

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of: : Case No. 07-1080-GA-AIR
 The Application of Vectren:
 Energy Delivery of Ohio, :
 Inc., for Authority to :
 Amend its Filed Tariffs to:
 Increase the Rates and :
 Charges for Gas Services :
 and Related Matters. :

In the Matter of: : Case No. 07-1081-GA-ALT
 the Application of Vectren:
 Energy Delivery of Ohio, :
 Inc., for Approval of an :
 Alternative Rate Plan for :
 a Distribution Replacement:
 Rider to Recover the Costs:
 of a Program for the :
 Accelerated Replacement of:
 Cast Iron Mains and Bare :
 Steel Mains and Service :
 Lines, a Sales :
 Reconciliation Rider to :
 Collect Difference Between:
 Actual and Approved :
 Revenues, and Inclusion in:
 Operating Expense of the :
 Costs of Certain :
 Reliability Programs. :

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PUCO

TELEPHONE DEPOSITION OF M. SUSAN HARDWICK

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1 taken before me, Rosemary F. Anderson, a Notary
2 Public in and for the State of Ohio, at the offices
3 of Ohio Consumers' Counsel, 10 West Broad Street,
4 Columbus, Ohio, on Friday, August 8, 2008 at 1:04
5 p.m.

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1 APPEARANCES:

2 McNeese, Wallace & Nurick
3 By Ms. Gretchen J. Hummel (via telephone)
4 Fifth Third Center, Suite 1700
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Columbus, Ohio 43215

5 On behalf of the Company.

6 Janine L. Migden-Ostrander
Ohio Consumers' Counsel
7 By Ms. Maureen R. Grady
Mr. Michael E. Idzkowski
8 10 West Broad Street, Suite 1800
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9 On behalf of the Residential
10 Consumers of the State of Ohio.

11 Nancy Rogers, Ohio Attorney General
Duane Luckey, Senior Deputy Attorney General
12 Public Utilities Section
By Mr. Werner L. Margard III (via telephone)
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Columbus, Ohio 43215-3793

14 On behalf of the Staff of the Public
15 Utilities Commission.

16 - - -

17 ALSO PRESENT:

18 OCC:
Ms. Kathy Hagans
19 Ms. Bruce Hayes

20 ALSO PRESENT VIA TELEPHONE:

21 Vectren:
Mr. Larry Friedeman
22 Mr. Cas Swiz

23 PUCO Staff:
Mr. Ross Willis
24

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WITNESS

PAGE

M. Susan Hardwick

Examination by Ms. Grady

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DEPOSITION EXHIBITS

IDENTIFIED

1 - Notice to Take Deposition

5

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1 M. SUSAN HARDWICK

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

4 EXAMINATION

5 By Ms. Grady:

6 Q. Good afternoon, Ms. Hardwick.

7 A. Good afternoon.

8 MS. GRADY: At this point I would like to
9 mark as Deposition Exhibit No. 1 the Notice to Take
10 Deposition Upon Oral Examination of M. Susan Hardwick
11 and Request for Production of Documents.

12 (EXHIBIT MARKED FOR IDENTIFICATION.)

13 Q. Ms. Hardwick, in the Notice of Deposition
14 marked as Exhibit No.1, Deposition Exhibit No. 1, the
15 following language is contained: The Deponent is
16 requested to produce at the time of her deposition
17 all documents relating to her testimony or the
18 deponent's knowledge and expertise with the subject
19 matter of these proceedings and/or the deponent's
20 responses to discovery, including but not limited no
21 the results of any studies done for these
22 proceedings, and any backup documentation, including
23 raw data for these studies.

24 Can you tell me, Ms. Hardwick, what

1 information you have brought for the deposition with
2 you that responds to that portion of the deposition
3 notice?

4 A. I have with me my direct testimony as
5 filed in this case, my supplemental testimony. I
6 have the application that was filed. I have all the
7 related workpapers to the application. I have access
8 to all data requests and data responses provided by
9 the parties. I have with me the Staff Report, the
10 audit report from Eagle, and I'd say any other
11 related workpapers that would be necessary for me to
12 give this deposition today.

13 Q. Ms. Hardwick, I'm going to turn at first
14 to your direct testimony at page 3, lines 30. You
15 make the statement there that the company's plant in
16 service is all used and useful in providing utility
17 service. Do you see that reference?

18 A. Yes, I do.

19 Q. When you use the term "used and useful,"
20 what sense are you speaking of there? Are you
21 talking about operational or according to the
22 statutes?

23 MS. HUMMEL: Objection, Maureen, that
24 calls for a legal conclusion.

1 MS. GRADY: I guess we went over this
2 with a couple of your witnesses already. When I used
3 the term "used and useful," you said that I was using
4 a legal term. And now she has this legal term in
5 here, so I wanted find out if she's using the term to
6 comply with the statute or using the term in another
7 sense, so I think it is a fair question.

8 MS. HUMMEL: I think when you ask her if
9 the term complies with the statute, you're asking her
10 for a legal conclusion.

11 MS. GRADY: Let me rephrase, Gretchen.

12 MS. HUMMEL: Okay.

13 Q. When you use the termed "used and
14 useful," what you do you mean?

15 A. The term "used and useful" in this
16 context, relates, in my opinion, to the determination
17 that we typically use for accounting purposes in the
18 ratemaking or in the regulatory environment, and by
19 that I mean it has met the test of an asset that
20 should be included in plant in service, rate base in
21 this particular case, and appropriate for recovery.

22 Q. So you're not making a statement that the
23 plant in service complies with any statutes in Ohio;
24 is that correct?

