of the Public Utilities Commission made in its Staff Report; are you familiar with that?

A. We stated an objection to that rate design with certain caveats expressed.

Q. You objected to the staff recommending a straight fixed variable rate design.

MR. KUTIK: Objection.

A. I think our objections state that we do not object to the concept of the rate design, but want to be assured that there are certain aspects of that rate design that are reflected should it be approved.

Q. So to the extent that the Commission were to accept the staff's recommended straight fixed variable rate design as long as those caveats that you mentioned were addressed by the Commission, the company would then be supportive of a straight fixed variable rate design in lieu of the rate design proposal that's incorporated in your original filing, correct?

THE WITNESS: May I have that question reread, please?

(Record read.)

A. Yes.

Q. And has the company done any kind of outreach to consumers to determine how customers might react as far as understanding or agreeing with the straight fixed variable rate design with the caveats that the company has indicated?

A. When you speak of outreach, you mean the same kinds of outreach that you described earlier with respect to AMR?

Q. Yes, and the PIR.

A. No. No such outreach has been undertaken to my knowledge.

Q. And again, do you know if the Government Affairs or Customer Relations have done any type of outreach like that to customers or customer groups?

A. No.

Q. Do you know if the company's done any kind of survey to determine if customers would understand what a straight fixed variable rate design would involve as far as how it might impact their bills?

MR. KUTIK: Objection.

A. Could you rephrase the question, Joe, please?

Q. Sure. Are you aware if the company's done any surveys or focus groups or activities such as that to determine how customers would either understand or accept the concept of straight fixed variable rate design and how that might impact their bills?

A. No, we have not.

Q. You'd agree with me that a straight fixed variable rate design would change the bills that customers would get because there would be shifting of costs between the fixed and variable portions of the customer charge, correct?

A. Yes.

Q. For example, as proposed by the staff the customer charge would increase from the current 6.50 to, I'm sorry, from the current 5.70 to I think it's $17.50 a month with some corresponding decrease to the volumetric portion, correct?

A. That is correct.

Q. And for a customer looking at a bill, would you agree with me that that would probably constitute a material change in reviewing one's bill?

MR. KUTIK: Objection.

A. I really can't speak to how customers would perceive that change.

Q. You as a customer, if you got a bill and the customer changed from 5.70 a month to 17.50, there was a decrease in the volumetric charges that had changed, that would get your attention?

MR. KUTIK: Objection.

A. Being a budget billing customer that would not necessarily have much of an impact on my particular amount owed to the company.

Q. You're familiar with the Commission's minimum gas service standards, are you not, the MGSS?

A. Yes.

Q. And you're involved in -- you were involved in the proceeding that led to the development of the MGSS, correct?

A. Yes, I was.

Q. And you work with folks at Dominion as far as implementing and complying with the MGSS, correct?

A. I provide them information related to what the standards say. I don't necessarily play a role in how they implement so as to be compliant with that rule.

Q. To the extent that there might be costs as a result of implementing MGSS, you would be made aware of it, correct?

A. I would be made aware in a general sense, certainly.

Q. And to the extent that there's been any increases in costs as a result of implementing the MGSS, to the extent that those additional costs are incorporated into the current rate proceeding, you would be aware of it, correct?

A. I wouldn't be aware of it to that level of detail.

Q. You wouldn't know the specific dollars, but you'd be aware that there were increases related to that, in a general sense.

MR. KUTIK: May I have the question read, please?

(Record read.)

A. Yes.

Q. For example, I think the company's initial application was approximately a $75-1/2 million revenue requirement. You're familiar with the components that make up that $75.5 million, correct?

A. What do you mean by -- pardon me. What do you mean by "components" of that increase?

Q. How much of that increase would be related to a change in the return on equity that the company's entitled, how much might be due to investments in new pipe, how much might be due to increases in operating and maintenance expenses, things of that type.

A. No, I'm not familiar with how the 75 million is developed with all those particular components, I know that in the aggregate it amounts to approximately $75 million.

Q. You're generally familiar with how much of the 75 million might be related to each of those components; are you not?

MR. KUTIK: Objection.

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. You say generally related. Could you be more expansive?

Q. For example, sometimes in a rate case such as the one we're in right now you might look at the revenue requirement, 75-1/2 million, and you could identify how much of that was related to a change in rate of return; you're familiar with that concept?

A. I'm familiar with the concept of it being impacted by the rate of return, but not with that portion of the 75 million attributable to a change in rate of return.

Q. Right, because you're not the rate-of-return witness. But you would understand how much of the 75-1/2 was related to the change in rate of return, correct?

MR. KUTIK: Objection; asked and answered.

A. No.

Q. Would you be familiar with how much of the 75-1/2 million was related to new investment, new pipeline that the company's put in place since the last rate case?

A. No.

Q. Would you be familiar with the portion that's related to increases or changes to operating and maintenance expenses, for example?

A. No.

Q. Would those be questions that would fall under Ms. Friscic's area of expertise?

A. No.

Q. Are you familiar with the different charges that the company proposed in this proceeding, for example, the late payment fee, fees like those?

A. Yes.

Q. And that's an area of your testimony; is it not?

A. Yes.

Q. So you're familiar with the returned check fee that the company proposed in this proceeding?

A. Yes.

Q. And can you explain the rationale for implementing or proposing the return check fee?

A. In general it relates to the costs incurred for the company when customers' checks aren't cleared properly.

Q. To the extent that you've proposed a return check fee, is there any contingencies within that to the extent that the check did not clear as a result of an error that was not the fault of the customer? For example, if there was a banker error.

A. I'm not aware of any such contingencies.

Q. So as proposed by the company the bad check fee would be charged regardless of the reason if a check didn't clear.

A. Yes, it would, although the customer would be able to call the company and explain the situation and potentially have that charge reversed on the bill.

Q. So the company does have some discretion in the proposal where they would be willing to consider waiving that charge if there was a reason that the company deemed to be reasonable or appropriate?

A. There's no provision that I'm aware of in the proposed tariff language, although customers can call and certainly discuss those issues with our call center personnel and, again, potentially have that charge waived.

Q. The call center personnel have the discretion to be able to waive those charges if they deem the explanation to be sufficient.

A. Yes.

Q. There is nothing in the company's proposal of the tariffs that precludes those types of fees being waived.

A. No.

Q. Okay. Now, I think the company's also proposed a collection fee?

A. Yes.

Q. And can you explain to me what the collection fee would be?

A. If I could refer to the proposed tariff language, that would be helpful, and I don't have that with me.

Q. That's tariff language that would be in the application?

A. Yes.

Q. That's not something that would be in your testimony.

A. That is correct.

Q. Do you have any understanding in general regarding the collection fee, what it is, without looking at the tariffs?

A. I'd like to refer to my initial direct testimony if I could; do you have that?

Q. Do you have a copy with you?

A. No, I don't.

Q. I'm handing you a copy of your direct testimony, pages 1 through 50. If you need the attachments, I can provide you those.

MR. KUTIK: Are you going to mark this as an exhibit?

MR. SERIO: No, just for reference purposes. It's already in the record.

MR. KUTIK: Okay.

Q. If you need the attachments, let me know, I can pull those off from my other copy here.

A. Thank you.

Q. Let me do this, I got a couple of general questions, maybe -- generally speaking did the company have a collection fee prior to this proceeding?

A. No.

Q. So what you've proposed is a new charge in this proceeding, then, correct?

A. That is correct.

Q. And is it your understanding that the collection fee is a fee that would be charged if a customer attempted to pay a company representative at the customer's residence?

A. It may apply in other situations. I would need to look at the tariff language to answer that specifically.

Q. Now, do you know what makes up the cost components for the collection fee?

A. I believe it is a combination of internal costs and external costs that may be incurred in the company's efforts to collect amounts past due from the customer.

Q. Let's look at the external costs first. That would be, for example, a collection agency or court costs associated with the proceeding?

A. Yes, it could.

Q. Are there any other type of external

costs you can think of other than a collection agency or legal fees?

A. Those would be the primary ones.

Q. As far as internal costs, can you give me an idea of what the internal costs might be?

A. Those would be costs incurred in our customer services area and specifically in our credit and collections area associated with the processing of those kinds of actions.

Q. Okay. When you say the processing of the action, you mean to the extent that there had to be a disconnect or an effort undertaken in order to collect the fee itself, correct?

A. It would be primarily the latter type.

Q. Now, to the extent we were talking about the external fees, I think you indicated that it would be collection agencies or legal fees were the primary areas?

A. Yes.

Q. Okay. And the legal fees could occur regardless of whether the customer was taken to court, it would just be to the extent that there was actually a cost incurred?

A. Yes.

Q. Is it safe to say that those are only based on actual costs, or is it based on the -- what it would cost if we had to undertake a certain proceeding?

MR. KUTIK: Objection.

THE WITNESS: May I have the question reread, please?

(Record read.)

A. Could you explain what you mean by "certain proceeding" or rephrase the question?

Q. Is it only when there's actual costs incurred?

MR. KUTIK: Is what only when?

Q. The legal fees that would be incurred, is that only if there's actually a legal fee incurred? When you're referring to the external --

MR. KUTIK: I guess you're asking him if the legal fees are incurred if the legal fees are incurred?

Q. Are legal fees charged only if there's actual legal fees incurred? Or is the cost set up in a manner that regardless of whether there's actual costs in this instance, there is an allocation of legal fees? I guess that's what I was getting at.

MR. KUTIK: I'll object.

THE WITNESS: May I have the last statement reread, please?

(Record read.)

THE WITNESS: May I have that again, please?

(Record read.)

A. The intent of the charge is to bill customers for costs they cause the company to incur for their particular situation.

Q. So the intent is only for actual costs incurred.

A. Yes.

Q. Okay. Roundabout way to get to the answer.

Now, are you familiar with the investigation fee that the company has?

A. Yes.

Q. And I believe that one aspect of the investigation fee involves reasonable observations that company personnel or agents that the company make regarding fraudulent or damaging practices that might occur, correct?

A. Yes.

Q. What opportunities do customers have to refute the reasonable observations that company personnel or agents might observe regarding fraudulent or damaging practices?

A. Were a customer to be billed an investigation charge, once again, they could call the call center, explain the circumstances. The customers would then have the opportunity to put forth their version of events or their side of the story as it were.

Q. And then the customer service personnel have the authority to be able to accept part, all, or none of the explanation and then go forward from that point.

A. They would after review with our credit area most likely.

Q. And to the extent that they accept or reject, and that is part of the explanation from the customer, that's then conveyed to the customer?

A. Ultimately, yes.

Q. To the extent that a customer might disagree with the result of having that discussion with customer service personnel, what other avenues does a customer have to refute the reasonable observations that were made by the company personnel or agents?

A. They can certainly contact the Office of Consumers' Counsel or the Public Utility Commission who ultimately then would contact the company as well.

Q. Now, to the extent that a customer might refute the reasonable observations, are you familiar with any standards that the company has regarding what might constitute the kind of proof a customer would have to provide in order to refute the observations made by the company personnel or agents?

A. I'm not aware of whether any such standards exist.

Q. Is it more of a case-by-case review, or -- when you say you're not aware of any standards, is that the case then?

MR. KUTIK: Objection.

A. I believe it is more of a case-by-case review.

Q. I had some questions regarding the issue of pension expense. You're familiar with that --

MR. KUTIK: Before we start that, we need to take a break.

MR. SERIO: Sure.

(Recess taken.)

MR. SERIO: Back on the record.

Q. Just before we broke I was going to get to a new section. I was going to discuss the pension expense issue with you. You are familiar with the pension expense issue in this proceeding?

A. Yes.

Q. Now, I believe on your second supplemental testimony, page 6 of that testimony, line 4, you begin discussing Dominion's objection to the Staff Report relating to the pension expense. Do you see that?

A. Yes.

Q. And I understand that Mr. Ives is your expert on the pension issue, but you're also familiar with the issue regarding Dominion's accounting for the pension expense, correct?

A. I'm familiar with the issue though not to the degree that Mr. Ives is.

Q. Now on lines 10 to 13 you indicate that Dominion's position -- you indicate what Dominion's position is, and you note that you're proposing to remove the pension credit from the test year expenses and exclude the pension asset on the company's books, net of associated accumulated deferred income taxes, from the date certain rate base. Do you see that?

A. Yes.

Q. Now, what is the FERC account on the company's books in which the pension asset is contained?

A. I don't recall.

Q. Do you know if it's the prepaid pension cost account 182?

A. I don't know.

Q. Are you familiar with the pension asset balance as of March 31st, 2007?

A. Yes.

Q. And that was approximately $629 million, correct?

A. Yes.

Q. And the Commission staff proposed to add other rate base items on Schedule B-6 of the Staff Report, correct?

A. It was Schedule B-5 and B-6 I believe is where nonplant rate base items are.

Q. The other rate base items.

A. Yes.

Q. Right. Now, in the company's application Schedule B-6 Dominion reflected an allocated total and other rate base items of approximately $220 million in account 283 for accumulated deferred income taxes, ADIT; are you familiar with that?

A. Yes, generally.

Q. Okay. And that reflected the amount before any adjustments that would have reduced rate base, correct?

A. Could you be more specific, please?

Q. The $220 million in account 238, the ADIT, that was the amount before adjustments would have reduced any rate base, correct?

A. Yes, that was the unadjusted, part of the unadjusted amount of accumulated deferred income taxes.

Q. And I could find that on Schedule B-6?

A. I believe so.

Q. That would be in the SFRs, the B-6 schedule.

A. Yes.

Q. Now, the adjustment that the company proposed would eliminate the pension related ADIT from other rate base items, correct?

A. That is correct.

Q. And again, that's Schedule B-6 of the SFRs?

A. I believe so.

Q. I just want to make sure we're looking at the right thing.

Now, can you explain to me the difference between the company's book accounting treatment and the tax treatment for the pension that resulted in the accumulated deferred income taxes?

