12

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company dba 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 dba 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 dba 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 dba 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 dba Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading and for Certain Accounting Treatment.	:	Case No. 06-1453-GA-UNC

PREFILED TESTIMONY
OF
STEPHEN E. PUICAN

UTILITIES DEPARTMENT
RATES & TARIFFS/ENERGY & WATER DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit ____

July 31, 2008

1. Q. Would you please state your name and business address?
A. My name is Stephen E. Puican. My business address is 180 East Broad Street, Columbus, Ohio.

2. Q. What is your present employment?
A. I am currently employed as Co-Chief of the Rates & Tariffs/Energy & Water Division in the Utilities Department of the Public Utilities Commission of Ohio ("PUCO").

3. Q. Would you outline your academic and professional qualifications?
A. I received a B.A. degree in Economics from Kent State University in 1980 and an M.A. degree in Economics from Ohio State University in 1983. I was employed by the Ohio Department of Development, Division of Energy, from May 1983 until October 1985 at which time the functions of that Division were incorporated into the PUCO. I have been employed in several positions at the PUCO since that time and have been Co-Chief of the Rates & Tariffs / Energy & Water Division since May 2005. Prior to that, I had been Chief of the Gas and Water Division since 1999. In both my current and previous positions I have been responsible for oversight of the Utilities Department's natural gas staff which includes responsibility for all GCR cases, as well as other areas relating to natural gas such as contracts, certain tariff provisions, and certain rate case issues. I have also been involved in the development and evolution of Ohio's customer choice programs. Prior to my current position I was responsible for directing Staff investigations

into electric utilities' Demand-Side Management ("DSM") programs and have submitted testimony in numerous proceedings relating to evaluation of DSM programs.

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

A. I am testifying in response to several objections to the Staff Report raised by various parties to this proceeding.

5. Q. The Office of the Ohio Consumers' Counsel (OCC) objection B7 objects to Staff's failure to recommend that DEO's proposed GTI Program Funding Expense of $600,000 should be evenly distributed between the Operational Technology Development Program and the Utilization Technology Development Program. Do you agree with this objection?

A. I believe OCC's suggestion is reasonable, however I have no basis for recommending such a specific requirement. Staff did not condition its approval of this expenditure on a demonstration that it directly benefits residential customers. I do not agree with OCC's proposal to require such an annual demonstration or the requirement that the Commission "take action" in the absence of this annual demonstration.

6. Q. Integrys Energy Services and Interstate Gas Supply objected to the Staff Report's recommendation that DEO modify its choice pooling service agreements to incorporate a thirty-day lag between accounts being billed and the remittance of

the receivables. Do you agree with this objection?

A. I believe this objection is based on a misunderstanding of the Staff Report's recommendation. My understanding is that the Company has two billing systems that remit payments either weekly or bi-weekly. The Staff Report's recommendation does not change that payment schedule. It would simply change the period over which the payments apply. For example, if a marketer currently receives bi-weekly payments, those payments are for billings up to fourteen days prior. The Staff's recommendation would simply change that fourteen-day lag to a thirty-day lag. The current payment schedule is unaffected. Since marketers would still be on their current payment schedule they should not incur additional carrying costs on their receivables as the objection states.

7. Q. OCC objection E1, Ohio Partners for Affordable Energy (OPAE) objection XIII, and the City of Cleveland all object to the Staff's proposed SFV rate design on the grounds that it fails to encourage conservation and adversely affects the Company's energy efficiency efforts. Do you agree with these objections?

A. I do not agree. When evaluating customer incentives to conserve, one needs to look at the total variable rate a customer faces and not just the distribution rate. Dominion's annualized gas cost rate over the test year period was $9.1228 per Mcf. The Staff Report's proposed volumetric rate based on the revenue requirement in the application is $0.36495 for up to 50 Mcf per month and $0.62 for each Mcf per month above that. Dominion's proposed rate is $1.62 per Mcf. Whatever variable distribution rate is ultimately approved in this proceeding, it will be relatively small in comparison to the cost of the gas itself. Customers will always achieve the full value of the gas cost savings regardless of the distribution rate. I do not agree with OCC's and OPAE's argument that customers will conserve significantly less at a variable rate that differs by $1.255 per Mcf based on the rates cited above at the 50 Mcf per month rate. I believe most customers make conservation decisions based on their total bill rather than by an explicit cost/benefit analysis based solely on the variable portion of rates, particularly given the volatility of the gas cost component. The following table shows the monthly changes to the Dominion SSO from January 2008:

	SSO Rate	Change
Jan-08	$ 8.612	
Feb-08	$ 9.436	$0.82
Mar-08	$10.370	$0.93
Apr-08	$11.018	$0.65
May-08	$12.720	$1.70
Jun-08	$13.356	$0.64
Jul-08	$14.545	$1.19

The volatility includes a one month increase of $1.70 per Mcf from April to May of this year and an overall increase of $5.93 per Mcf since January. Given these types of extreme fluctuations, I believe customers recognize the imprecision of any payback analysis and will incorporate that uncertainty into their energy efficiency investment decisions.

Even assuming customers conduct this type of payback analysis, including fixed costs in a variable rate distorts the price signals customers face. The variable component of rates should reflect a utility's true avoided costs, *i.e.* the costs that a utility does not incur with a unit reduction in sales. The SFV rate design satisfies this condition by more closely matching fixed and variable cost recovery to those actual costs incurred. Artificially inflating the volumetric rate beyond its cost basis skews the analysis and will cause an over-investment in conservation. This exacerbates the under-recovery of fixed costs that the utility must then recover from all other customers.

Customer incentives to conserve must also be considered within the context of the change in incentives the SFV rate design provides the Company. OCC and OPAE and the City of Cleveland all support a rate design that ties a Company's recovery of its fixed costs to sales volumes. To artificially require the Company to recover its fixed costs through the volumetric rate creates a disincentive for the Company to promote energy efficiency. Staff is proposing a rate design that eliminates this disincentive. The relatively small potential disincentive for customers to conserve due to the reduction in the volumetric rate is more that offset by the removal of the Company's disincentive to actively promote and fund energy-efficiency.

8. Q. The OCC objection E2 and OPAE objection XIII object to the Staff's rejection of a proposed Sales Reconciliation Rider (SRR) in favor of the SFV rate design. Do you agree with these objections?

A. No, I do not. I believe the SFV rate design achieves a better result than does the proposed reconciliation rider. The SFV rate design is a straightforward solution that removes the inherent disincentives under traditional rate design for LDCs to promote energy-efficiency. It is an economically logical concept that eliminates the need for the annual true-ups required by the Rider SD approach. The SFV approach has a level of certainty that the Rider SD approach does not. It recovers costs as incurred by the LDC and eliminates the need for carrying costs associated with deferred recoveries. The annual true-ups required by Rider SD invite contentious proceedings as parties argue about such things as the details of weather-normalization methodologies. It would invite parties to argue for restrictions on full recovery or to seek other types of concessions. In contrast to the Rider SD proposal, the straightforward application of SFV is easier for customers to understand and it promotes timely recovery of costs without the need for annual true-up proceedings.

9. Q. OPAE objection XIII, OCC objection E1 and Citizens Coalition[1] objection #4 all object to the Staff Report's SFV rate design proposal on the grounds it adversely impacts low-use and low-income customers. Do you agree with these objections?

A. The shift to the SFV rate design will result in low-usage customers seeing a higher total bill and high-usage customers seeing a lower total bill than would occur with a continuation of the current rate design. However, the impact on low-use customers must be considered within the context of the rationale for the movement to the SFV rate design discussed above. In regard to low-income cus-

[1] The Citizens Coalition is comprised of The Neighborhood Environmental Coalition, The Consumers for Fair Utility Rates, The Cleveland Housing Network and The Empowerment Center of Greater Cleveland.

tomers I do not agree with the objection. In response to OCC Interrogatories 327 and 329 Dominion provided actual average annual usage information for PIPP and non-PIPP customers from 2000 through 2007. Over that time period the average consumption for PIPP customers was 144.43 Mcf per year and the average consumption for non-PIPP residential customers was 110.45 Mcf per year. Although PIPP customer usage may not be a perfect representation of all low-income customer usage, it is the best readily available proxy. The usage data indicates that low-income customers are, on average, not low-usage customers. This is attributable to low-income customers being more likely to reside in older, less energy-efficient homes, more likely to rent than to own, and more likely to lack the discretionary income to invest in energy-efficiency. Because high-usage customers will benefit from the SFV rate design, and low-income customers are more likely to be high-usage customers, it is reasonable to conclude that low-income customers are more likely to actually benefit from SFV.