1 MS. HUMMEL: Objection.

2 You can answer, Susan, if you are
3 comfortable with it.

4 A. Well, I guess I would say again that my
5 definition here is consistent with the terminology as
6 I understand it in a regulatory setting, that this
7 property is determined to be used and useful,
8 available for service, used for the intended purpose
9 for which the assets were acquired or constructed;
10 that is, to provide service to customers, and then
11 from a regulatory recovery standpoint appropriate for
12 inclusion in rate base for recovery.

13 Q. Ms. Hardwick, what would be the basis for
14 excluding property from rate base, if you know?

15 A. It would be property that is not
16 available or is not used in the service for which it
17 was intended, so abandoned pipeline or property held
18 for sale, things not currently in use or available
19 for use to serve customers.

20 Q. Would you believe property held for
21 future use would be property that could properly be
22 excluded from rate base?

23 A. I think that depends on the situation, I
24 suppose. I think if it is property held for future

1 use that has a direct relationship to the property
2 that is in service and is intended to be in service,
3 is available for service, and by that an example
4 might be where we've installed a pipeline into a
5 subdivision, that property should be classified as
6 used and useful property. That's not in service yet.
7 The house is not occupied. The service is not being
8 delivered, but I would consider that property that is
9 in service and used and useful.

10 Q. So when you use the term "used," are you
11 equating that with available for service?

12 A. Yes. In that context, yes.

13 Q. Now, you mentioned that you have in front
14 of you or you brought with you pursuant to the
15 deposition notice the Eagle report, and I guess my
16 question is, have you had a chance to look at the
17 Eagle report?

18 A. Yes.

19 Q. Now, the Eagle report identified a parcel
20 of land located in Centerville. Do you recall that
21 discussion?

22 A. I do.

23 Q. Okay. And can you tell me, was the land
24 that was referenced in the Eagle report as the land

1 parcel in Centerville, was that purchased by VEDO to
2 relocate a gas regulator station, if you know?

3 A. I believe so, yes.

4 Q. Okay. Has the gas regulator station been
5 relocated to this parcel of land?

6 A. As of today, I do not know. I know at
7 the time that Eagle completed their review, it had
8 not been relocated there.

9 Q. And at the time that Eagle completed
10 their review, what time would that have been? Would
11 that be subsequent to date certain, if you know?

12 A. Yes, it would have been.

13 Q. Do you know when the company anticipates
14 the relocation, if it has not already occurred?

15 A. No, I do not.

16 Q. Are there barriers faced by the company
17 to relocating this gas regulator station?

18 A. I'm not aware of any, and, you know, that
19 could very well be a question for Mr. Francis or
20 Mr. Doty. Being more familiar with the operations of
21 the system, they could speak specifically to the
22 plans associated with that relocation.

23 Q. Moving along, Ms. Hardwick, I want to
24 talk about deferred taxes for a moment. Are deferred

1 taxes a reduction to rate base? Is that a practice
2 that's used in Ohio ratemaking?

3 A. Yes, to my knowledge.

4 Q. And what is the theory behind that
5 reduction to rate base for deferred taxes?

6 A. In layman's term, it is to give benefit
7 to that cash difference between book treatment for
8 property and tax treatment for property that results
9 in a timing difference on the tax return which
10 results in a cash payment difference, and it's to
11 give benefit to that cash difference to the
12 ratepayer.

13 Q. So is it a ratepayer-funded item,
14 deferred taxes?

15 A. I'm not sure I understand your question.

16 Q. Let me think about that. When you said
17 you're going to explain it in layman's terms, I
18 didn't quite get the explanation that I was thinking.
19 You said one of the theories was to give the benefit
20 to ratepayers of the tax timing difference. Can you
21 explain to me what the tax timing difference is there
22 related to deferred taxes?

23 A. Yes. The deferred taxes result from the
24 difference between book treatment for depreciation,

1 just as an example, and tax treatment for
2 depreciation. The book deduction or the book expense
3 for depreciation is typically done on a longer life,
4 average life 30 years, for example. The tax life may
5 be something like 15 years, so the difference between
6 those two amortizations for book purposes and tax
7 purposes results in a timing difference that often
8 deferred taxes are recorded.

9 And the deferral of taxes simply is due
10 to the fact that I have a smaller or larger cash
11 outlay, depending on which direction that deferral is
12 going, and the treatment of deferred taxes as a
13 deduction of rate base recognizes that the company
14 has a source of cost free capital, if you will. The
15 company has that opportunity to retain that cash to
16 the extent the difference goes in that direction, and
17 it's just giving benefit for that cash differential
18 or that cash benefit that the company has as a
19 deduction of rate base, meaning the customer is
20 getting the benefit currently for that cash
21 differential.

22 Now over time, of course that works
23 itself to zero so at the end of the day the customer
24 is charged the original cost of the plant.

1 Q. Now, the underlying assets that create
2 the deferred tax and the tax timing difference, would
3 those necessarily be ratepayer funded, customer
4 funded?

5 A. Well, the customer charge, again, over
6 time is to pay for the original cost of the plant.

7 Q. Yes.

8 A. So that's the customer's obligation, and
9 that's all the customer is ever obligated to.

10 Q. Let's refer to -- I'm sorry, I didn't
11 mean to interrupt. You go right ahead.

12 A. I was going to add that the deferred tax
13 result is just a timing difference.

14 Q. Yes.

15 A. It doesn't affect the amount that the
16 customer ultimately pays. They don't pay more or
17 less because of the existence of deferred taxes.

18 Q. Thank you. Let's refer to the company's
19 response to OCC Interrogatory 566. Do you have that
20 in front of you?

21 A. Give me one moment to locate it. Okay, I
22 have it.

23 Q. Thank you. Were you responsible for
24 responding to this request?

1 A. Yes.

2 Q. Can you explain why for the items listed
3 A through D, the ADIT, the property tax, and
4 accumulated depreciation are not available?