MR. KUTIK: Could I have the question reread, please?

(Record read.)

A. No.

Q. So that's something that only Mr. Ives or that would be something that would fall under Mr. Ives' expertise?

A. Yes.

Q. There's no other Dominion expert witnesses in this proceeding that would be familiar with that difference other than Mr. Ives; is that correct?

A. Yes, there is.

Q. There is. And who might that be?

A. Robert Taylor.

Q. Mr. Taylor.

Now, the pension related ADIT that's in account 283, why does that serve as an amount to reduce rate base, if you know?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. It was not used to reduce rate base in the company's application.

Q. Wouldn't you agree with me that, like other deferred taxes, that the ADIT is a noninvestor supplied fund?

A. In general that is correct when the pension is also -- pardon me, when the corresponding asset is also used in rate base calculations.

Q. So to the extent that it's a noninvestor supplied fund, that would explain why the pension related ADIT in account 283 would serve as an amount that's deducted from rate base, correct?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. I responded earlier that the company's application did not use that portion of the accumulated deferred income taxes to reduce rate base.

Q. Now, I believe that Mr. Ives in his testimony opined that the growth experienced since 1994 in the pension asset was as a result of favorable performance of the pension plan investments coupled with the company's ongoing labor management efforts; do you recall that in his testimony? Are you familiar with that at all?

A. Yes.

Q. Now, what, to the extent that you're familiar, what is the ongoing labor management efforts that Mr. Ives described?

A. I believe he used the term "ongoing labor cost management efforts."

Q. Yes. Yes.

A. And that referred to the company's practice of rightsizing the organization so as to be as efficient as possible in rendering utility service to its customers.

Q. To simplify it, it's making sure you're not carrying extra personnel on the books.

A. Pardon me. Is that a question?

Q. I'm trying to understand it from a layman's perspective; yes.

A. I believe I would stay with my earlier response as to what was intended there.

Q. And that would be regarding whether the rightsizing involved increasing or decreasing personnel, correct?

THE WITNESS: May I have the question reread, please?

(Record read.)

MR. KUTIK: Objection.

A. Could you rephrase the question, please?

Q. Okay. When you indicated -- I think the word you used was "rightsizing."

A. Yes.

Q. When you refer to rightsizing, does that mean making sure that there's as many employees as you need whether that involves adding employees or reducing employees, or is it only with regard to reducing employees?

A. It's with regard to both.

Q. Both, okay. Now, can you explain how these rightsizing efforts impact the pension expense?

A. Yes.

Q. If you could explain that for me.
A. In general terms it affects the future obligation of the pension plan.
Q. For example, if there were more employees than were needed, there would be a greater liability to the pension in the future, correct?
MR. KUTIK: Objection.
A. Could you state what you mean by "more employees than needed"?
Q. Well, if you're not rightsized, okay, then -- let me ask you this way: What do you mean by not being rightsized?
A. Generally speaking, it could be either having too many employees or too few employees to do the work efficiently for utility service to be provided.
Q. If there's too few employees, how would that impact the pension expense?
A. The fewer the number of employees, the lower the anticipated obligation for the pension plan.
Q. And then to the extent that there were too many employees, how would that impact the pension?

A. The converse is true. The more employees there are, the greater the future obligation of the pension plan.

Q. Now, can you explain how the rightsizing impacts the growth in the pension asset?

A. The pension asset is a function of several factors, one factor is the future obligations of the pension trust, another factor is the return on the plan assets. The labor cost management practices of the company would primarily affect the future obligation of the pension plan trust and potentially reduce it, thereby, contributing to an overfunded pension plan.

Q. Okay. But if we separate the contributions to the pension versus the growth in the fund, growth can occur in two ways, correct? It can occur from employee contributions and company contributions, or it can occur from the investment growth that occurs, correct?

A. Growth in the asset on the balance sheet does not require contributions by the company or employees.

Q. So when we look at growth in the pension asset, that's generally just the growth that occurs as a result of the investment strategies?

A. No.

Q. Can you elaborate, then, how growth in a pension asset occurs?

A. It's important to recall that the pension asset like the pension expense is a function of actuarial assessments.

Q. Right.

A. And those actuarial assessments and specifically assumptions could impact the amount of the asset that's recorded on the books as well as the amount of the expense that is recorded.

Q. So if there was a change in the assumptions, that might impact the growth of the pension asset up or down.

A. Yes.

Q. Do you know how often those assumptions are revisited?

A. The company has actuarial studies performed every year.

Q. So there's an annual review of any of the assumptions that underlie the pension asset itself.

A. Yes.

Q. And those are done by an independent

actuarial firm?

A. Yes.

Q. And to the extent that they modified the assumptions, then whatever modification they make to the assumption rolls through and then will impact the pension asset positively or negatively based on how the assumption plays through, correct?

A. Yes.

Q. Now, are you familiar with Financial Accounting Standards Board?

A. Only generally.

Q. Generally, okay. You know what the Financial Accounting Standards Board is.

A. Generally.

Q. Right. You're familiar with the term "FAS" or "FASB"?

A. Yes.

Q. And those F-A-S or F-A-S-B generally refer to the Financial Accounting Standards Board.

A. Yes.

Q. Okay. And you're familiar they issue different directives from time to time? For example, FAS 87.

A. Yes.

Q. And you are familiar with FAS 87?
A. In general terms, yes.
Q. Okay. And do you know when the company adopted FAS 87 for accounting purposes?
A. I believe FAS 87 was implemented in 1986.
Q. That was done after the company's last rate case, correct?
A. No.
Q. No, it was done --
MR. KUTIK: He said "'86."
Q. '86. Prior to the company's last rate case.
A. Yes.
Q. Okay. Do you know if it was done in conjunction with the rate proceeding, or was it done separately?
MR. KUTIK: When you say "the rate proceeding," you're talking about the --
MR. SERIO: There was a '93 rate proceeding, and I believe the proceeding prior to that was 1987.
A. It was '86 or '87.
Q. Do you know if the FAS 87 for accounting purposes was implemented as part of that '86 or '87

rate case or was it just a stand-alone change, if you know?

A. I don't know.

Q. Okay. Now, if the Commission were to adopt the company's proposal for a zero pension expense, it would mean that FAS 87 would not be used or approved for Dominion for rate-making purposes, correct?

A. Yes, that's correct.

Q. And if that were to occur, then Dominion would be using a method other than FAS 87 for rate-making and would be using FAS 87 for accounting, correct?

A. Yes.

Q. Now, what would be the impact or the effect for financial reporting purposes for Dominion's determining the pension expense under FAS 87 differing from that allowable for rate-making purposes?

MR. KUTIK: Can I have the question read, please?

(Record read.)

A. Could you rephrase that question, please, Joe?

Q. Okay. If the Commission were to adopt the company's proposal, there would be an impact from the financial or reporting of the company's pension expense under FAS 87 that would be different from that that would be allowable under the rate-making process, correct?

MR. KUTIK: Objection; misstates his testimony.

A. I don't believe I've made any assertions one way or the other as to what that impact or effect might be.

Q. I'm sorry, I was not indicating that you had. I said if the Commission were to adopt the company's proposal, wouldn't that cause an impact so that under the FAS 87 determination the pension would be different than that from allowable under rate-making purposes, correct?

MR. KUTIK: Objection.

A. If the company's proposal for the pension treatment were approved, the rate-making expense allowed would be different than the FAS 87 expense reflected on the books.

Q. Okay. And can you explain the difference that would occur under the FAS 87 versus under the rate-making, what that impact would be on the books?

A. I don't know of any impact that that would have on the recording of the company's expense for pension related costs.

Q. To the extent that there would be different treatments, would the company need to disclose the different treatments for financial reporting purposes?

A. I don't know.

Q. Do you know who would? Would Mr. Ives know that?

A. I don't know.

Q. Do you know if any other Dominion witness in this proceeding would know that?

A. No.

Q. To the extent -- I assume someone at the company would have to know the answer to that question, might you have an idea of who that might be or what department that would be under?

A. Personnel in our Benefits Accounting area would know whether such a disclosure were required.

Q. Do you know a name of anyone that's in charge of the personnel benefits accounting?

A. I don't know who's responsible for that area.

Q. Now, I believe that the Staff Report mentions challenge earnings and I believe in your second supplemental testimony you provided some explanation for that and, to be quite honest, I'm not real clear on what the challenge earnings were. So in order to get some understanding, you discussed a credit to operating expenses and discussions like that, I guess first can you give me a brief explanation of what the challenge earnings are?

MR. KUTIK: Well, first, are you referring him to a specific portion of his testimony?

Q. Let's see, I think it's in your second supplemental testimony, page 10 is when you start talking about challenge earnings, DEO objection No. 11. Can you explain to me what you mean by "challenge earnings"?

A. Is there a particular part of the testimony that wasn't clear?

Q. All right, I think the Staff Report describes a little bit over $5 million that was in expense added back to the test year nine months budget that had been removed by DEO management from the final budget; are you familiar with that?

A. Yes, I'm familiar with the Staff Report discussion of that issue.

Q. All right. Then I think in your testimony you explained that there was a credit to operating expenses that can be achieved by a means that do not affect the jurisdictional test year operating income since they are reflected in overall corporate earnings goals. So what I'm trying to get is a better understanding what that means for Dominion.

MR. KUTIK: And your specific question is?

MR. SERIO: How the challenge earnings with his credit to operate, how that impacts Dominion itself.

A. Impacts in what way?

Q. My understanding is the challenge earnings impact overall corporate earnings. That's more than just Dominion of Ohio. That's Dominion overall parent company, right?

A. It can be at that level as well as the operating company level.

Q. Okay. Can you explain to me how the challenge earnings impact Dominion at the operating company level?

A. As described in my testimony, in the annual financial planning process the corporation gathers up financial projections for the business units, they then --

Q. Let --

A. Pardon me.

Q. Instead of going back --

MR. KUTIK: Do you want to finish your answer, or do you want to be interrupted?

A. Go ahead.

Q. In order to not have to go back, when you say the business, you just used a term, operating entities or --

A. Business units I believe.

Q. What do you mean by "business units?"

A. Dominion has several different business units, it has Dominion Delivery where Virginia Power is housed, it has Dominion Generation where the electric generation assets are, in addition it also has an entity or business unit called Dominion Energy which is now where East Ohio is located.

Q. Okay.

A. So these are broad business units that have multiple operating companies within each.

Q. Okay. I'm sorry. Then if you could go on with your answer. I just . . .

A. The corporate financial area then compares the aggregate amount of those business units' financial projections to what they have in the way of expectations for corporate performance. If there's a shortfall in the aggregation, the corporate financial area may designate challenge earnings that then are pushed back or allocated to the individual business units.

Q. So if there was a shortcoming to the business unit that Dominion East Ohio is a part of, there could be a pushback in challenge earnings. Explain to me what that means.

A. The corporation would allocate a portion of that estimated shortfall relative to expectation to each of the business units. The business unit then could, if it chose, apportion its amount to individual operating companies that it's responsible for managing.

Q. So to the extent that there was a shortfall for the business unit that includes Dominion East Ohio and a portion of that was allocated to Dominion East Ohio, that could be translated into a revenue deficiency because Dominion East Ohio didn't meet a revenue projection that was made initially, correct?

A. No.

Q. No. Okay. Where was my assumption wrong?

A. It's not a revenue deficiency.

Q. Okay.

A. More an earnings deficiency.

Q. Earnings deficiency, okay. So to the extent that there was an earnings deficiency, what steps would Dominion East Ohio then take to address that?

A. In the budgeting process it would potentially reflect that challenge, or earnings deficiency as you've described it, in various places in its income statement projection. In this particular case it reflected that amount of challenge earnings as a reduction to O&M expense.

Q. So Dominion's management responded to the challenge earning by reducing O&M expenses in order to meet the projections that were initially made that were allocated down to Dominion.

THE WITNESS: Repeat the question, please.

(Record read.)

A. A more precise way of stating that is that in order to recognize the challenge earnings amount, that Dominion East Ohio reflected a reduction in budgeted O&M expense for the year.

Q. So that they could bring the earnings more in line with the projections.

A. That is correct.

Q. Okay.

A. So in essence it was a placeholder, as stated in my testimony.

Q. I guess what's confusing is the word "challenge" as used here doesn't seem to have the same connotation that one normally associates with the word "challenge."

Okay. Now, I think the staff said -- I think the staff's indicated that they think the 5 million in the Staff Report was a reduction of Schedule C-3.24?

A. Subject to check I'll accept that.

Q. Okay. Now, C-3.24 is a reduction related to incentive compensation. Your testimony refers to, and I think your explanation, to corporate -- strike that. I was just corrected.

Can you tell me the type of O&M expenses that were credited to Dominion's budget in order for the company to meet its challenge earnings goal?

A. Some of those would have been housed in individual cost center areas and others would have not been designated as such. So it was a combination of both designated and undesignated reductions to O&M expense.

Q. Is there anywhere that I can go to get a list of the designated and undesignated adjustments and the actual amounts?

A. What do you mean by "actual amounts"?

Q. Well, when you're saying designated and undesignated changes to the budget O&M, I assume somewhere it's going to say that the O&M budget was designated a change of X dollars. Is there anywhere where I can go to find the various different both designated and undesignated amounts so that I can look at them, total them up and say, "These comprise the challenge earnings that was assigned to Dominion"?

A. That is not shown in the FERC accounting that was used to develop the C-2 schedules.

Q. Okay.

A. As a result I don't believe there is anyplace within the standard filing requirement application where you can do the summation that you spoke of.

Q. Is there anything in any of the exhibits or attachments to either yours or anyone else's testimony that might show those so that we could verify how much in adjustments were made as a result of the challenge earnings goal?

