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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

FRANCIS C. RACK

CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

Staff Exhibit _____

August 5, 2008

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1. Q. Please state your name, position, employer, and business address.

A. My name is Francis C. Rack. I am employed as a Public Utility Administrator in the Capital Recovery & Financial Analysis Division of the Public Utilities Commission of Ohio, 180 East Broad Street, Columbus, Ohio, 43215.

2. Q. What is your educational background and employment history with the Commission?

A. I received a Bachelor of Arts Degree in Humanities (History) from The Ohio State University in 1981. In 1986, I received a Master's Degree in Public Administration (MPA) with a specialization in Decision Support Systems from The Ohio State University. Additional utility/regulatory training includes post-graduate work in Public Utility Regulation at The Ohio State University; NARUC sponsored "Annual Regulatory Studies Program" and "Advanced Training for Utility Management Analysts"; and EPRI sponsored "DSM Program Evaluation" and "Decision Analysis Concepts & Techniques".

My audit experience includes field investigations performed with Cresap (A Towers Perrin Company), Scott, Madden & Associates, and Hagler Bailly Consulting, Inc. I have been employed by the Public Utilities Commission of Ohio since July 1985. I have performed management perform-

ance evaluations in the electric, natural gas, and telephone industries and have presented testimony to the Public Utilities Commission of Ohio in various cases from 1992 to the present.

3. Q. What is the purpose of your testimony in this case?

A. I will be responding to the Office of the Ohio Consumers' Counsel (OCC) objections B6 and F to the Staff Report; Ohio Partners for Affordable Energy (OPAE) objections XVII, XVIII, XIX, and XX; and "The Neighborhood Environmental Coalition, The Empowerment Center of Greater Cleveland, Cleveland Housing Network, and The Consumers for Fair Utility Rates" objection 6. All of these objections relate to energy efficiency and demand-side management.

4. Q. The OCC's objection B6, the Ohio Partners for Affordable Energy (OPAE) objections XVII and XVIII, and "The Neighborhood Environmental Coalition, The Empowerment Center of Greater Cleveland, The Cleveland Housing Network, and The Consumers for Fair Utility Rates" objection 6 all criticize the Staff for not recommending that Dominion East Ohio Gas increase its energy efficiency and demand-side management investment to a level greater than the Company proposed $5.27 million. How do you respond?

A. Dominion East Ohio's proposed investment in energy efficiency programs, that is their current weatherization program and their new, as yet to be designed DSM program, of $5.27 million is a 50.5% increase in spending from the Company's current $3.5 million funding level on weatherization. Staff also notes that Dominion East Ohio's rate case filing was the first proposal by the Company to venture into DSM which entails a research and marketing strategy designed to increase energy efficiency in a cost effective manner. Thus, Staff believes $5.27 million is an appropriate amount to allocate to energy efficiency and DSM without identifying specific programs and markets for implementation.

5. Q. OPAE objections XVII and XVIII criticize the Staff for failing to recommend the continuation of the existing Housewarming (i.e., weatherization) Program and for failing to designate funding for that program. OPAE objection XIX objects to Staff combining low-income weatherization and DSM Programs. Do you agree with these objections?

A. I agree that the Staff Report should have endorsed continuation of the existing Housewarming Program. However, Staff believes that weatherization programs and DSM belong together under a "single umbrella" of energy efficiency programs – a portfolio of programs designed to maximize the benefits of energy efficiency vs. the costs to natural gas customers. Thus, if one area of the portfolio is underperforming due to unforeseen market con-

ditions, funding from the "umbrella of programs" can be shifted to another area of the portfolio to continue to reap efficiency benefits.

As far as a funding level for weatherization, the Staff Report did not designate an amount specific to the Housewarming Program. Staff did however accept the amount proposed in the initial application of $5.27 million on DSM including the low-income weatherization program. This amount is consistent with Staff recommendations in recent cases involving other natural gas companies. The objection claims Dominion's funding should be comparable to the $7 million proposed by Columbia Gas of Ohio. Considering that $7 million was the end result of negotiations leading to a stipulated agreement, I do not believe that should be the default standard for other comparable companies. Staff believes its $5.27 million recommendation for Dominion East Ohio is reasonable. I recommend the working group determine how much should be designated for the Housewarming Program vs. other DSM programs.

6. Q, In objection XX, OPAE criticizes Staff for not adopting or recommending the use of the Participants Test as the appropriate evaluation tool for Demand-Side Management Programs. How do you respond?

A. Staff does not believe that any single test should be the only determinant in deciding which DSM programs should be adopted. Staff believes that any

debate regarding the Participants Test or another energy efficiency evaluative methodology is best left to the collaborative or working group to determine.

7. Q. OCC's objection F criticizes Staff for failing to increase Dominion East Ohio's DSM investments to a level necessary to obtain an energy usage reduction of one percent of retail sales cumulative over the next 3 years (or approximately $15.6 million per year) starting in 2009. How do you respond?

A. Staff does not endorse the benchmark proposed by OCC of linking a percentage of retail sales to the amount to be spent for DSM. Staff believes that using such a potentially volatile benchmark as "percentage of retail sales" from which to base DSM investment could disrupt funding levels from one year to the next and harm the Company's overall energy efficiency market efforts. The cost of natural gas can fluctuate dramatically, and by relation so can natural gas sales and Company revenues. Thus, using a predetermined "percentage of retail sales" can potentially cause significant swings in DSM funding level commitments. Staff would prefer a more reasoned approach where the Company identifies the market it wishes to reach with its energy efficiency and DSM Programs and then

estimates the cost for attaining this objective. This approach should provide a more stable funding level for longer term DSM investments to accrue.

8. Q. Does this conclude your testimony?

A. Yes, it does.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Francis C. Rack, 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 5th day of August, 2008.

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