5 A. Our records are not asset specific, and
6 without doing a fair amount of calculation, it's not
7 a piece of information that I can easily provide to
8 you out of our system, our tax accounting system.

9 Q. And --

10 A. It's not information that we maintain on
11 a regular basis.

12 Q. Now, is it because of the value of the
13 asset that the records are not asset specific? Is
14 there a baseline value for which this information
15 would be readily available for assets and then
16 anything falling below that, there's not
17 asset-specific information?

18 A. No. It's not a materiality issue. It's
19 really by class of property or account. We generally
20 typically maintain our records at the account level.
21 All assets that find their way into a particular
22 account have the same book life and same tax life so
23 we are able to calculate the deferred taxes on that
24 class of assets without having to go to the

1 individual asset level. It can certainly be
2 calculated on an asset-by-asset basis. We just don't
3 do it routinely.

4 Q. How could the ADIT and the property tax,
5 and the accumulated depreciation for these items be
6 estimated, if you could go through that?

7 A. Well, if you took the pig launcher for an
8 example, in account 669, you would need to know the
9 date of installation of that asset, which we could
10 find and have a record of it. You need to know the
11 depreciation rate or the life for that particular
12 account, both book and tax, and if you have those
13 three key pieces of information, you could calculate
14 or estimate the amount of deferred taxes that would
15 be associated with that specific asset.

16 Q. Now, you said, just so I make sure I'm
17 following, you said the date of installation was one
18 thing you needed. You said the depreciation rate or
19 life was the second item, and then the third item was
20 the book or tax value.

21 A. Well, the second item really was just one
22 -- what I was trying to say was just one item. I
23 need to know the installation date because that's the
24 date that will trigger the beginning of depreciation

1 for both book and tax. And the other piece of
2 information I need is the tax life and the book life,
3 I think I may have said rate or life interchangeably
4 there, but one drives the other. So if I know the
5 tax life and the book life, I can calculate what the
6 estimated deferred taxes would be.

7 Q. For those items, the pig launcher, the
8 pig receiver, the land and the auger drive unit, does
9 the company have readily available the date of
10 installation and the depreciation rate, as well as
11 the tax or book life for those four items?

12 A. Yes, we do.

13 Q. Is that something you could provide to
14 the Office of Consumers' Counsel?

15 A. We can calculate an estimate for deferred
16 taxes, yes. It will take us more than a couple of
17 minutes to do so, but, yes, we can provide that. I
18 would clarify one thing on land. Land is not
19 depreciated. There are no deferred taxes associated
20 with that piece, but the other three yes.

21 Q. Okay. And when you mentioned the
22 deferred taxes, we were also looking for the property
23 tax expense and accumulated depreciation. Are those
24 pieces of information that the company could provide

1 without an undue amount of work?

2 A. On accumulated depreciation, it's really
3 the same type of theory I explained for tax in that
4 it is a class of asset in an account so the account
5 has an accumulated depreciation balance, but, again,
6 not specific assets. But, again, knowing the
7 installation date, knowing the life, we can estimate
8 what the accumulated depreciation balance is by
9 asset, so, yes, that can be done.

10 Q. Would the company commit to do that for
11 the Office of Consumers' Counsel?

12 A. Yes, we will. Now, again, I would say
13 it's not something that we can produce in a couple of
14 minutes. It will take us some time, but, yes, we
15 will provide that.

16 Q. Thank you.

17 A. Now, your second question about property
18 taxes, I think again we'd have to estimate it, and
19 what I will need to have available for me is the
20 location of the asset so we know what taxing district
21 it is in, and then we obviously have the rates that
22 are applicable to those taxing districts so we could
23 estimate what property taxes, an annual amount of
24 property taxes would be associated with those assets.

1 So we can also do that, so we will do those
2 calculations and provide them.

3 Q. I appreciate that. I'm going to refer
4 you now to the company response to OCC Interrogatory
5 Response 567, and there we had asked for the
6 accumulated deferred income taxes, property
7 tax expense, and accumulated depreciation associated
8 with meters that were purchased but not installed in
9 Account 681. Do you see that?

10 A. I do.

11 Q. And basically your response was identical
12 to the response to 566 in that the requested
13 information is not available by asset. Now, with
14 respect to that particular property or equipment, if
15 you had the three pieces of data that we just spoke
16 of, the date of installation, the depreciation rate
17 and the tax life or book life of account 681 of the
18 meters, would you be able to determine the ADIT,
19 property tax expense, and accumulated depreciation
20 associated with those?

21 A. Let me ask one clarification, if I could.

22 Q. Sure.

23 A. And I could scroll back up here to look
24 at this, but let me just ask you, does this relate to

1 the ERT devices or is that all meters that you are
2 referring to?

3 Q. I believe this is the ERT devices.

4 A. We need to check that because I'm not
5 sure they are in this account. The way I read this
6 question was related to all meters. All meters are
7 capitalized in account 681. So the qualification of
8 purchased but not installed, I'm not sure what that
9 relates to. I don't know how to interpret that. If
10 it relates just to the ERT devices, I think that's a
11 question we could certainly provide an answer to.

12 Q. And I believe with that language, that it
13 would be my assumption that's what it's directed to
14 and not all meters.

15 A. Okay. If that is the case, yes, we can
16 answer that question as well, similar to what we
17 discussed related to those other pieces of property.

18 Q. Okay. Thank you. Now, let's talk for a
19 moment about the pig launcher and receivers for the
20 A80 line in Centerville. Now, the Centerville
21 regulator station is the location of the receiver or
22 the launcher, which one?