A. No.

Q. All right. I'm going to ask the question this way: Then how do you know how much the total challenge earnings goals were if there isn't anything that you could go back to that would list them all?

MR. KUTIK: Objection. It assumes that you can't tell what the amount is if it's not in a designated or undesignated list, so I'll object.

THE WITNESS: Could you repeat the question, please?

Q. I'll rephrase it.

A. Okay.

Q. How can you determine how much the

challenge earnings goal is?

A. You can identify that by looking at the natural accounts within the SAP system where those amounts would be credit amounts, in other words, a reduction to O&M.

Q. So there would be an actual line that would say "credit."

A. I don't know what the line description may be, but it would show up as a credit to O&M and a reduction to O&M.

Q. The challenge amount comes down from the business entity to Dominion so that you know the amount because they tell you what the amount is. Then if you want to go back and verify that the individual pieces add up to that challenge amount that came from the business entity, how would I do that?

A. You would do that within the natural accounts housed in the SAP system.

Q. To the best of your knowledge there would be some kind of designation, although you don't know specifically what it is, so that you could individually take those amounts, get a total, and that would compare, I assume, to the amount that was given from the business entity.

MR. KUTIK: Objection. He said that there were certain amounts that were not designated, so it misstates his testimony.

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Yes, within the SAP system you could sum up those credit amounts to tie out to the challenge earnings amount.

Q. So when you talk about designated and undesignated, can you explain to me what you mean by "designated and undesignated"?

A. Yes. Designated might be that the reduction is reflected in a particular cost center in a particular element within its budgeted expenses. Undesignated might be just a total amount not associated with a particular cost element.

Q. So regardless of whether it identifies the specific area or not, there would be an amount in the SAP system where you could total each amount up to get the total of the corporate -- of the challenge earnings goal that was set by the business entity.

A. Yes.

Q. Okay. Now, does the challenge earnings credit, I think it was $5,025,000, indicated in the Staff Report relate in any manner to the 4.8 million annual incentive plan expense that DEO proposed in the test year expenses on Schedule C-3.25 of the application?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Could you be more specific as to what you mean "in any manner." I'm just trying to narrow it.

Q. Let me try it this way, you're familiar with the 5,025,182 from the challenge earnings, correct?

A. Yes.

Q. And then you're familiar with the 4.873246 annual incentive plan expenses that Dominion proposed in the test year expenses, correct?

A. I'm generally familiar with that, but Vicki Friscic is the responsible witness.

Q. You know the two amounts.

A. Yes.

Q. I guess what I'm asking is does the 5 million relate to the 4.8 million, do they overlap, or are they two totally separate items?

A. They're separate items.

Q. Okay. And can you explain to me how they're totally separate?

A. The incentive plan amount is the portion of test year expenses associated with incentive compensation. The challenge earnings amount is associated with the designated amount of earnings shortfall that East Ohio is accountable to provide.

Q. So to the extent that someone might have looked at challenge earnings and used the more -- a different understanding of "challenge earnings," that could result in someone looking at the challenge earnings amount and looking at the incentive plan amounts and thinking that they might have been related. That would be a possible explanation.

MR. KUTIK: Objection.

A. There's a number of possible explanations, but I assume that would be one.

Q. But again, they're not related in any way whatsoever. That's probably too broad. They are not related regarding how the company proposed the test year expenses in the application.

MR. KUTIK: Objection; asked and

answered.

A. That is correct.

MR. SERIO: Off the record for a second.

(Discussion held off the record.)

Q. I want to talk a little bit about cash working capital; are you familiar with that?

A. Yes.

Q. And I think in your, I think it's the second supplemental testimony you indicated that the company was accepting the Staff Report recommendation that the company change its billing with regard to the -- from 14 days to 30 days to adjust the working capital needs with the -- let's see if I get it right. That's the SBS billing system I believe.

Why don't you look at page 3 of your second supplemental testimony, that's easier. You indicated that there was -- the company did not object to extending the remittance period to 30 days in order to be consistent with other LDC choice offering programs.

A. Yes.

Q. And then you indicated that even if you went to the 30-day payment lag there was still a 3.3-day average difference between DEO's payment and receipt of payments. You're familiar with that?

A. Yes.

MR. KUTIK: Let's go off the record for a second.

(Discussion off the record.)

Q. So you're familiar with the 3.3-day lag.

A. Yes.

Q. And I believe in your testimony you indicated that that would result in approximately a $9.9 million shortfall that needed to be included as cash working capital, correct?

A. Yes.

Q. Now, when you made the initial calculation in the application, the company used 2006 data to make the initial calculation on the working -- the lag and the working capital needs associated with that lag with the billing systems, correct?

A. That is correct, for that portion of the working capital requirement.

Q. Now, when you did the adjustment for the 9.9 million, did you use 2006 data for that calculation?

THE WITNESS: May I have the question

reread, please?

(Record read.)

A. No.

Q. Did you use 2007 data?

A. Yes.

Q. Okay. And why did you use the 2007 data?

A. Because it corresponded to the 2007 data used for the 13-month average balances for PIP under 12 months and for materials and supplies inventory that staff used in its Staff Report of Investigation.

Q. Would you agree that you could make the calculation for the working capital needs of the 3.3 days by using 2006 data?

MR. KUTIK: Objection.

THE WITNESS: May I have the question reread, please?

(Record read.)

A. Yes.

Q. You're not aware of anything that would preclude using the 2006 data to make that calculation so that it would be similar to the original calculation from a viewpoint of using the same data.

THE WITNESS: Again, may I have the question reread, please?

(Record read.)

A. No, there's nothing that would preclude it other than it would then be inconsistent with other periods used by staff for the 13-month balances.

Q. Did you do the calculation using 2006 data?

A. No.

Q. Now, the company in calculating the lead-lag effect of each of the billing systems, you did each of the billing systems separately, correct?

A. Yes.

Q. And as a result one of them impacted the other, correct? And by doing them separately the impact is different than by doing them together; is it not?

A. Could you rephrase the question, please? I'm sorry.

Q. The company did the calculation for the two different billing systems separately, correct?

A. Yes.

Q. If it would have been done as one, the resulting calculation would have been different than by doing them separately, correct?

A. Not necessarily.

Q. Why did the company do them separately, the SBS and the CSS billing systems?

A. The company used both systems separately because there were different payment lags associated with each system's billings.

Q. And by changing the time lag from 14 to 30 days there still is a different lag between the two billing systems, that's the 3.3 days, correct?

A. Yes, the 3.3 days reflects both systems in the aggregate and, thus, there still is that difference in the aggregate between 30 days and a 33.3 day payment lag that's a composite lag with both systems.

Q. When you did the calculation for the 3.3 days, did you do that with the billing systems being separate or did you do it as a single calculation?

A. I just did it as a single calculation.

Q. If you were to do it as two separate calculations, do you know if the calculation would be different than by consolidating them as one?

A. Yes.

Q. Did you do that calculation?

A. Yes.

Q. Do you recall the result of doing it as separate versus doing it as one?
A. Yes.
Q. And can you tell me what that different amount was?
A. If there were no change in the SBS payment lag and the only payment lag that changed were the CCS payment lag, the working capital requirement would be approximately $8.1 million.
Q. So that would be the, approximately, $1.8 million difference from the 9.9 calculation you have in your testimony.
A. Yes.
Q. Okay.
MR. SERIO: That one was a lot quicker than I thought it would be.
MR. KUTIK: Let's go off the record.
(Discussion off the record.)
Q. Some questions about your storage and gathering plant. You're familiar with the company's storage and gathering plant.
A. Yes.
Q. Now, the company has had some changes in the value of storage plant due to additions in the

last couple years; is that correct?

A. Yes.

Q. I think specifically there's an account 353, lines, that shows an increase from 12.7 million to 20.7 million, if that sounds familiar.

A. I don't recall the exact figures.

Q. Okay. But that's the magnitude that you recall, roughly.

MR. KUTIK: I'm sorry, what were the numbers again?

MR. SERIO: 12.7 million to 20.7 million, and then I think another one was account 354, compressor station equipment, 9-1/2 million to 20.7 million. And then I've got a third one, account 355, M&R station equipment, from 3.6 million to 7.4.

Q. I'm not asking you about the specifics, just to give you an idea of the magnitude that I was asking you about when I asked about the rapid change in value of storage plant.

MR. KUTIK: And what period of time are you talking about?

MR. SERIO: That's over I think 2003 to present.

A. I wasn't thinking of any particular

magnitude in my initial response.

Q. Now, in looking at the various accounts it seemed like prior to 2003 there was a level of increase and then beginning in 2003 the level of increase seemed to be more rapid, the dollar amounts were larger. Do you have any understanding of what might have occurred in the time frame of 2003 that would have caused the investment to increase?

THE WITNESS: Could I have that question reread, please?

(Record read.)

A. Was that the investment in storage and gathering?

Q. Yes.

A. Since 2003 we've had in place an Ohio production enhancement program --

Q. Okay.

A. -- that would have resulted in significant capital expenditures.

Q. Ohio enhancement -- what did you call it again?

A. Ohio Production Enhancement Program.

Q. And can you explain to me what that program is or was?

A. Among other things the program involved a commitment by East Ohio to increase its capital spending in areas such as gathering lines and gathering related compression to increase the amount of local Ohio production delivered into its system.

Q. When you -- you referenced a commitment. Can you explain what commitment that was, who you made it to, what it was in reference to?

A. It was in reference to an agreement entitled Ohio Production Enhancement Agreement with the Ohio Oil & Gas Association, and there are various aspects of that particular agreement including this capital investment commitment by East Ohio.

Q. Was this a document that was filed with the PUCO? Is there a docket number or a case number with it?

A. No.

Q. So this was just an agreement that the company made with the Ohio Oil & Gas Association?

A. Yes.

Q. Okay. The Oil & Gas Association got a commitment from Dominion to increase capital spending. What commitment did the company get from the Oil & Gas Association in return for this agreement to spend more in capital?

A. The company receives an Ohio production enhancement fee from the producers in exchange for that capital commitment.

Q. Is the fee sufficient to cover the amount of additional capital investment that the company makes, or what's the relationship between the fee and the level of investment?

MR. KUTIK: Objection.

A. The fee is intended to provide a return of and on those investments.

Q. Okay, so that provides the return on and of the investment. Does that mean that the additional capital spending would then show up in the current rate proceeding as additional plant investment?

A. Yes, through the date certain point of March or, pardon me, March 31st of 2007.

Q. Why did the company -- was there a reason that the company ended up entering into this commitment? Did the company go to the Oil & Gas Association? Did the Oil & Gas Association come to the company? What led to this commitment?

A. I don't know which party approached the other initially.

Q. Dominion's always had a certain amount of Ohio production that's fed into its system, correct? At least going back 20, 25 years.

A. For as long as I know, yes.

Q. I assume that this commitment would involve expanding the local production efforts that the company had in place.

A. That's correct.

Q. Was there a need to make that in order to provide gas that the company couldn't get elsewhere? Was it cheaper production? I guess I'm looking for an understanding of why the company needed to do this additional investment.

A. The company made the investment partially in recognition of the fact that if it did not do so, there was a risk of local production wells being abandoned and plugged and, therefore, the reserve base of the company, ability to attach local production, would be significantly reduced.

Q. Do you know what kind of annual volumes we're talking about with that local production?

A. Currently the annual volumes are above 55 Bcf per year.

Q. And that's gas that the company purchases for SSO customers, or is that gas that flows for transportation customers, or both?

A. It could be both.

Q. And to the extent it flows to transportation customers, it could be either choice transportation or non-choice transportation, correct?

A. Yes.

Q. Is there anywhere in the application that would provide any kind of breakdown of how much that gas flows to sales customers versus choice transportation versus non-choice transportation?

A. No.

Q. Is there any kind of company filing that you're aware of the company makes with the Commission that might break that down?

A. No.

Q. Generally speaking, of those three categories, SSO sales, choice transportation, non-choice transportation, do you know where -- of the 55 Bcf roughly how much might go to each?

A. No. Once the gas is delivered into a pool, it loses its character so as a result it's not possible to distinguish always where a particular source of gas ultimately ends up with respect to individual end-use classes.

Q. Of the 55 Bcf do you know how much the company actually purchases through the SSO, or is it all gas that's provided to the system as a result of what different marketers and industrial customers might do?

THE WITNESS: Could I have that question reread, please?

(Record read.)

MR. KUTIK: Objection.

A. Could you rephrase the question?

Q. Sure. You indicated once the gas comes to a pool it loses its character. To get to the pools it's either company purchased gas or gas that a marketer or a customer is sending to the pool, correct?

A. The company does not purchase any of that gas directly.

Q. Okay. So all the gas that's coming from Ohio production is coming as a result of different marketers, suppliers, end-use customers flowing the gas into the pools.

A. Yes.

Q. Okay. Now, the fees that you talked about, those are charged to each production unit that's associated, or is it a fee charged once it flows on the gathering system?

MR. KUTIK: Objection.

THE WITNESS: Could you reread the question, please?

(Record read.)

A. Could you explain what you mean by "production unit"?

Q. Is it based on how much gas is pumped out of the ground or how much gas flows through the gathering -- where do you measure the gas to impose the fee?

A. The gas is measured at the wellhead.

Q. At the wellhead. And that fee is charged to every unit that flows from the wellhead.

A. It's charged to every unit for producers that are participating in that production enhancement program.

Q. Do you know how much the fee is or the magnitude of the revenues generated by the fee?

A. I know that data's been provided to OCC, I just can't recall the numbers offhand.

Q. Okay. And do you know where in the application those fees are accounted for --

A. Yes.

Q. -- the revenues? And where is that?

A. They're shown as Other Revenues.

Q. And I believe you indicated that the agreement was signed in 2003 with the producers?

A. I believe so.

Q. Or, I'm sorry, the Oil & Gas Association.

A. Yes.

Q. So 2003 was after the last rate case so there would not have been any of this type of other revenues accounted for in the company's last rate proceeding, correct?