10. Q. OPAE objections XI and XII and Citizens Coalition objection #5 object to the necessity of any decoupling mechanism. Do you agree with this objection?

A. No. It is not realistic for a natural gas utility to undertake the type of investment in Demand-Side Management that OPAE and the Citizens Coalition propose without addressing the impact that investment will have on the Company's earnings. We have seen significant reductions in per customer usage in recent years as a response to increasing commodity prices. One cannot expect a utility to actively contribute to an acceleration of that decline through DSM programs without compensating the Company for the revenue erosion that the DSM programs, by definition, will cause. That decoupling can be done through the true-up mechanism proposed by the Company, through directly compensating the utility for the DSM program impacts (*i.e.* "lost revenues") or through appropriate rate design as proposed by Staff. I believe the SFV rate design is the most efficient and accurate way to accomplish that goal.

11. Q. OPAE objection II objects to the Staff Report recommendation that the flow-back of commodity exchange revenues be through the Transportation Migration Rider Part B rather than through the PIPP rider. Do you agree with this objection?

A. Yes, I do. All else equal, I would maintain the Staff Report position that since the revenues are generated using the assets paid for through the Transportation Migration Rider-Part B, that rider would be the appropriate flow-back mechanism. However, OPAE makes a valid argument that there will be some additional saving of carrying charges on the PIPP balances that would not occur if the flow-back was through the Transportation Migration Rider-Part B. I therefore agree with OPAE's recommendation that the flow-back of these revenues should be through the PIPP rider.

12. Q. Company objection #30 objects to the Staff Report's exclusion of $383,494.38 of straight-time labor costs that the Company identified as incremental costs incurred in compliance with the Commission's investigation of natural gas service risers. Do you agree with this objection?

A. No. Staff stands by its position that recovery of straight-time labor costs as an incremental cost is not appropriate.

13. Q. Company objection #28 objects to the Staff Report's failure to address the Company's proposal to reflect an updated estimate of storage gas migration costs associated with the provision of seasonal storage service. Do you agree with this objection?

A. Yes, I do. The Company is proposing to increase its storage service rates associated with gas migration due to higher natural gas prices and migration volumes. Because these charges are returned to customers through the Transportation Migration Rider – Part B, it is appropriate that those incremental revenues not be treated as part of the base rate revenue increase.

14. Q. Does this conclude your direct testimony?

A. Yes, it does for purposes of objections to the Staff Report of Investigation. I will however be supplementing this testimony with responses to objections to the Pipeline Infrastructure Replacement Program Staff Report.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Stephen E. Puican, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 31st day of July, 2008.

Anne L. Hammerstein

Anne L. Hammerstein
Assistant Attorney General

Parties of Record:

Joseph P. Serio
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215

David A. Kutik
Jones Day
North Point, 901 Lakeside Avenue
Cleveland, Oh 44114-1190

Barth E. Royer
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus, OH 43215-3900

Mark A. Whitt
Andrew J. Campbell
Jones Day
P.O. Box 165017
Columbus, OH 43216-5017

M. Howard Petricoff
Stephen Howard
Vorys Sater Seymour & Pease
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008
David Rinebolt

Joseph P. Meissner
Legal Aid Society of Cleveland
1223 West Sixth Street
Cleveland, OH 44113

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

Todd M. Smith
Schwartzwald & McNair
616 Penton Media Building
1300 East Ninth Street
Cleveland, Oh 44114

W. Jonathan Airey
Gregory D. Russell
Vorys Sater Seymour & Pease
52 East Gay Street
P.O. Box 1008
Columbus, OH 43216-1008

Colleen Mooney
Ohio Partners for Affordable Energy
P.O. Box 1793
Findlay, OH 45839-1793

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Oh 45202

Steve Beeler
City of Cleveland
Cleveland City Hall
601 Lakeside Avenue
Room 206
Cleveland, OH 44114-1077

Samuel C. Randazzo
Daniel J. Neilsen
Joseph M. Clark
McNees, Wallace & Nurick
21 East State Street, Suite 1700
Columbus, OH 43215