23 A. Could you ask that again, please?

24 Q. Sure. As I understand it, Ms. Hardwick,

1 you have a pig launcher on one end of the A80 line
2 and a pig receiver on the other end of the A80 line.

3 A. That's correct.

4 Q. And I understand the Centerville
5 regulator, the A80 line is located at the Centerville
6 regulator station and the Lebanon regulator station;
7 is that correct?

8 A. Is my understanding. I think, again, you
9 could verify that with Mr. Francis or Mr. Doty, but
10 that's my understanding.

11 Q. You wouldn't know which end of it had the
12 receiver and which had the launcher.

13 A. Actually, no, I don't.

14 Q. Now, is it your opinion, Ms. Hardwick,
15 that the pig launcher and pig receiver for the A80
16 line were useful as of date certain?

17 A. Yes, it is.

18 Q. And can you tell me how they were placed
19 in service on August 2007?

20 A. I'll give you my -- the accountant's
21 explanation of that, having spoken to Mr. Francis,
22 who was responsible for the installation of the A80
23 line. I've asked him that very question and did so
24 at the time the pipeline was completed. The pig

1 launcher and receiver are installed as part of the
2 pipe. They were physically in place, and they are
3 attached to the pipe. They cannot be extracted from
4 the pipe. They could not install the pipe to employ
5 this technology without having the launcher and
6 receiver in place and attached as they are.

7 Those mechanisms are there in order to do
8 the required pipeline inspection work that is
9 necessary or required as part of the Pipeline Safety
10 Act of 2002. These are devices that will be used to
11 complete the inspections necessary on that pipeline
12 in accordance with those requirements.

13 The debate about whether or not they are
14 used or useful, which I know both your office and
15 Eagle has raised, I think is around whether or not
16 the launcher and receiver have, in fact, been used,
17 and the answer to that question is, no, they have
18 not, but they never were intended to be used at this
19 stage. That doesn't mean they are not used and
20 useful. They are pieces of equipment that are
21 integral to that pipeline that will be used and
22 required to be used in order to ensure compliance
23 under the Pipeline Safety Act.

24 Q. Okay. When you say in your opinion they

1 were used, are you again equating that term with
2 available?

3 A. Yes. They are installed and they are
4 available to be used as intended.

5 Q. So you indicate they were installed as
6 part of the pipe is that right?

7 A. Yes.

8 Q. And when was the pipe installed, in
9 August 2007?

10 A. Yes. The completion, I believe it was
11 August 19 or something. It was during the middle
12 part of the August the pipeline was complete and
13 placed in service.

14 Q. Can you tell me from an accounting
15 perspective why these plant items were classified by
16 the company as completed construction, not
17 classified?

18 A. Because they haven't been unitized yet.

19 Q. And when you say they haven't been
20 unitized yet, what do you mean?

21 A. Unitization involves the specific
22 identification of all of the elements of an asset and
23 the classification of all of those individual
24 elements of an asset into the appropriate FERC

1 account, and until that unitization occurs, assets
2 are completed, moved out of CWIP, moved into
3 completed construction, not classified. They stay in
4 that bucket. They are depreciated. They are
5 available and used in service; they just haven't made
6 it to the final state of unitization. And that
7 process takes anywhere from a year to two years to
8 complete after the project is placed in service.

9 Q. And unitization sounds like an accounting
10 activity somewhat.

11 A. Yes. It's one of our more exciting ones.

12 Q. I can see where it takes you a year. The
13 cost of the pig launcher and receiver, the cost is
14 known; isn't that correct?

15 A. That's correct, yes.

16 Q. And I guess what somewhat threw me was
17 that Eagle in its report referred to the work order.
18 They used the term "unitized" but they also said the
19 work order was being reconciled. And I guess I
20 wondered if you were familiar with that term and you
21 can tell me what that means.

22 A. I am not.

23 Q. Now, are pig launchers and receivers used
24 on all types of pipelines or just transmission

1 pipelines?

2 A. I believe transmission only.

3 Q. And with respect to, if you know, pig
4 launchers and receivers that the company has on its
5 transmission pipeline, has the company in the last
6 rate case or prior rate cases had pig launchers and
7 receivers as part of the transmission pipelines?

8 A. No.

9 Q. Okay. This would be the first instance,
10 for at least Vectren, that you know that the company
11 has sought to have the pig launchers and receivers
12 placed in the rate base; is that correct?

13 A. Yes, that is my understanding. And,
14 again, Mr. Francis could explain in more detail, but
15 my understanding is that the requirements now are
16 part of the Pipeline Safety Act, and the significance
17 of the requirements under that act made it necessary
18 or made this an appropriate type of technology to use
19 in order to comply with those requirements.

20 Q. Now, you mentioned the 2002 Pipeline
21 Safety Act. Do you know when that was passed?

22 A. I believe it was passed in 2002. I think
23 2004, maybe late 20003 is when the first set of
24 requirements kicked in, but they're very specific

1 requirements about how much of your pipe has to be
2 inspected by what date. It is a very rigorous set of
3 requirements.

4 Q. Okay. And are you aware of a time frame
5 for the inspection, or are you --

6 A. I'm going from memory here. Again, I
7 think Mr. Francis could give you a lot of detail. My
8 recollection is 50 percent of the pipe had to be
9 inspected by I believe the end of 2009, maybe 2008.
10 Somewhere in the 2008-2009 time line 50 percent of
11 the pipe had to be inspected. All of it has to be
12 inspected by 2012.

13 Q. Those requirements would be found in the
14 2002 Pipeline Safety Act, as far as you know?

15 A. Yes.

16 Q. Has there been any subsequent safety acts
17 that would impact upon any requirements or deadlines
18 for such equipment, if you know?