A. Yes.

Q. But in the current rate proceeding those revenues are accounted for in calculating the company's revenue requirements, correct?

A. Yes.

Q. Now, I understand that the company's currently involved in proceedings before the Public Utilities Commission to potentially exit the merchant function; are you familiar with those?

A. Yes, I am.

Q. And to the extent that the company would ultimately like to exit from the merchant function, scratch that, let me ask this way: Was any of the investment that the company's making currently to the production and gathering facilities done in anticipation of being able to exit from the merchant function?

A. No.

Q. So all of the investment that's being made would be needed whether the company provides GCR service, SSO service, or were to exit from the merchant function, correct?

A. Yes.

MR. SERIO: "SSO" is standard service offer.

Q. Now, the company currently has three storage pools, Stark-Summit, Gabor, and Chippewa, correct?

A. Yes, those are the main storage pools.

Q. Do you know if the company has any plans to sell or lease any of those three storage pools?

A. No.

Q. The three storage pools, Stark-Summit, Gabor, and Chipewa, are used exclusively by Dominion for Dominion customers, correct?

A. Yes.

Q. Do you know if the pools are used for any out-of-state customers or is it entirely for in-state, in the Ohio service territory customers?

A. All of the gas delivered to us injected in storage is used within the state of Ohio.

Q. And that would be either customers that are within your service territory or through some type of arrangements with customers that are outside of your service territory.

A. That is correct.

Q. So there's no out-of-state distribution companies or customers that would in any way use the gas that's in those storage pools or the service provided by those storage pools.

A. The gas physically remains in the state of Ohio.

Q. Okay. Now, to the extent that there are customers that are in the Dominion service territory, any revenues associated with services that those customers have as a result of the three storage pools, are those all revenues that are accounted for in the company's application?

A. Yes.

Q. And would those be under Other Revenues or do they have a title?

A. The company initially included those revenues as other revenues, I believe in the Staff Report staff reclassified those as base rate revenues.

Q. And do you recall the general dollar amount of those?

A. No.

Q. That's in the Staff Report.

A. Yes.

Q. Okay. Now, to the extent that they're revenues from services to customers outside the Dominion service territory, how are those revenues titled or accounted for?

A. Those would have been handled in the same manner.

Q. Same manner. So whether it's customers within the service territory or customers outside the service territory, they're included in the same amount in the application and the Staff Report treated them all as one amount, it didn't separate them out between on-system customers and outside-of-the-system customers.

A. That is correct.

Q. Now, when it comes to those other revenues, there's off-system sales, there's capacity release sales?

A. (Witness nods head.)

Q. Yes?

There are park transactions, loan transactions, and exchange transactions. Are there any other titles or names given to different types of transactions that I didn't list?

MR. KUTIK: Objection.

THE WITNESS: Could you rephrase the questions? Pardon me.

Could you repeat the question?

Q. Let me try to rephrase it.

A. Okay.

Q. I'm familiar with off-system sales, capacity release transactions, park, loan, exchange transactions. Does the company engage in any other transactions other than those five categories that you're aware of?

A. Just to be clear, these are different transactions than the ones we were just talking about --

Q. Yes.

A. -- with regard to storage service.

Q. Yes.

A. So these are what we would refer to as off-system transactions, correct?

Q. And I'm just trying to make sure just because I don't know the name of it I don't have it in the list.

A. I believe your list is a comprehensive listing of all the kinds of transactions we've engaged in.

Q. Is there a transaction called an off-system transportation versus an off-system sales?

A. Yes.

Q. Okay. Would that have been a part of off-system sales or would that have been a part of one of the other categories?

A. It would have been part of one of the other categories. To be more specific, the off-system transportation would have been treated as another type of revenue stream.

Q. Okay. So that would be a sixth category, then?

A. They are different kinds of transactions entirely, so I wouldn't include them in the same grouping of the list that you provided earlier.

Q. Okay. So the off-system sales, capacity release, park, loan, exchange are all related type sales, and you're saying off-system transportation is a different type of --

A. Yes.

Q. Okay. What's fundamentally different about an off-system transportation versus the other category of five different transactions?

A. The primary distinction is that off-system transportation uses physical facilities such as transmission pipelines in rendering a service. The off-system sales and other transactions that you mentioned primarily rely on upstream capacity.

Q. So the off-system transportation actually uses Dominion facilities, whereas the others use pipeline facilities that Dominion might have under contract to use for its customers.

A. Correct.

Q. Other than -- under the category of off-system transportation are there any other types of transactions similar to off-system sales, slightly different from capacity release, different than park, loan and exchange, or does everything under that physical facilities fall under the umbrella of off-system transportation?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. Could you rephrase that, please?

Q. Sure. You have the transactions that rely on upstream capacity, there's five different types, they're slightly different than each other. Under the off-system transportation you're using Dominion facilities. Are there other types of transactions that might be a little different than the heading "Off-system transportation" similar to how a park transaction is a little different than an off-system sales transaction?

A. No.

Q. So any type of transaction that used the Dominion physical facilities would be under the category of off-system transportation.

A. Yes.

Q. Okay. There's transactions using

upstream capacity, transactions using Dominion physical facilities. Is there any other category of transactions other than those two broad categories that the company is currently engaged in?

THE WITNESS: Could I have the question reread, please?

(Record read.)

A. When you mean East Ohio facilities, you're talking about everything ranging from pipelines to billing services to pooling services? I just want to get an understanding of what you're putting under that umbrella, Joe.

Q. I'm looking -- you said that the off-system transportation used physical facilities like pipelines, so when you referred to physical facilities, I assume that you meant pipe in the ground, compressor stations, you know, the wells that are involved with the storage facilities, things like that.

A. The reason I asked the follow-up question is we have transactions such as pooling services that one could say is not related to physical facility, it's a service whereby we allow suppliers to aggregate supply and end-use customers, and so that's another category of service I guess. I can't think of others offhand.

Q. Okay. And to the extent that there are services like pooling services, those are all accounted for both in the company tariffs and in the application as far as revenues and costs, correct?

A. Absolutely.

Q. Okay. So I was just looking to make sure there is not a type of transaction that's occurring that the costs and the revenues are not accounted for in the application.

A. No.

Q. You're not aware of any.

Okay. That's the last question I had in that area. I'd be going to another area, so if you want to break, 12:30, that would be fine with me.

MR. KUTIK: Why don't we break now.

MR. SERIO: Okay. Well, that's what I meant.

MR. KUTIK: Okay.

(At 12:25 p.m. a lunch recess was taken until 1:15 p.m.)

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Monday Afternoon Session,

July 14, 2008.

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EXAMINATION (continued)

By Mr. Serio:

Q. Mr. Murphy, I had a couple of questions about the straight fixed variable rate design. It is my understanding that Dominion has a GSS customer class; is that correct?

A. Yes.

Q. And can you describe what the GSS customer class is?

A. General Sales Service rate schedule is the rate schedule that most of our smaller use customers receive service under.

Q. And that would include all residential customers --

A. No.

Q. -- in the GSS? The only residential customers that would not be in the GSS class would be residential customers that take very large quantities of gas, correct?

A. No.

Q. No. Can you explain to me what

residential customers would fall outside the GSS customer class?

A. There are those customers receiving service under the energy choice transportation service rate schedule, as well as the large volume energy choice transportation service schedule.

Q. So the GSS class has residential sales SSO customers?

A. Yes.

Q. And it also has commercial customers that take sales service?

A. Yes.

Q. And would there be any small industrial customers that take sales service? Would they also be in GSS?

A. Potentially.

Q. Within the residential class that are GSS customers you have residential customers that use natural gas for heating purposes and others, and then you have residential customers that use natural gas for nonheating but other type services, correct?

A. Yes.

Q. And among the other nonheating type services would be cooking stove, natural gas dryers, natural gas outdoor lighting, services such as those, correct?

A. That's correct, those are other uses that customers will use gas for.

Q. And within the GSS class you would have a range of use from nonheating residential customers as large as industrial sales customers then, correct?

MR. KUTIK: Objection.

A. When you say "as large as"?

Q. A customer that does not use gas to heat their home but uses it for any one or two of those other services probably use less than 10 Mcf a year; wouldn't you agree?

MR. KUTIK: May I have the question read, please?

(Record read.)

A. I haven't done any studies on specific uses, one or two types of uses, other than space heating that might yield that answer.

Q. What's the average usage for a residential customer, sales customer, in the Dominion service territory, do you know?

A. Approximately 100 Mcf.

Q. A year.

A. Yes.

Q. So if you divide that over 12 months, it's between 8 and 9 Mcf a month?

A. That would be correct.

Q. And for that average residential customer the majority of that usage would be for heating purposes, correct?

A. Yes.

Q. Do you know what the average usage for a commercial customer in the GSS class is?

A. No.

Q. Would you agree with me that it's probably more than the hundred Mcf that the average residential consumer uses?

A. Yes.

Q. And it could be significantly greater, depending on the size of the commercial establishment and whether they use it for other purposes other than just heating, correct?

MR. KUTIK: Objection.

A. Would you express what you mean by "significantly"?

Q. Double, triple usage. 200 Mcf a year or 300 Mcf a year.

A. Yes, it could be in that range.

Q. And to the extent that there's any industrial customers in the GSS class, the industrial usage would be larger than the 2- or 300 Mcf a month that a commercial customer might use, correct?

A. Not necessarily. It depends on the size of the individual customer.

Q. Do you have any idea what the largest volume usage on an annual basis for a GSS customer might be?

A. No.

Q. Do you know what the maximum under the tariff would be?

A. There is no maximum stated under the tariff.

Q. So a GSS customer could use a thousand Mcf a month and would qualify as a GSS customer, correct?

A. Virtually any customer qualifies as a GSS customer.

Q. So you would agree with me that there is a significant level of usage among the low use GSS customers and the high use GSS customers as far as how much gas they take on a monthly basis.

MR. KUTIK: I think you misspoke.
May I have the question read, please?
(Record read.)
MR. KUTIK: The variance as opposed to "usage."
MR. SERIO: I think there's a word missing.
Q. Are there differences in the usage from the low usage customers to the high usage customers?
A. Could you rephrase the question again?
Q. Okay. Within the GSS customer class you've got customers that take very low volumes of gas every month, and you've got customers that potentially could take very large volumes of gas during a month, correct?
A. Do you have a specific number in terms of "very large" that you're referring to?
Q. As high as a thousand Mcf a month.
A. I don't know whether customers are in that block. It's conceivable.
Q. Let's take it out of the conceivable. What's the largest GSS sales customer usage that you're aware of?
A. There are some nonresidential accounts I

believe that might use as much as several thousand Mcf a year.

Q. So 4,000 Mcf a year, is that a reasonable number that you might be aware of? I'm trying to get a number in the magnitude that you're familiar with.

A. When I said "several," I meant 2 to 3. It could be higher.

Q. Let's take 2,000 Mcf a year. If a customer took 2,000 Mcf a year, 12 months would be about 160 Mcf a month, roughly? Whatever the math is, it's 2,000 divided by 12.

A. I'll agree to that.

Q. Okay. And so you could have customers that for nonheating purposes use natural gas just for their stove and they might take, they might use less than 10 Mcf a month, and you could have customers that use as much as I think it's 160 Mcf a month all within that GSS customer class, correct?

A. Yes.

Q. Now, my understanding is that the staff recommendation for the straight fixed variable rate design that the company is willing to agree with, with certain caveats, was only for the GSS customer class and not for other customers; is that correct?

A. No.
Q. Am I correct that the straight fixed variable rate design would only be for residential customers within the GSS customer class?
A. No.
Q. To the extent that the company was willing to accept the staff proposed SFV rate design, what customers within the GSS customer class would it apply to?
A. Our understanding of staff's proposal was that it would apply to residential customers and what would be the combination of the GSS and ECTS customer classes.
Q. Would it apply to nonresidential customers within those customer classes, the SFV rate design?
A. No.
Q. So, for example, a commercial customer that took GSS service would not take service under the straight fixed variable but still would have the more traditional rate design with the customer charge and the volumetric rate, correct?
A. Could you explain what you mean by "more traditional"?

Q. More like the company's original application which was not for the straight fixed variable rate design.

MR. KUTIK: Objection.

A. I don't recall that staff was specific with regard to what their intended rate design was for those customers not participating in the straight fixed variable rate design.

Q. To the extent that the company has adopted the staff recommendation, what is the company's understanding or what would be the company's proposal for nonresidential customers that currently take GSS service that would not get service under the straight fixed variable proposal?

THE WITNESS: Could you reread the question, please?

(Record read.)

A. We would propose that they not be served under the SFV rate design.

Q. What rate design would they be served under if not the SFV?

A. We haven't yet made that determination.

Q. So there's been no recommendation or proposal by the company as to what the monthly fixed customer charge or the monthly variable charges that nonresidential GSS customers would pay; is that correct?

A. That is correct, we have not made that proposal in the context of this straight fixed variable discussion.

Q. Do you know -- and when you say you have not made it, you're not aware of the staff in the Staff Report making any such recommendation to the extent that you've accepted the staff recommendation with your caveats.

THE WITNESS: May I have the question reread, please?

(Record read.)

MR. KUTIK: Do you need the Staff Report to answer?

A. Could you rephrase the question? And I actually could use a copy of the Staff Report.

Q. Okay. You've indicated that you've accepted the staff recommendation on the SFV with certain caveats, I don't want to keep repeating that, but that's the basis. To the extent that the staff made that recommendation, are you aware of anything in the Staff Report that would have dealt with what charges nonresidential GSS customers should pay?