19 A. I don't believe so related to
20 transmission plant. There is a lot of activity
21 currently related to distribution pipes, and you're
22 probably aware there are rules being drafted and
23 circulated for comment now related to distribution
24 pipes that are a lot along the lines of transmission

1 pipes, a lot of requirements around inspection and
2 other safety and reliability considerations. Those
3 rules are not final. They are in the development
4 stage.

5 Q. Can you tell me, Ms. Hardwick, when the
6 pig launcher and receiver is expected to be used in
7 order to test the integrity of the pipe, of the
8 transmission pipe?

9 A. I cannot. Mr. Francis certainly could.

10 Q. Okay. Appreciate that. Do you know,
11 Ms. Hardwick -- if you don't, I can certainly take
12 this up with Mr. Francis. Do you know how often the
13 integrity pipeline testing must be done under the
14 default Pipeline Safety Act?

15 A. Well, it's a continuous set of
16 requirements, and, again, the plan is to move through
17 all of our pipes on a schedule in order to have
18 completed all of the pipe inspections in that
19 ten-year window, and then we just start over again.
20 Mr. Francis could tell you sort of where we stand
21 relative to those as of today, what is completed,
22 what is left to go, what our issues are, what we want
23 covered, those kinds of things, so I encourage you to
24 ask him those kind of things.

1 Q. Thank you, Ms. Hardwick. I will do that.
2 Do you know -- and this is a cost recovery question.
3 Do you know if the cost attributable to this
4 equipment has been included in other portions of the
5 case, such as the DIP program or the Distribution
6 Replacement Rider?

7 A. No, it is not included anywhere else in
8 the case.

9 Q. And you have personal knowledge of that;
10 is that correct?

11 A. Yes.

12 Q. I'm going to turn now to, Ms. Hardwick, a
13 discussion of something raised by OCC, which is the
14 unclaimed funds. Are you familiar with unclaimed
15 funds as OCC has raised the issue in its testimony?

16 A. Yes.

17 Q. Okay. I'm going to refer you to the
18 company's response to OCC Interrogatory 351, which
19 provides the monthly balances of unclaimed funds for
20 2005 through 2007, and I'm going to give you a moment
21 to pull that. Again, it's OCC Interrogatory No. 351.

22 A. I have it here.

23 Q. Now, can you tell me why the balance, if
24 you look at the January '05 through December '07, the

1 balance has remained static and constant throughout
2 that time frame? Can you tell me why that is?

3 A. Yes, I can. The reason is because that
4 schedule is incorrect. That sounds like an
5 interesting answer, I know. When we were preparing
6 for this discussion today and I looked at the
7 documents that you e-mailed to me and compared that
8 to what I had in my records, I was stunned to see
9 that the document we sent to you has, as you
10 described, the same balance every month. Apparently
11 when we printed that document off of our system, we
12 had some sort of a software glitch, and it just
13 copied the first month balance in all the months.

14 The actual document is what you would
15 expect to see. The balance is changing every month.
16 There's evidence here where we've calculated the
17 13-month average, the 73,000 that staff recommended
18 or maybe your office recommended removing from rate
19 base. So we need to send you the corrected
20 schedules. I apologize for that.

21 Q. That would be helpful because I had a
22 whole series of questions here about why that
23 information didn't tie into other OCC interrogatory
24 responses, such as 351 and 112 and 36. So I guess I

1 would -- I guess I could defer those questions
2 because if this is an incorrect schedule, I don't
3 think we need to spend a lot of time asking why the
4 information doesn't tie back.

5 Are you aware, have you looked at the
6 response to Interrogatory 351, and is that correct
7 with respect to the unclaimed funds, if you know?

8 A. The written response?

9 Q. Yes.

10 A. Or the table?

11 Q. 351 I believe is the table.

12 A. The table that we sent you I know is
13 incorrect. And I am looking at the correct schedule,
14 and it does reflect the 73,000, that is the 13-month
15 average. It an August '07 balance of 175,388.

16 Q. I'm sorry. I was thinking it was a
17 different one. That is a mistake on my behalf. I
18 guess I'm saying the production of document 112, is
19 that correct information as far as the unclaimed
20 funds.?

21 A. Production of documents 112, to make sure
22 I'm looking at that time right thing, is trial
23 balances for every year.

24 Q. Yes.

1 A. Those documents are correct, yes, and the
2 balances that you see in the appropriate account on
3 that trial balance, 241, 4,000, those are all correct
4 balances. And on the spreadsheet that we have should
5 have sent you all of those balances have been carried
6 forward on that spreadsheet. For some reason when we
7 printed it, it was just incorrect.

8 Q. Is the information contained on OCC
9 Interrogatory No. 36 correct with respect to
10 unclaimed funds?

11 A. Let me locate that one if you would.

12 Q. That is the written interrogatory as
13 opposed to an attachment. I think we cut and pasted
14 that to you guys in an e-mail for your convenience.

15 A. Let me see here. Yes, I do have that.
16 The answers there are correct. Let me see. The
17 answers to the questions in Interrogatory No. 36, A
18 is correct. B is correct. C is correct. D, I'm not
19 sure is correct. Let's skip that one for a second.
20 The 2005 number I'm not sure is correct. The 2006
21 number, 1,755 is correct. The 2007 balance of
22 4,042 is correct. And let me check the 2005.

23 Q. Thank you.

24 A. Yes, the 2005 number is correct also, so

1 the typed responses to 36 are correct.