A. It would be helpful for me to look at the Staff Report if you don't mind.

MR. KUTIK: Why don't we go off the record for a second while he looks at that.

MR. SERIO: Okay.

(Off the record.)

THE WITNESS: May I have the question read back, please?

(Record read.)

A. The company's position with regard to the SFV rate design is it should apply to residential customers. I'm not aware of anything in the Staff Report that identifies what nonresidential customers should pay in that context.

Q. Okay. And then the company hasn't made a recommendation as to what those customers should pay either, correct?

MR. KUTIK: Objection; asked and answered.

Q. Are you aware of why the staff did not recommend the SFV rate design for nonresidential customers?

A. The staff indicates in the Staff Report on page 34 that the rate schedules are designed as general sales service, primarily residential, and large volume general sales service; indicates that large volume general service customers are much less homogeneous than residential customers and a simple fixed charge may not be the appropriate cost recovery mechanism.

Q. To the extent that you indicated the company would not propose the SFV for anyone other than residential customers, can you explain to me why the company would limit the straight fixed variable to only residential customers?

A. The primary concern is to identify customers that are homogeneous in nature.

Q. And is it the company's belief, then, that all residential customers are homogeneous?

A. It's the company's belief that they're more homogeneous than nonresidential customers.

Q. To the extent that your position is that nonresidential are not homogeneous, what were the factors that you looked at to reach that conclusion?

A. The E-4 schedules submitted in the standard filing requirements identify different usages. The nonresidential customers under the GSS rate schedule have a greater variation in usage than those general residence customers under the general service schedule.

Q. So is it safe to say it's strictly a comparison of usage within the residential class versus comparison of usage of nonresidential customers?

A. In what regard?

Q. In the determination that residential customers are sufficiently homogeneous for the straight fixed variable, but nonresidential customers are not sufficiently homogeneous for the straight fixed variable rate design.

MR. KUTIK: Objection; mischaracterizes his testimony.

THE WITNESS: Could you repeat that question, please?

(Record read.)

A. Could you rephrase the question, please?

Q. Is there anything other than usage in the E-4 schedule that you relied on in looking at the differences between nonresidential customers or the differences between residence customers?

A. We rely primarily on the E-4 schedules to make that determination.

Q. Can you give me an estimate of the magnitude of the difference among nonresidential customers beyond which you made the determination that there's a lack of sufficient homogeneousness --

MR. KUTIK: Homogeneity.

Q. -- homogeneity among the customers in order to warrant using the straight fixed variable rate design?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. We cannot use a specific threshold in that determination.

Q. So if I look at the residential category and there might be a difference -- let me ask, on your E-4 schedules, is that a monthly usage level or an annual usage level?

A. The volumes are annual volumes within monthly consumption levels.

Q. So if a residential customer uses 100 Mcf a month, does that mean that they would have to use so much per -- a hundred Mcf a year, does that mean they would have to use so much per month? Or what's the relationship between the annual and the monthly?

MR. KUTIK: We're talking about what's shown on the E-4?

MR. SERIO: On the E-4 as the company's presented it.

MR. KUTIK: Objection.

A. On the E-4 schedule the volumes shown are annual volumes. The placement of the volume depends on how much consumption the customers used on a monthly basis.

Q. Is the monthly basis simply taking the annual volumes and dividing by 12?

A. No.

Q. So it's actually based on actual usage.

A. That is correct.

Q. And despite the differences between a small residential customer that uses gas for nonheating purposes and a large residential customer that uses gas for heating and all other purposes, the company still determined that the gap between those two was still sufficient to warrant all residential customers falling within the straight fixed variable rate design, correct?

A. That is correct.

Q. And the company made the determination that nonresidential customers have too wide a gap without identifying any particular cutoff point beyond which there was a lack of homogeneity.

A. That is correct, it was based on an overall review of the schedule and the residential class in specific terms was an individual premise so as to eliminate apartments.

Q. Now, to the extent that the company did not include the straight fixed variable rate design in its application, is there any cost basis within the application that you can point to that says this is the calculation that underlies the straight fixed variable rate design as recommended by the staff in the Staff Report?

MR. KUTIK: Objection.

THE WITNESS: Could I have the question reread, please?

(Record read.)

A. I don't know how the staff made its recommendation for the straight fixed variable monthly service charge.

Q. You've been involved in rate proceedings before the Commission for a number of years now, correct?

A. Yes.

(Discussion off the record.)

(Record read.)

Q. Generally speaking, you're not an attorney, are you, Mr. Murphy?

A. No.

Q. However, generally speaking, it is your understanding that in a rate proceeding the company has a burden of proving its case to the Commission, correct?

MR. KUTIK: Well, we'll stipulate to that. Go ahead.

Q. In fact, the reason that the company files its application, your understanding, is in order to meet that burden of proving its case, correct?

A. That's correct.

Q. That's why you file testimony and supplements and all that, correct?

A. (Witness nods head.)

Q. Now, to the extent that the company's adopting the staff proposed straight fixed variable rate design, you indicated that you don't know how the staff made that determination, I guess my question to you is if you don't know how the staff made the determination and you're adopting that, what on the record can I look at that supports the position that you're adopting?

A. The table included in the Staff Report is described as a concept of a primarily fixed charge rate.

Q. Can you identify which table you're just referencing?

A. The reference I made is on page 35. And, therefore, we are adopting the concept of straight fixed variable rates. We haven't indicated agreement with these specific rates that are set forth in the table on page 35.

Q. As the record stands today there is nothing in any of the company filings, the application, any testimony that would support the SFV concept that you've indicated the company was willing to accept in your supplemental testimony; is that right?

MR. KUTIK: Objection.

A. No.

Q. Okay. No, there is not anything in the company's application.

MR. KUTIK: He's disagreeing with your statement.

Q. That's what I was getting to. You were disagreeing with my statement?

A. Yes.

Q. Okay. Can you point me to what in the company application or the filings would indicate support for the SFV recommendation that you've indicated the company's adopting?

A. Yes. It's in my initial direct testimony as well as Exhibit B to the alternative rate filing included in the application.

Q. Exhibit B that was part of the original application?

A. Right. The alternative regulation portion.

Q. Okay. And to the extent you're indicating your direct testimony, can you indicate what section?

A. On page 42, lines 6 through 9 it indicates that "As noted in the Alt. Reg. Exhibit B included in the Application, moving to a straight fixed variable rate design would address the problem of declining UPC more effectively by permitting much greater recovery of fixed charges in a demand rate rather than a usage charge."

Q. Just so we're clear, UPC would mean?

A. Use per customer.

Q. Okay. And so you're saying that the Alt. Reg. Exhibit B has calculations that demonstrate the effect of the straight fixed variable rate design?

A. No.

Q. What would I find in Exhibit B of the Alt. Reg. filing?

A. You would find a similar statement, that straight fixed variable rate design would address the declining UPC more effectively than the proposed sales reconciliation rider.

Q. So there's no calculations or sample bills or calculations that would show the impact on bills of going to the straight fixed variable rate design within Alt. Reg. Exhibit B; is that correct?

A. That is correct.

Q. Now, I believe that one of the reasons that the staff gave for using the straight fixed variable rate design was that it helps levelize the distribution component of a customer's bill; is that your understanding also?

A. Yes, that is one of the reasons cited by staff in the Staff Report on page 34.

Q. To the extent that the company is adopting the staff's recommendation, is the levelizing effect of the straight fixed variable one of the attributes that the company is identifying as a reason for going to the straight fixed variable rate design?

A. We have not identified that as a reason.

Q. Does the company believe that that is a reason to warrant movement towards a straight fixed variable rate design?

A. It is one reason, yes.

Q. The company currently offers budget billing to customers, in fact, I think you indicated you are a budget billing customer; does it not?

A. Yes.

Q. And that is a voluntary offering that customers can choose to sign up for or they can decline, correct?

A. No.

Q. Is the budget billing mandatory for customers?

A. No.

Q. Okay. It's not mandatory, so they have the option of choosing it?

A. It's not available to all customers.

Q. Oh, okay. Okay. It's only available to customers that are customers in good standing financially or --

A. That is one of the criteria.

Q. What are the other criteria that might be among the customer's options to use the budget billing?

A. Currently it's not offered to nonresidential customers.

Q. So for a residential customer budget billing is an option that as long as they're current on their payments, that they have available to them, correct?

A. Correct.

Q. Do you know what percentage of Dominion's residential customers that are eligible have signed up for budget billing?

A. No.

Q. Do you know if it's more or less than 50 percent?

A. It is less than 50 percent.

Q. To the extent that it's less than 50 percent, that means that the majority of eligible residential customers have not availed themselves of the option of levelizing their bills through the use of budget billing, correct?

A. I don't know what the percentage is relative to the number of customers that are eligible to participate.

Q. Do you know if more than 50 percent of eligible residential customers are on budget billing?

A. No.

Q. But you would agree with me that whatever the percentage is, it indicates that those customers have made the decision that they don't want to sign up for budget billing for whatever their reason is, correct?

A. I don't know whether customers have made a conscious decision one way or the other.

Q. Because to sign up for budget billing takes an affirmative action on behalf of the customer, right?

A. Yes.

Q. Now, to the extent that a customer has not done anything to affirmatively sign up for budget billing, that means that they've either made the decision not to or they just haven't thought about it, correct? If they're eligible.

MR. KUTIK: Objection.

THE WITNESS: Could I have that question reread, please?

(Record read.)

A. I really can't say what motivates a customer to make any particular decision.

Q. Has the company done any kind of surveys to determine why customers do or don't take advantage of services such as budget billing?

A. I don't know.

Q. Why did you sign up for budget billing?

MR. KUTIK: Well, if you believe that's a personal matter, I'll instruct you not to answer.

Q. And if that's personal, I'll accept that. I'm looking just as a customer.

MR. KUTIK: I understand. But it may be a personal matter and that's up to him.

MR. SERIO: I understand.

A. I will respond. To levelize my payment.

Q. Okay. You see that as a benefit, I mean, to levelize your payments.

A. To me it is.

Q. And, in fact, isn't that what the company uses as an explanation to customers as to why budget billing is an option that they offer?

A. That is one of the benefits we communicate, yes.

Q. If I'm a residential customer that made the decision not to sign up for budget billing for my own personal reasons and then the straight fixed variable rate design is going to have the effect of levelizing my billing, isn't that, in effect, forcing a customer to adhere to a levelization of their bill that they made the decision not to do on their own?

MR. KUTIK: Objection.

THE WITNESS: May I have the question reread, please?

(Record read.)

A. I can't draw that conclusion.

Q. Okay. The company in its application initially proposed the revenue decoupling mechanism instead of the straight fixed variable rate design, correct?

A. Yes.

Q. And am I correct that it was the company's position in its application and supporting testimony that the company believed that the revenue decoupling mechanism could address the company's concerns regarding deteriorating usage per customer? Correct?

A. We cited it as one means to do that, yes.

Q. And to the extent that the company application proposed revenue decoupling at the time of the filing, does that mean that the company preferred the revenue decoupling to the straight fixed variable rate design?

A. No.

Q. Why did the company recommend the revenue decoupling mechanism instead of the straight fixed variable rate design?

A. Going back to page 42 of my direct testimony, lines 9 through 13, after expressing a preference for straight fixed variable rate design testimony states that ". . . that rate design is inconsistent with the Commission's historical approach to calculating customer related cost." It goes on to say "Under the circumstances, the SRR" -- or sales reconciliation rider -- "represents an acceptable means to achieve an outcome consistent with traditional rate of return regulation."

Q. And the SRR is the mechanism that would have put the revenue decoupling in place, correct?

A. Correct.

Q. Now, under a decoupling mechanism as proposed by the company there would be an annual trueup, correct?

A. Could you describe what you mean by "annual trueup"?

Q. At the end of the year there would be a trueup between the revenues that the company actually earned and the revenues that had been projected under normalized weather and normalized usage, correct?

A. No.

Q. The reconciliation mechanism in the decoupling mechanism, wouldn't that be a type of trueup mechanism?

A. It merely trued up weather-normalized use per customer.

Q. Okay. And that trueup as proposed by the company in the application could true up for usage that was greater than had been projected or for usage that was less than had been projected, correct?

A. That's correct, only for the weather-normalized usage that would be calculated.

Q. Yes, for the weather -- so that in effect customers and the company would be both balanced so that if usage was above, the reconciliation would work in one direction, if it was below, it would work in the other, and the theory behind the revenue decoupling is that because it can true up in both directions, it's fair to both the company and the customer; is that correct?

MR. KUTIK: Objection; compound.

THE WITNESS: May I have the question reread, please?

(Record read.)

A. I haven't seen that particular theory used to explain the objectives of decoupling.

Q. As proposed by the company did the decoupling mechanism contemplate adjustments that would both account for greater and lesser usage by customers?

THE WITNESS: Could I have the question reread, please?

(Record read.)

A. Yes, on a normalized basis for the

customers covered by the decoupling mechanism.

Q. So that if there was greater usage than had been anticipated, the adjustment would work in favor of customers, correct? There would be a reduction to customers' bills.

A. Could you rephrase the question, please?

Q. Under the company's proposed revenue decoupling mechanism if usage was greater than anticipated, as normalized, what would be the impact for customers?

A. It would depend on whether that increased usage was attributable to weather or not. That's weather, w-e-a-t-h-e-r.

Q. And the decoupling mechanism proposed by the company was related to weather impacts, correct?

A. The decoupling mechanism proposed had a weather normalization component to it.

Q. So as proposed by the company if the normalized volumes were greater than had been anticipated, what impact would that have on customers?

A. Other things being equal, if the weather-normalized usage were greater, it would reduce customers' bills.

Q. The flip side being if the usage was lesser, it would increase customers' bills, correct?

A. That's correct, other things being equal.

Q. Under the straight fixed variable rate design is there a comparable type of reconciliation that would occur at the end of a year based on whether there was greater usage or lesser usage as weather normalized?