2 Q. Now, I'm going to -- I'm sorry.

3 A. Well, I was just going to say it appears
4 all we need to do is get you the corrected attachment
5 to 35.

6 Q. Yes, that would be great. Ms. Hardwick,
7 and this may be solved if you give us a corrected
8 version of your response to OCC Interrogatory 351, so
9 if that's your response, I think that would be
10 sufficient. But with respect to your response to
11 interrogatory 350 you provided us with a 13-month
12 average for the unclaimed funds of 73,008, I guess we
13 were wondering how that 13-month average is computed
14 and what months comprise it, and to the extent if you
15 answered OCC 351 correctly, will that information be
16 provided and tied into your response to Interrogatory
17 350?

18 A. Yes, it will. It's apparent on the
19 schedule that we'll send you, but just by way of
20 information, it is the 13-month average for period
21 August 2006 through August 2007.

22 Q. Do you have information that's available
23 on the test-year basis for the 13-month average for
24 the unclaimed funds?

1 A. The actual test year?

2 Q. Yes.

3 A. It is not included on the schedule but we
4 certainly can add that to carry this balance out
5 through the end of the test and calculate that
6 13-month average also.

7 Q. We would appreciate that. Thank you.
8 We're going to move along, Ms. Hardwick, to the
9 uninstalled meters or the ERTs. I will direct your
10 attention to Eagle Data Request No. 93 and give you a
11 moment to get that.

12 A. Okay.

13 Q. Eagle Data Request 93 is the company's
14 response that states that the capitalized customer
15 meter count as of August 31, 2007 was 351,248. Can
16 you identify the quantity of meters not currently
17 installed? And when I say "currently," I mean as of
18 today.

19 A. I cannot as of today. That would be
20 something that we could find out or we could research
21 and provide that information to you, but I do not
22 have that available today.

23 Q. We would appreciate receiving that
24 information.

1 A. Okay.

2 Q. Now, response to OCC Interrogatory 512

3 I'll give you to moment to get that.

4 A. I have it.

5 Q. States that the uninstalled cost of the
6 3,331 ERTs is included the \$5.588 million addition to
7 account 697. Do you see that?

8 A. I do.

9 Q. Can you identify the quantity of ERTs not
10 currently installed there?

11 A. Currently, you mean as of today?

12 Q. Yes.

13 A. Again I do not have that information
14 available at hand. We can locate that information
15 and provide that to you.

16 Q. Thank you, I'd appreciate that. Refer
17 now to the company's response to OCC Interrogatory
18 562-A. Do you have that in front of you?

19 A. Yes.

20 Q. Can you tell me how long it takes to
21 order the ERTs?

22 A. I cannot. We could find that information
23 out for you. I would have to discuss that with our
24 meter shop manager.

1 Q. Okay.

2 A. We could ask that question and provide
3 you with that answer.

4 Q. Thank you. Do you know over what period
5 the replacements are occurring, if you know?

6 A. I'd ask you to define replacement of
7 what? ERTs or meters in general?

8 Q. The ERTs. Because in your response you
9 say those 3,331 ERTs are being installed as
10 replacements. I guess my question is using your
11 words, over what period are the replacements
12 occurring?

13 A. Again, I need to consult with our meter
14 shop manager. The response there related to the
15 3,331 I believe I said are being installed as
16 replacements or used as spares. We have
17 traditionally maintained a number of meters, or in
18 this particular case, meter devices as spares because
19 of the lead time, a long lead time issue, so we
20 maintain a number of them as spares so that when we
21 do have a replacement, we have one available to
22 install. So we're always going to have more meters,
23 or in this case, more ERTs than we actually have
24 installed simply for that reason, to ensure we don't

1 have customer outages for lengthy periods of time
2 while waiting for a meter to arrive.

3 Q. Now, Ms. Hardwick, you said used as
4 spares. You said historically that you have
5 equipment, such as ERTs, that you maintain spares.
6 What's the policy with regard to how many spares
7 should be maintained by the company.

8 A. Again, I need to consult our meter shop
9 manager on that to find out what they deem an
10 appropriate spare inventory is, and I think it does
11 vary by the asset we are talking about. Obviously,
12 the ERTs are new. We haven't had them installed
13 previously so we don't have any experience with
14 those. We don't know what the failure rate is.
15 Those kind of things we need to find out from our
16 meter shop manager, but certainly a policy around the
17 number of meters and associated equipment we have on
18 hand at any point in time we can find out from that
19 individual and pass that back to you.

20 Q. Thank you. Ms. Hardwick, we will now
21 move along to the operating income section of the
22 filing. I want to talk to you for a moment about the
23 incentive compensation. You are familiar, are you
24 not, with the incentive compensation portion of your

1 application?

2 A. Yes, I am.

3 Q. Do you know if the short-term incentive
4 compensation included in the test year contains any
5 amounts for union employees?

6 A. Yes, it does.

7 Q. Do you know offhand how much of the
8 short-term incentive compensation in the test year is
9 related to union and how much is related to nonunion?

10 A. I don't have that readily available
11 either. I hesitated for a moment because I know I
12 have a document that will tell me that information.
13 I just don't have it at hand. Let me locate that for
14 you and provide that to you later.

15 Q. I appreciate that. Do you know if --
16 similarly, do you know if the long-term incentive
17 compensation included in the test year contains any
18 amounts for union employees?

19 A. No, it does not.

20 Q. Are there any amounts included, if you
21 know, Ms. Hardwick, in the test year for incentive
22 compensation expense flowing from VUHI?

23 A. Yes, there is.

24 Q. And do you know how much is included in

1 the test year associated with VUHI incentive
2 compensation?

3 A. Again, I don't have that readily
4 available. It's on that same document I referred to
5 earlier that I would need to locate, and we would
6 provide that information as well.

7 Q. That would be great. And do you know if
8 that information then is also broken down into union
9 and nonunion expense related to the incentive
10 compensation?