A. No.

Q. Now, would you agree with me that the revenue decoupling mechanism proposed by the company was designed in a manner to reduce or eliminate the disincentive to the company of encouraging customers to conserve natural gas as one way of dealing with higher gas costs?

THE WITNESS: Could you reread the question, please?

(Record read.)

A. It was designed to reduce the disincentive that the company has to support end-user conservation.

Q. And would you agree with me that in addition to reducing the company's disincentive, the decoupling mechanism proposed by the company would encourage customers to engage in their own conservation efforts because of the trueup mechanism that would occur?

THE WITNESS: Could you reread the question, please?

(Record read.)

A. No.

Q. Why not?

A. Because I don't think customers would necessarily think of it in that term.

Q. I'm not following you. What do you mean by they wouldn't think of it in that term?

A. Customers would generally conserve because of high commodity prices. I don't believe customers would have any greater or lesser motivation to conserve on the basis of the mechanics of a decoupling mechanism.

Q. So is it your belief that the cost of gas itself is going to be what motivates a customer to conserve more versus conserving less?

A. I believe that will be the primary motivation, yes.

Q. And when you talk about the cost of gas, it's the cost per unit of gas that you're talking about, correct?

A. The cost of the commodity itself.

Q. The cost of the commodity. If I take the commodity and there is a lower fixed charge and a higher volumetric charge, from a customer perspective that means that the volumetric portion of my bill is a larger percentage of the bill, correct?

THE WITNESS: Could you reread that, please?

Q. Let me try it this way: As proposed by the company the customer would still have a $5.70 fixed charge and a higher volumetric rate so that if they took 10 Mcf of gas, they would have the cost for the 10 Mcfs of gas plus the higher volumetric rate times the 10 units, correct?

A. Correct.

Q. The flip side of that is under a straight fixed variable there is a higher fixed portion, smaller volumetric rate, so the same customer taking 10 Mcf of gas pays the same commodity for the 10 Mcf of gas but would pay the lower volumetric charge, correct?

A. That is correct.

MR. KUTIK: Objection.

Q. So looking at those two examples, under the straight fixed variable rate design the piece of the customer's bill that's impacted by conservation efforts is somewhat smaller than the piece under a revenue decoupling mechanism, correct?

A. That is correct.

Q. How much the difference is is a component of what the volumetric rate would be and what the commodity price of each Mcf of gas is, correct?

THE WITNESS: Sorry. Could you reread the question, please?

(Record read.)

A. That is correct.

Q. Okay. It's a simple calculation depending on the numbers.

Straight fixed variable rate design also addresses the company's concerns about the disincentive to encourage conservation, correct?

A. Yes.

Q. Does the SFV rate design provide the same level of encouragement to customers to engage in conservation efforts?

THE WITNESS: Sorry. May I have that question reread, please?

(Record read.)

A. I don't know what encouragement customers will have to conserve other than on the high commodity cost of gas.

Q. And to the extent that the higher commodity and higher usage is multiplied times the volumetric rate, the higher the volumetric rate, the higher the end bill, correct?

MR. KUTIK: Objection.

Q. I'm sorry, the higher the volumetric rate, the higher the portion of the customer's bill that could be impacted by their using less gas.

MR. KUTIK: Objection; asked and answered.

A. Based on the way you've defined it that is correct.

Q. I believe one of the aspects in your testimony that you talked about was the automated meter reading, the AMR, application that the company made. You're familiar with that?

A. Yes.

MR. KUTIK: Let me interrupt at this point.

MR. SERIO: Sure.

MR. KUTIK: You've already been able to take a deposition of Mr. Murphy on that.

MR. SERIO: I'm asking some general questions. If they're too specific, let me know and I'll --

MR. KUTIK: No, my point is you've already had your bite at the AMR apple with Mr. Murphy.

MR. SERIO: All right. I'll let those go. We'll just deal with this area; that's fine.

Q. (By Mr. Serio) In your testimony you talk about the notice that the company made both in the standard filing requirements and then the later notice under the Alt. Reg. filing. You're familiar with that?

A. Yes.

Q. Can you point -- the company made two different notice filings, correct?

A. Could you describe those filings?

Q. The initial notice filing that was made with the original rate case application and then the company made a second notice filing with regards to the Alt. Reg. proposal, correct? I believe one was August 30th, 2007, the other was July 20th.

MR. KUTIK: Do you want to point him to something to refresh him?

Q. Well, the first one is in your testimony at page 10.

A. Okay. Okay, I see the reference to the July 20th.

Q. That was the original rate case notice filing, correct?

A. Correct.

Q. And then your recollection is the company made a second filing with regards to the Alt. Reg. case, the 08-169 proceeding, correct?

A. There were two Alt. Reg. aspects, one dealing with the 08-169, the other one dealing with the Alt. Reg. provisions of the original filing.

Q. Okay. I see the confusion. The original notice, the July 20th, was for the original rate case application and the original Alt. Reg. filing. The second notice that was done was for the 08-169 --

A. That is correct.

Q. -- Alt. Reg. filing, correct? Those are the only two notices that you're aware of, correct?

A. Yes.

Q. Did either one of those notices provide consumers with notice that the rate case would be a consolidated rate case with the Alt. Reg. provisions from the original filing and the Alt. Reg. provisions from the '08 filing which is the pipeline infrastructure proceeding?

A. Do you have a copy of the customer notice associated with the 0-169 case?

MR. SERIO: Give me a second. Let's go off the record.

(Recess taken.)

Q. Can you turn to page 15 of your testimony?

A. Yes.

Q. You indicate there that Mr. Vilbert discusses business risks and then you indicate that it's important for the Commission to consider the unique risks facing DEO, then you list five items there. Is it your testimony that those items are unique to Dominion and not other Ohio distribution companies?

A. They're unique in the sense that Dominion East Ohio faces those risks to a different degree than other LDCs.

Q. Okay. The first item there, the economic state of the economy within your service territory. Obviously, the economics within any company's service territory is unique to that company and then -- that goes without saying, correct?

A. Yes.

Q. Now, the second item there, capital and ongoing expense risks, those related to transition pipeline integrity and management. Don't all local distribution companies in Ohio face capital and operating expense risks associated with transmission, integrity management, and the upcoming notice of proposed rule making?

A. No.

Q. Which Ohio LD -- don't at least the four large Ohio distribution companies all face that risk?

A. They may not have the transmission pipelines that would cause them to operate under the Transmission Integrity Management Program requirements.

Q. And the transmission lines that you're referring to are what percentage of Dominion's system, if you know?

A. I don't know.

Q. You'd agree with me that the transmission pipelines that Dominion has are a smaller portion of the company's pipeline infrastructure; is it not?

MR. KUTIK: Objection.

A. Smaller relative to what?

Q. A smaller percentage of the overall distribution system.

MR. KUTIK: You mean like less than 50 percent?

MR. SERIO: Yes.

Q. It's less than 5 percent of the company's total distribution plant; is it not?

A. I don't know the percentage. It's certainly less than 50 percent.

Q. The Ohio minimum gas service standards, the MGSS, those impact at least all the distribution companies -- all the larger distribution companies in Ohio; do they not?

A. Yes.

Q. And weather-related risks that are not mitigated by a sales reconciliation rider or a straight fixed variable rate design are risks that all Ohio distribution companies face, correct?

A. They are, but, like the others, to different degrees potentially.

Q. As far as the role of provider of last resort, you indicate here ". . . that the ability of the Commission to put the company back in its traditional GCR role." In your opinion does that provide more risk to the company or is there less risk from going back to the GCR?

A. There are more risks if the Commission were to order East Ohio to go back to the GCR.

Q. So then a company that operates under a GCR has higher risks than a company that does not operate under a GCR, correct?

A. No; I'm referring to the transition back to the GCR.

Q. So in your opinion there's no greater risk for a company that operates under a GCR versus one that operates under the standard service offer that Dominion has today?

THE WITNESS: May I have the question reread, please?

(Record read.)

A. That is not what I testified to.

Q. Okay. I'm trying to understand. You're saying that the greater risk is as a result of just the transition and not necessarily the end state of a

GCR.

A. That is correct.

Q. And can you explain to me why there would be greater risk in that transition?

A. The primary risk is the fact that East Ohio has reduced the amount of interstate pipeline capacity that it holds. If it were to transition back to the GCR, it would have to acquire significantly more upstream pipeline capacity.

Q. And to the extent that the company had to acquire additional upstream interstate pipeline capacity, those would be costs that the company would flow through to GCR customers, correct?

A. That's correct. If they were prudently incurred and the company were able to acquire that capacity at all.

Q. Let's operate under the assumption that you wouldn't acquire it if it wasn't prudent and needed and that you could acquire it, then those costs would be flown through to customers, correct?

A. Yes, under that assumption.

Q. So the two factors that could affect that assumption is, one, if it is available at all, correct?

A. (Witness nods head.)

Q. Are you aware of anything that's occurred since the company began its exit from the merchant function that would lead you to believe that there is not sufficient upstream pipeline capacity available that if the company had to go back to the GCR, that they could not obtain that capacity?

THE WITNESS: Could I have that question reread, please?

(Record read.)

A. Yes.

Q. And what would that be?

A. The fact that much of the capacity that we formerly held is now held by other parties.

Q. And can you tell me who those other parties might be?

MS. HAMMERSTEIN: Excuse me for interrupting, but we're having difficulty hearing again.

MR. SERIO: Sorry. We'll try to speak up.

Q. Can you identify who those other parties who might be holding that capacity would be?

A. In general terms, marketers and end-users operating on our system.

Q. And the marketers that are operating under your system are marketers that are participating in the customer choice program, correct?

A. Yes, and other programs as well.

Q. To the extent that the company went back to the GCR, then there would no longer be a choice program, correct?

A. No.

Q. If the company went back to the GCR, there would no longer be the standard service offer, so to the extent that marketers have capacity for the standard service offer, they would no longer need that capacity for standard service offer, correct?

MR. KUTIK: Objection.

THE WITNESS: May I have the question read back, please?

(Record read.)

A. Yes, but they may need that capacity for other markets to be served.

Q. There's a -- you're familiar with the Rockies Express Pipeline?

A. Yes.

Q. And that pipeline is designed to bring additional upstream capacity to and through the Ohio markets in the coming years, correct?

A. Yes.

Q. And I believe that there's been some interconnection in Ohio to date with others planned in the future; is that your understanding?

A. No.

Q. No to the first part, that there haven't been any interconnections yet?

A. That's correct.

Q. Do you know if Dominion East Ohio plans any interconnections with the Rockies Express Pipeline?

A. Yes.

Q. That's something that's still planned in the future, correct?

A. Yes.

Q. They just -- the Rockies Express Pipeline hasn't proceeded far enough in Ohio to interconnect with East Ohio yet, correct?

A. Correct.

Q. And at the time that the company began the choice program, the Rockies Express was not an available upstream transmission pipeline option, correct?

A. Correct.

Q. So if the company had to go back to the GCR in the future, the Rockies Express Pipeline could provide a source of upstream transmission capacity that the company did not have previously, correct?

A. No.

Q. No. Can you explain what you mean by that?

A. The pipeline is fully subscribed and no capacity is available for acquisition by East Ohio as we understand it.

Q. Okay. I believe that you've indicated that there was a company that as part of its proposal had proposed that certain credits be amortized over a three-year period. The order 636 transition costs.

A. That is correct.

Q. And I believe that the company also proposed that items such as rate case expense be amortized over a three-year period; is that correct?

A. Yes.

Q. Can you explain to me why three years was recommended?

A. In general terms we felt that we would be filing another rate case in about three years.

Q. So that's the company's estimate of the next rate filing, whether it's a traditional or Alt. Reg. filing, correct?

A. That is correct.

Q. The company also had a revenue sharing adjustment proposal as part of its application; do you recall that?

A. Yes.

Q. And that had to do with revenues associated with some of the transactions that we talked about this morning, correct?

A. Which transactions are those?

Q. Those -- as proposed by the company those would include off-system sales, the capacity release, the park, loan, and exchange transactions, correct?

A. That is correct.

Q. And those were the different transactions that use upstream capacity, correct?

A. That is correct, they predominantly use upstream capacity.

Q. Did the revenue sharing mechanism proposed by the company also include the off-system transportation type transactions which use physical facilities that the company has?

A. No, it did not.

Q. And why were not those revenues also included as part of the revenue sharing adjustment?

A. Because those revenues are like on-system transportation.

Q. So those revenues are accounted for other ways within the company's rate application, correct?

A. That is correct.

Q. Now, there is a breakdown of --

MR. KUTIK: Where are you?

Q. On page 27 of your testimony you proposed a tiered approach to the revenue sharing, can you tell me the basis for the tiered approach that you have there?

A. What do you mean by the basis for that approach?

Q. What led the company to rely on an 85/15 sharing for the first 5 million, 80/20 for the next 5 million, and then 75/25 for anything above the 10? I guess there's two parts. The left-hand column is zero to 5, 5 to 10, 10-above, and then the other column, the 85/15, 80/20, 75/25.

A. The company had two primary objectives in establishing this mechanism, one was to provide approximately 20 percent revenue sharing in total, and the second was to provide increasing incentive for the company to retain revenues as those revenues increased.

Q. You indicated that the first objective was approximately 20 percent sharing to the company. Can you tell me why 20 percent?

A. As we reviewed some of the revenue sharing mechanisms in place in other companies and referenced by management performance auditors, the 20 percent figure stood out as something that was commonly used elsewhere.

Q. And then the tiered approach to encourage the company to retain and expand sales I believe is what you referenced, that's why the sharing mechanism increased the company's share as the tiers increased, correct?