11 A. There are no union employees at VUHI.
12 All union employees are employees of VEDO.

13 Q. Thank you. Now, on page 10 of your
14 testimony, lines 19 to 33, you begin to discuss the
15 allocation of costs related to the shared asset
16 charge. Do you see that?

17 A. Yes, I do.

18 Q. Is the VUHI asset charge based on the
19 plant balance as of date certain?

20 A. No, it is not.

21 Q. It is VUHI's plant balance then that is
22 allocated down to VEDO; is that correct?

23 A. Not literally. The allocation to VEDO
24 from VUHI for the asset charge starts first with the

1 asset balance at VUHI, and then the allocation to the
2 individual utility companies is derived based on the
3 appropriate factors. Depreciation expense is
4 allocated. Property taxes are allocated. The return
5 that is calculated by the company is done separately
6 by the company. I mean, it also ends up being
7 separate calculations starting with the VUHI asset
8 base. It's a long-winded answer to your question,
9 but the end result is as you described, that the
10 plant balance at VUHI does get allocated to each of
11 the utility companies.

12 Q. When you said the return is done
13 separately, are you saying that each of the utility
14 operating companies calculate their own return based
15 upon their financial data on the VUHI asset?

16 A. Specifically what I'm referring to there
17 is the allowed return on equity that is different for
18 each of the utility companies, and we do the return
19 calculation based on the allowed return on equity in
20 each of those jurisdictions, so to the extent it
21 varies by company, their individual calculation will
22 result in a different answer.

23 Q. And the individual calculation would be
24 the authorized return on equity, the latest

1 authorized?

2 A. Yes.

3 Q. We established earlier that the VUHI
4 asset charge is not based on plant balance as of date
5 certain. Is the asset charge in this case then a
6 three and nine projection, or is it based on some
7 other value altogether?

8 A. The asset charge in the case in the
9 application is based on the budget, and the test
10 year, as you know, is made up of two budget periods
11 effectively, a portion of the '07 budget and a
12 portion of the '08 budget, and the asset charge is
13 charged to each of the companies on a budget basis,
14 so what is in the budget is in fact what makes its
15 way into the income statement for each of the
16 companies.

17 The budget for 2008, for example, that
18 derives the 2008 portion of the test year is based on
19 projected plant in service at December 2008, and
20 that's how we have traditionally done the budget for
21 asset charge. We're always projecting a plant
22 balance at the year end of the year in question.

23 Q. Ms. Hardwick, is it correct that if the
24 assets were owned directly by Vectren, they would be

1 included in rate base?

2 A. If by Vectren you mean VEDO in this case?

3 Q. Yes, I'm sorry. I know there is Vectren
4 Corporation. I should say VEDO. Thank you.

5 A. Yes. If these assets were owned solely
6 by VEDO, they would be included in rate base at VEDO.
7 And, of course, we have not done that because we
8 believe there's huge economies to having a shared
9 asset base, things like accounting systems, billing
10 systems, things like that where we have made a single
11 investment and share that cost across all companies
12 as opposed to each one having to have their own.

13 Q. Ms. Hardwick, are the accumulated deferred
14 income taxes a deduction from rate base?

15 A. I'd ask you to be more specific.

16 Q. The accumulated deferred taxes associated
17 with the VUHI assets that are included in the
18 company's rate base in this test period.

19 A. They are not included in the rate base
20 calculation for VEDO.

21 Q. So it is essentially a deduction from
22 rate base for VEDO?

23 A. Well, let me clarify what I think you're
24 asking me. The deferred taxes that relate solely to

1 VEDO are deducted from VEDO's rate base.

2 Q. Yes.

3 A. The deferred taxes related to the VUHI
4 assets, the shared assets, the holding company are
5 not included in the rate base or deferred tax
6 deduction from VEDO's rate base.

7 Q. Moving along to depreciation expense, I
8 want to refer you to the company's response to OCC
9 Interrogatory 320. I'll give you a moment to find
10 that.

11 A. Okay, I have it.

12 Q. Can you tell me, Ms. Hardwick, if the
13 depreciation rates -- let me step back a moment.
14 Were the depreciation rates approved in the company's
15 prior rate case, 04-571, if you know?

16 A. Yes, they were.

17 Q. And the same depreciation rates are being
18 utilized in this rate case?

19 A. That's correct.

20 Q. Do you know if the depreciation rates
21 approved in the last case and proposed in this case
22 for specifically accounts 311.1, 311.2, and
23 311.3 have zero percent for net salvage or cost of
24 removal?

1 A. If you could give me just one moment to
2 look at this response, just to refresh my memory.

3 Q. Sure.

4 A. Just one moment, please.

5 Q. And, Susan, if you need five minutes at
6 any time during this deposition, just please say so.

7 A. Sure. Could you give me the account
8 numbers one more time?

9 Q. That would be 311.1, 311.2, and 311.3.

10 MS. HUMMEL: You know, Ms. Grady, I don't
11 want to be dense here, but I'm not seeing those.
12 Tell me where they are on these documents, those
13 account numbers you just mentioned.

14 MS. GRADY: I'm going to have to take a
15 moment.

16 MS. HUMMEL: Are you sure you don't mean
17 611.1-2-3?

18 MS. GRADY: If I could have a moment,
19 please.

20 (Discussion off record.)

21 MS. GRADY: Gretchen, you are correct in
22 that -- I'm looking at the B3.2, page 2 of 5 schedule
23 of the company, and we can see that the
24 311 accounts -- the 311 FERC accounts relate to

1 company accounts 611.1, 611.2, and 611.3.

2 THE WITNESS: I've located that as well.
3 I was having trouble, just like Gretchen, but I have
4 located that also.

5 Q. My question is, are the depreciation
6 rates associated with those accounts, do they have a
7 zero percent for net salvage value, cost of removal?