A. Yes.

Q. The company has -- I think that you indicated there that during the test year the revenues were projected to be about 13.7 million total?

A. Yes, that's correct, as noted on line 21 of that testimony.

Q. And can you tell me how that test year level of revenues relates to the recent past? Is that greater than what the company's been experiencing or lesser in the last three to five years, if you know?

A. I don't know how it stands relative to those other periods.

Q. On page 31 of your testimony you talk about an increased DSM funding level, and you indicate there that that was contingent on the company receiving approval for its proposed decoupling mechanism. The company is currently adopting the staff's straight fixed variable rate design, so does that mean that the company is still proposing the same demand-side management program, or is the company changing the demand-side management program because there's no longer going to be a decoupling mechanism?

MR. KUTIK: Objection.

A. Excuse me. Could you indicate what you mean by "the company has proposed"?

Q. My understanding is that the company

initially proposed a decoupling mechanism and then said contingent with getting that, that there would be an increased spending of demand-side management. I think the word here in the testimony is "contingent on."

To the extent that the company's now adopting the staff straight fixed variable rate design, does that change the company proposed level of demand-side management spending?

Let me elaborate this way: If the Commission were to agree with your position now and order the straight fixed variable, that means that they would not order the decoupling mechanism. The word here is "contingent," so does that mean that there would no longer be this level of demand-side management if the Commission accepted the straight fixed variable?

A. If the Commission were to adopt the straight fixed variable rate design, then the company would be willing to increase demand-side management spending. However, the amount of the increase would depend on the revenue increase provided by the Commission.

Q. Does that appear somewhere in the

testimony? I know it's not in the direct testimony. Is that in either one of your other two pieces of testimony?

A. No.

Q. Okay. On page 41 of your direct testimony you're talking about factors that led the company to propose the SRR mechanism, and I believe there that you're talking about the use per customer decline. And at the bottom of the page you indicate that the conservation rate has declined, I think you're referring to the period of 2005-2006 winter period; is that correct?

A. Yes, at the bottom of page 41, lines 28 and 29 have that reference.

Q. Right. So when you said it's declined, you meant since the 2005-2006 period. On line 30 you say "While the conservation rate has declined."

A. Right, it has declined relative to the 6 percent that we experienced in that 2005-2006 winter.

Q. Now, you said there ". . . the potential for future price-induced conservation remains." Is that because if you believe the commodity price goes up consumers would have the greater incentive to conserve?

A. That is correct.

Q. Okay. If we look at the 6 percent usage per customer decline that you referenced, is there a point where even with increasing commodity prices usage is going to get to the point where it pretty much flattens out and consumers could no longer conserve beyond that level, or do you believe that the conservation rate could continue well into the foreseeable future?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. What conservation, specific conservation are you referring to, the 6 percent?

Q. Well, I assume, correct me if I'm wrong, that part of the reason for the decline, the 6 percent decline, is because of increased customer conservation efforts, correct?

A. That's correct, over the period that's referenced here.

Q. Right. In addition to customer conservation efforts, it's the price of natural gas that -- basically the combination of the two that led to that 6 percent decline, correct?

A. The 6 percent decline reflects the customer conservation in response to the high prices.

Q. Okay. Winter in the East Ohio service territory is fairly cold; wouldn't you agree with me?

A. Usually.

Q. And as a result you can weatherize your home, you can use efficient appliances, but at some point you have to use a minimum level of gas if you're going to heat your home, correct?

MR. KUTIK: Objection.

A. No.

Q. If you're heating your home with natural gas and you continue to plan to use natural gas to heat your home, you can implement weatherization on your home, you can use efficient appliances, but in order to heat your home in the East Ohio service territory with the winter weather that we have in the East Ohio service territory you're going to need to use a minimum level of gas to provide some level of warmth in the home, correct?

MR. KUTIK: Objection.

A. That's speculative, but if you're planning to use the natural gas to heat your home, that implies that you will use some minimum amount of natural gas.

Q. Has the company done any kind of analysis to determine -- strike that.

I think you indicated earlier that the average consumer -- residential consumer uses a hundred Mcf of gas a year.

A. The average residential consumer, yes.

Q. If the average residential consumer uses a hundred Mcf of gas and they've experienced a 6 percent decline over the period you identified, even if there's a moderate 1 to 2 percent per year conservation effort, is there a point at which -- if we go from 100 Mcf a customer down to 90 down to 80 down to 70, at what point does the company believe that you're not going to get conservation, or could it continue ad infinitum? I mean, is there a limit to that declining 1 to 2 percent?

MR. KUTIK: Objection; compound.

THE WITNESS: Could you repeat the question, please?

Q. I'll try to simplify it. You consider 1 to 2 percent decline in usage per customer to be a moderate decline?

A. Yes.

Q. Do you anticipate that 1 to 2 percent decline to continue into the future?

A. Yes.

Q. How long into the future do you anticipate that 1 to 2 percent decline to occur?

A. We haven't done studies to suggest exactly how long that decline may occur.

Q. So when you say you expect it to occur into the future, at minimum over what period of time are you referring to when you say "the future"? The next year? The next three years? The next five years?

A. Minimally over the next three years and likely much longer.

Q. And you made that conclusion without the benefit of any specific study, correct?

A. We've prepared forecasts in support of the application that shows conservation occurring for at least the next three years.

Q. When you say "forecasts," are you referring to the long-term forecast reports that the company files with the Commission?

A. No.

Q. No. Can you refer to what forecast you're talking about?

A. Schedule F --

Q. Schedule F.

A. -- standard filing requirements, and Schedule G.

Q. And those play the scenario out for I think you said a minimum of three years?

A. Yes.

Q. The company proposed a pipeline infrastructure replacement program as part of its Alt. Reg. filing in the 08-169 case, correct?

A. Yes.

Q. And the company indicated that the estimated cost was 2.662 billion in 2007 dollars, correct?

A. I believe that's the correct figure.

Q. Can you explain to me what you mean by "in 2007 dollars"?

A. Yes. The quantification of that cost was made using costs in effect during 2007.

Q. Has the company done any analysis or estimate of what those costs would be by the time the project concludes in 25 years?

A. No.

Q. And why hasn't the company done such an estimate or projection?

A. The ultimate costs will be determined by a host of factors and we didn't deem that it was necessary to develop that estimate in order to support the cost recovery mechanism proposed in the application.

Q. You've been involved in other construction projects while you've worked for DEO, correct? On a much smaller scale than the PIR program.

A. Could you give me an example of ones you're thinking of?

Q. I believe the company is involved in a substantial project to do some pipeline work under East Ninth in downtown Cleveland.

MR. KUTIK: You're asking if he's personally been involved?

MR. SERIO: No. No.

Q. Are you generally familiar with those other pipeline projects that the company's engaged in?

A. Only in the sense that we do pipeline replacement work from time to time, sure.

Q. When the company does a pipeline replacement project, does the company estimate what the cost of the project will be when the project's completed?

A. Generally speaking, yes, for shorter term projects.

Q. And that's needed in part for your budgeting process, correct?

A. That's correct.

Q. Are you familiar with any other construction project that Dominion's engaged in where the company did not do a projection of the cost of completing the project?

MR. KUTIK: Objection.

THE WITNESS: Could I have the question reread, please?

(Record read.)

A. I'm not familiar with all the construction projects we've estimated.

Q. I understand that you're not familiar with all of them. I'm just asking are you familiar with any other where the company may not have done a projection of the final cost similar to what is occurring with the PIR?

MR. KUTIK: I'll object to any reference to this as a, quote, "project," end quote. Go ahead.

A. I'm not aware of any such projects.

Q. Or any such -- are you aware of any such programs that the company engaged in where there wasn't a final estimate of the cost?

A. Are you referring to a program to take 25 years?

Q. I guess all I'm asking for, within your experience at DEO are you familiar with any other construction project or program that the company's engaged in where at the time the company began the project or the program there was not an estimate of the final cost that that project or program was going to cost the company?

A. No. I'm normally aware of programs required by the pipeline replacement program where we're required to do such an estimate.

Q. In one of your testimonies you indicated that there was a revised estimate for the AMR from 100 to 110 million up to 126 million. Do you recall that?

MR. KUTIK: Well, here you are talking

about AMR.

MR. SERIO: I'm talking about the dollar amount, and I don't think that projection had been updated at the time.

MR. KUTIK: I'm just saying. I'm letting you ask your question. We may not go much further than these questions. Go ahead.

A. Yes.

Q. You recall the increased estimate in cost.

A. Yes.

Q. Is that in the second supplemental?

A. Yes.

Q. I've got your supplemental here also.

And can you explain to me what caused the difference in the price, the cost estimate?

A. I don't know the specific factors that led to the increase in cost estimate.

Q. Is there anyone else testifying in the proceeding that would be familiar with the revised estimate and what might have caused the increase from the 100 to 110 million up to the 126.3?

THE WITNESS: Could I have the question reread, please?

(Record read.)

A. No.

Q. Is there any schedule attached to your testimony or anything in the application that would explain the difference in cost estimates?

A. No. This is based upon a data request response provided to the PUCO that has also been provided to the OCC.

Q. So you're saying that the revised estimate is based on the response to a data request?

A. Yes.

Q. And you don't recall what within the response explained the difference, the additional approximately 15 to 20 million dollars?

A. No, I don't recall.

Q. Okay. But your recollection is that's explained in the interrogatory from the staff, in response to the interrogatory?

A. I don't recall whether the specific reasons for the increase are identified in that data request response.

Q. Other than that data response do you know if there's anything in any of -- the application or any of the company testimony that would explain the reason for the difference in the two cost estimates?

A. No.

Q. Now, I believe one of the justifications that is in your testimony and in the Alt. Reg. filing in support of the pipeline infrastructure program is there's going to be a reduction in leak repairs, there are going to be fewer leaks, lower operation and maintenance costs; do you recall that in general?

A. Yes, with regard to the PIR program.

Q. In regard to the PIR program. Has the company done a quantification of the savings in O&M costs and the savings in leak rates and the savings in leak repairs, et cetera, that would occur as a result of the PIR program?

A. I don't know.

Q. Would that be something that Mr. McNutt's more familiar with?

A. Yes.

Q. So he would also be familiar with quantifications of reductions to the volume of lost and unaccounted for gas that might occur as a result of the PIR program?

A. If such estimates have been made, he would be more familiar with them than I am.

Q. Is it possible that such estimates have not been made?

MR. KUTIK: Objection.

A. Yes.

Q. To the extent that they have been made, though, and you're not familiar with them, then your assumption is that Mr. McNutt would be.

A. He would be more familiar with them than I would, yes.

Q. Other than Mr. McNutt would there be any other witness in the consolidated proceeding that would be familiar with any cost estimates if they had been made?

A. No.

Q. On page 10 of your supplemental direct testimony --

MR. KUTIK: I don't think he has that in front of him.

Q. -- at the bottom of the page you talk about an additional dollar 12 per month adjustment; do you see that?

A. Yes.

Q. And then you talk about subsequent increases of up to 90 cents per month. And those estimates were done based on the initial 2.66 billion in 2007 dollars, correct?

A. Yes.

Q. So if I took the 2.66 billion in 2007 dollars, the PIR charge could start at a dollar 12 and then increase up to 90 cents per month for an additional 23 years, correct?

A. Based upon that original cost, yes.

Q. So that if I wanted to get a projection of cost based on the $2.66 billion cost in 2007 dollars, I take 90 cents times 23 and then add a dollar 12 to it?

THE WITNESS: Could you repeat the question, please?

(Record read.)

A. No.

Q. How would I do it, then?

MR. KUTIK: How would you do what?

Q. How would I make a calculation of the potential total cost at the end of the 25 years based on the $2.66 billion in -- $2.66 billion estimate in 2007 dollars?

MR. KUTIK: I'll object to the characterization of "PIR charge."

A. You'd have to look at the entire cost of service. The dollar 12 and 90 cents refer only to the monthly service charge for the average residential, I mean customers under the GSS and ECTS rate schedules.

Q. Okay. So for the average customer in the GSS and ETS rate schedule it would be a dollar 12 plus 90 cents times the 23 years?

MR. KUTIK: Objection; asked and answered.

Q. Let me ask you this way, it says here that the PIR cost recovery charge would be a dollar 12 per month, so it would be adjusted from zero to a dollar 12, correct? Initially.

A. Correct. For those customers on the general sales energy choice transportation service rate schedule.

Q. Which includes residential customers.

A. Correct.

Q. Okay. And then it could go up 90 cents per month in the future. So that means at the end of year two, it would be a dollar 12 plus 90 cents? It could be, based on these projections in the 2007 costs.

A. That's correct.

Q. Okay. So at the end of year 3 you would add 90 cents, and so on, correct?

MR. KUTIK: Objection.

THE WITNESS: Could you read the question, please?

MR. KUTIK: Read the last two questions.

(Record read.)

A. That's correct for that portion of the cost for that rate schedule, it could be up to 90 cents for the assumptions that are reflected in the calculation.

Q. Yes. I understand that it has to be on the assumptions in the calculation. I'm trying to get at the end of the 25 years, based on all those assumptions, and based on the $2.6 billion initial estimate, so that would be the dollar 12 plus 23 years at 90 cents, correct?

MR. KUTIK: Objection; asked and answered.

A. No.

Q. Okay, let me ask this way: How would you determine the rate, the PIR charge, that a residential customer, the GSS or ETC I think it was schedule, would make -- would be paying in a payment at the end of year 25?

A. You'd have to accumulate all of the costs and identify how much is allocable to that class based upon the investment types identified and then divide by the appropriate billing determinants in order to derive the unit rate in year 25.

Q. You'd also have to do that calculation to derive the charge at the end of year 1, correct?

A. That's correct.

Q. And you did that projection to come up with the dollar 12 per month, so my question is if you do that same calculation that you did for the dollar 12, what's the resulting total at the end of year 25?

A. I don't recall. The attachments to my testimony only go out through 2019.

Q. Can you tell me which attachment that is that you just referenced?

A. Attachment JAM 1.4.

Q. And is there a reason that only goes out to 2019 instead of the full 25 years?

A. There's no particular reason. This was intended as an illustrative means by which we made those calculations.

Q. On the schedule, your attachment, the increase is not necessarily 90 cents in each year, that means because it's projected that you wouldn't need to achieve that maximum rate in those years?

A. It is, but you need to look at all the assumptions that are reflected on the subsequent pages.

Q. Okay. In fact, other than the first year I see that 80 cents is the largest in any of the annual increases then, correct?

A. Based upon the assumptions in here.

Q. Based upon all the assumptions, yes.

Now, those assumptions on the PIR charge include the full PIR program which is the full 2.66 billion, correct?

A. That is true, but there were no incremental costs identified with new service lines for new construction, nor repairs of existing service lines that are found to be necessary.

Q. And the same token, you didn't include anything that would be in the way of new revenues for new service lines, correct?

THE WITNESS: Could you repeat the

question then, please?

(Record read.)

A. That is correct.

Q. On page 17 of your second supplemental testimony -- we're progressing -- at the bottom of the page you talk about complying with directives set forth in the Commission's investigation in the 05-463-GA-COI proceeding. You are familiar with that proceeding, the natural gas riser case?

A. Yes.

Q. The generic case. And you were involved in that case, correct?

A. Yes, in a limited fashion.

Q. You say here you're complying with the directives. Can you identify what Commission order that you're referring to?

A. I can't identify the date of the particular entry that would have been issued in that case.

Q. You can't recall the specific order, but you are referring to an entry or an order from the Commission, correct?

A. Correct.

Q. So if I was to go to the 05-463

proceeding and pull each of the entries and orders and show them to you one at a time, you could identify which one you were referring to here, correct?

A. Which one or several.

Q. Okay. All right. Since you don't recall which one, we'll probably do that down the road.

Do you know who Mr. Mark Messersmith is?

A. Yes.

Q. Does he work for you or report to you?

A. No.

Q. Do you know if he works for or reports to Mr. McNutt?

A. He has in the past.

Q. To the extent that he provides a response to a data request, is that something that would fall, then, under Mr. McNutt's area of expertise or would that fall under yours, or do you want me to just go ahead and ask the questions?

MR. KUTIK: Why don't you go ahead and ask the questions.

Q. Okay. The company provided an estimate of the dollars spent in each of a series of categories to replace bare steel pipe over periods of time, for example the last five-year period, replacing bare steel, replacing transmission pipe, replacing distribution, and your response was that there was an estimate of the dollars in each category. The dollar amounts are pretty specific down to a penny amount.

To the extent that the response says "estimate," generally an estimate is not a specific dollar amount. I have specific dollar amounts, I have the word "estimate." Can you explain to me why "estimate" would be used with specific dollar amounts?

MR. KUTIK: Do you want to show him the request you're talking about?

MR. SERIO: Let me see if I have a clean copy.

Q. What I have here as an example is a two-page -- this is OCC data request, it says PIR interrogatory set 1, question No. 5, in the 08-169-GA-UNC proceeding, a two-page response that we got from the company. And if you look under the answer, the first line, it says "estimate," and then below that it provides dollar amounts that are down to at least the dollar. I'm trying to get an understanding of what "estimate" means with those dollar amounts.

A. This would be a question better directed to Mr. McNutt.

Q. Now, I believe in the application -- in the Alt. Reg. PIR application the company indicated that there were significant benefits to implementing the PIR program, and the company's indicated that the most significant benefit is continuation of safe, reliable, and adequate service. My question to you is today is the Dominion East Ohio distribution system, in your opinion, a safe and reliable distribution system?

A. Yes.

Q. And it has been the company's practice and continues to be the company's practice today that if a leak is determined to be found on the distribution system, that the company will engage in whatever repair or replacement is necessary to maintain the system as safe and reliable, correct?

A. In general terms, yes, but more specific questions would have to be directed towards Mr. McNutt.

Q. Yes.

I'm going to hand you another interrogatory, it's PIR interrogatory set 1, says question No. 11, it's a one-page document. I think that you're the preparer of this response. Your answer indicates that the most significant benefit is a continuation of safe, reliable, and adequate service, the value of which is indeterminable.

So does that mean that the company did not determine the value of the other benefits because the most significant benefit was continuation of safe, reliable, and adequate service?

MR. KUTIK: Objection; compound.

A. Could you repeat the question, please?

Q. Sure. Did the company determine and provide an estimate of the other benefits that would result from the PIR program?

A. Apart from the safe, reliable service?

Q. The way I read it here, you've indicated that the safe, reliable service can't be determined, so I'm assuming that there's other benefits that can be determined. Am I correct in making that assumption?

A. There are other benefits that can be identified. I don't know whether the company has determined or estimated the value of those benefits as yet.

Q. To the extent that they can be identified, can you give me any reason as to why there would not have been an estimate of the value of those benefits made prior to beginning the PIR program?

MR. KUTIK: Objection. The major benefit of the program as indicated in the data request is continual safe, reliable, and adequate service; that's a critical aspect of gas company operations; that was sufficient to warrant the program moving forward as requested.

Q. Because the company believed that that was the most significant benefit, the company determined that they didn't need to quantify the other identifiable benefits.

MR. KUTIK: A, it hasn't been established that there hasn't been a quantification; B, this witness has said that he doesn't know with respect to what was going on with respect to the quantification.

MR. SERIO: Okay.

MR. KUTIK: And C, that's not what his answer says clearly in black and white.

Q. All right. I'm going to hand you interrogatory No. 12, PIR interrogatory set 1, and I believe you're the responder again; it's one page. The response says "The Company has not developed an estimate of the cumulative reduction in leak repair costs over the life of the PIR program." Do you see that?

A. Yes.

Q. Can you tell me why the company has not developed such an estimate?

A. I stated previously that the primary benefit is the continuation of safe, reliable service. While we do expect benefits from reduced leak repair cost, that is not the primary reason we're doing the program.

Q. I understand that's not the primary reason. My question is: Why didn't you do any cost estimate of that?

A. I don't know other reasons why we might not have done that.

MR. SERIO: Can we take a break?

MR. KUTIK: Okay.

MR. SERIO: That would be fine.

MR. KUTIK: Let's do that.

(Recess taken.)

Q. You're involved in the budget process at Dominion, correct?

A. Yes, in certain facets of it.

Q. And can you briefly describe your role in the budget process?

A. My primary role is that of a cost center manager in developing my own departmental budget.

Q. And when you say a "cost center," would like gas be a cost center?

A. It would be more a department that you probably normally think of.

Q. But that would be one of the departments that would fall under your area of responsibility?

MR. KUTIK: What would be?

Q. Gas.

A. The group associated with the gas supply procurement would fall under my budgeting area.

Q. Do you know if the 2007 -- if the company has stayed within the 2007 budget for gas?

A. Sorry. When you say "2007 budget for gas," could you be more specific?

Q. Are you aware of any budget overruns in the 2007 budget?

A. I'm not aware --

MR. KUTIK: On either the expense or the revenue side?

MR. SERIO: Capital budget overruns.

A. I'm not familiar with all of the elements of the budget so I wouldn't know whether there were or were not overruns.

Q. So you wouldn't know if the budget has been reset or not?

A. That's a different question.

Q. Right.

A. To my knowledge the budget has not been reset.

Q. Okay. All right. The Alt. Reg. filing under the 08-169 proceeding that's been called the PIR, pipeline infrastructure replacement program, it's my understanding, correct me if I'm wrong, that that involves replacement of cast iron bare steel, copper, and wrought iron mains, correct?

A. Yes.

Q. So if I call those unprotected mains, we know that we're talking about those four categories?

MR. KUTIK: That's what you're calling them.

MR. SERIO: Yes.

Q. For purposes of our discussion right now. And the company, in addition to those unprotected mains, does have mains other than the iron, cast iron, bare steel, copper, and wrought iron, correct?

A. That is correct.

Q. So for purposes of our discussion those would be protected mains; is that okay?

MR. KUTIK: If that's the words you're using.

Q. I want to make sure that you're okay with my characterizations. You can understand the difference between the two?

A. Yes.

Q. Okay. Now, to the extent the company made the determination that it needed to replace all the unprotected mains, the cast iron, bare steel, copper, and wrought iron, within the next 25 years, can you identify who within the company made that decision or how that decision process worked?

MR. KUTIK: Objection; compound.

A. Can you describe what specific decision process you're referring to?

Q. There was a decision that someone

identified I assume that cast iron, bare steel, copper, and wrought iron mains needed to be replaced. Can you identify who made that decision that they needed to be replaced?

A. That determination was generally done in our Operations area.

Q. And who would be included in the Operations area?

A. Would be, at the time, David Searles, the vice president of Operations, and his team of directors would have been the primary individuals responsible for that determination.

Q. Would you be included in that group?

A. No.

Q. Would Mr. McNutt be included in that group?

A. Yes.

Q. So once the determination was made that it needed to be done, who made the determination to do it within a 25-year period?

A. That determination was made in the same manner.

Q. The same group.

A. (Witness nods head.)

Q. Okay. Now, in the past the company has replaced or repaired cast iron, bare steel, copper, and wrought iron pipeline on a certain level, correct?

MR. KUTIK: You mean at a certain rate?

Q. Yeah, a certain rate. I believe that the testimony indicated approximately 40 miles of pipe per year over the last three- to five-year period?

A. I believe something to that effect is described in Mr. McNutt's testimony.

Q. And if this is stuff I should be asking him, let me know.

To the extent that the company replaced approximately 40 miles worth of pipe per year over the last few years, who would have made the decision that that's how much pipe should have been replaced versus replacing 50 miles or 30 miles of pipe?

A. Again, that decision would have been made in our Operations area since they're charged with those aspects of the company's operations.

Q. So to the extent that decisions were made in the past that there would be so many miles of pipe replaced at a time, it would have fallen under the Operations group and those questions should all go to

Mr. McNutt.

A. Yes.

Q. Okay. So to the extent that the decision was made to replace the pipe and to do it over a five-year period, were you involved in any of the review or analysis to determine if or what criteria would be involved in that decision process? For example, the pipe material, the diameter of the pipe, soil temperature, things like that; were you involved in those or is that all under the Operations area, Mr. McNutt?

A. That would be under the Operations area.

Q. Okay.

A. They would not want me doing that.

Q. We're eliminating as we go then.

I believe in your testimony, or it could be a response to a discovery request, that you'd indicated that the company made the PIR filing at the time it did, after the original rate case application, because the company was only informed that capital became available at a later point in time. Do you recall that?

MR. KUTIK: Mischaracterizes the discovery response. Go ahead.

A. Do you have a particular response that you're referring to?

Q. I'm not trying to mischaracterize, I just can't remember which one it is.

MR. KUTIK: Let's go off the record.

(Discussion off the record.)

MR. KUTIK: Back on the record.

Q. It's PIR interrogatory set 1, question No. 44, it's a one-page response. The answer says "It was not until later in 2007 that DEO was informed by Dominion's senior management that the substantial increase in capital needed for the PIR program could be made available provided DEO received Commission approval of an appropriate cost recovery mechanism." And you prepared that response, right?

A. Yes.

Q. Now, are you aware of what occurred in 2007 that made the substantial increase in capital needed available?

MR. KUTIK: Objection; mischaracterizes the document.

A. I don't know of any particular event that occurred that led to this response being made.

Q. Okay.

MR. SERIO: Well, in light of the fact that it looks like all the rest of these questions are things that you're giving to Mr. McNutt, I guess we'll save them for Mr. McNutt. That's all the questions I had.

Anne? Is Anne there? Do you guys have any questions?

MS. HAMMERSTEIN: No, we don't have any questions. Thanks, Joe.

MR. SERIO: Is there anyone else on the line, any other party that might have questions?

(No response.)

MR. SERIO: Hearing none, I assume that there are no other parties that have questions and --

MR. KUTIK: And we will reserve our right to review and correct and sign the transcript.

MR. SERIO: I think we're done.

(The deposition concluded at 3:42 p.m.)

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State of Ohio :
: SS:
County of ____________________ :

I, Jeffrey A. Murphy, do hereby certify that I have read the foregoing transcript of my deposition given on Monday, July 14, 2008; that together with the correction page attached hereto noting changes in form or substance, if any, it is true and correct.

____
Jeffrey A. Murphy

I do hereby certify that the foregoing transcript of the deposition of Jeffrey A. Murphy was submitted to the witness for reading and signing; that after he had stated to the undersigned Notary Public that he had read and examined his deposition, he signed the same in my presence on the ________ day of ________________________, 2008.

____
Notary Public

My commission expires __________________, ________.

- - -

CERTIFICATE

State of Ohio :
: SS:
County of Franklin :

I, Maria DiPaolo Jones, Notary Public in and for the State of Ohio, duly commissioned and qualified, certify that the within named Jeffrey A. Murphy was by me duly sworn to testify to the whole truth in the cause aforesaid; that the testimony was taken down by me in stenotypy in the presence of said witness, afterwards transcribed upon a computer; that the foregoing is a true and correct transcript of the testimony given by said witness taken at the time and place in the foregoing caption specified and completed without adjournment.

I certify that I am not a relative, employee, or attorney of any of the parties hereto, or of any attorney or counsel employed by the parties, or financially interested in the action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Columbus, Ohio, on this 18th day of July, 2008.

Maria DiPaolo Jones, Registered Diplomate Reporter, CRR and Notary Public in and for the State of Ohio.

My commission expires June 19, 2011.

(MDJ-3221)

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