8 A. Yes, they do.

9 Q. And now I will refer you to Schedule
10 B3-2, and ask you if VEDO's proposed depreciation
11 rates for these accounts have a zero percent for the
12 net salvage cost of removal?

13 A. Let me clarify my previous answer. That
14 is what I was answering. The accrual rate of 286,
15 for example, on account 311.1, does not include a net
16 salvage factor.

17 Q. Thank you. Do VEDO's current or proposed
18 depreciation rates have a provision for net salvage
19 or cost of removal for these three accounts we just
20 spoke of?

21 A. No. It is not -- there is not one
22 included.

23 Q. Have you reviewed the testimony of OCC
24 Witness Smith with respect to this particular

1 expense?

2 A. Yes, I believe I have.

3 Q. Is OCC's adjustment incorrect in your
4 opinion?

5 A. I believe it is incorrect, yes.

6 Q. Can you tell me the basis you believe it
7 is incorrect?

8 A. The basis for that is the depreciation
9 rates that are employed are, of course, estimated
10 lives. We have clearly in this particular case an
11 asset that has exceeded its life. That asset is
12 still in service, still providing service to
13 customers, and as such, since it has not been
14 retired, the theory or the process consistent with
15 composite rate depreciation theory is to continue
16 depreciation until that asset is retired, and the
17 resulting impact is, as you pointed out, a net
18 negative plant balance which serves to reduce rate
19 base. It's effectively giving the customer back the
20 money or the investment that they've provided
21 relative to that plant.

22 Q. With respect to the last statement you
23 made --

24 MS. GRADY: Let me have the answer read

1 if you could.

2 (Record read.)

3 Q. With respect to the latter part of that
4 statement, are you saying that when it is treated as
5 net negative plant balance, that the customer is not
6 then paying a return on that equipment or plant?

7 A. That's correct.

8 Q. But the customer is still paying a return
9 of that plant through continued depreciation expense;
10 is that correct?

11 A. That's correct.

12 Q. We will now forge on to a topic near and
13 dear, and that's the asset sale. Let's go to
14 Interrogatory, the company's response to
15 Interrogatory 555-C, if you have that.

16 A. I do.

17 Q. And the question in 555-C was: How was
18 the transfer value determined? And what we're
19 talking about is the sale from VEDO to VUHI of the
20 Todd Hunter propane storage facility, correct?

21 A. Correct.

22 Q. And so the question was. How was the
23 transfer value determined? And your answer or your
24 response, and I believe you were the responder, under

1 C: "To the extent it occurs, it is our policy to
2 transfer assets between Vectren companies at net book
3 value." Do you see that?

4 A. Yes, I do.

5 Q. Can you tell me, is this a written
6 policy, or is this -- where would one find this
7 policy? Is it an accounting policy?

8 A. I would say that it's a practice more
9 than a policy. I'm trying to reflect and think about
10 whether or not we have a documented policy around
11 that. I know in situations where we have done
12 transactions like this, as we document the
13 transaction itself, we document that the transfer is
14 done at book value. I don't recall a written policy
15 that spells out transfer is done at book value.
16 Practically speaking, that is what we do, and from an
17 accounting standpoint, that's the only thing that
18 makes sense. There is no opportunity for
19 intercompany gains on losses. I mean, there is no
20 logic to transferring it at anything other than book
21 value.

22 Q. When the transfer was made by VEDO to
23 VUHI, did VEDO know that the asset was worth more
24 than the net book value?

1 A. VEDO was certainly aware of the valuation
2 that was done in the last case related to this piece
3 of property. We had a valuation done then and
4 proposed in the 2004 case for inclusion of that fair
5 market value in rate base. That request, of course,
6 was denied. So as of the date of that case VEDO was
7 aware there was value to this propane cavern well in
8 excess of book value. I can only believe that VEDO
9 still believed that value still existed at the time
10 it sold the asset to VUHI.

11 Q. Now, referring to the company's response
12 to Interrogatory 556, did VEDO own the asset in 2004?

13 A. Yes.

14 Q. In 2004 did VUHI own any part of the
15 asset?

16 A. No.

17 Q. Could VEDO have sold the assets directly
18 to the buyer in this case?

19 A. I believe so, yes.

20 Q. Referring to the company's response to
21 Interrogatory 558, I'll give you to moment to find
22 that.

23 A. I have that.

24 Q. You have to give me a moment to find it,

1 I guess, first. There the question was: If VEDO had
2 sold the asset directly to a purchaser rather than
3 transferring it, please show in detail by account and
4 amount how VEDO would have accounted for the gain.
5 And I guess when we got your response, and it was
6 Lawrence Friedeman's response, actually, when we got
7 that response it says: The interrogatory is vague
8 and contains clear and imprecise terminology.

9 I guess I want to ask you that question
10 here at the deposition and hopefully we will get a
11 more favorable answer. If VEDO had sold the asset
12 directly to the purchaser rather than transferring it
13 at book value to VUHI, what kind of accounting
14 entries would have been made and how would VEDO have
15 accounted for the gain?

16 A. Well, the assumption first would be, as
17 you said, that VEDO sold it directly to the ultimate
18 purchaser and purchased it at the same price at which
19 VUHI sold it, so that is your basic premise, correct?

20 Q. Yes.

21 A. In that event the accounting that would
22 be done on VEDO's books would be to remove the net
23 book central of the plant, which I believe was
24 roughly \$350,000, somewhere in that neighborhood. To

1 remove the net book value of the plant from its books
2 and records, so that would be a reduction in plant,
3 rate base, whatever.

4 The gain on the sale of that asset, again
5 assuming we sold it for the \$4.4 million, minus the
6 \$350,000 in book value, leaving roughly a \$4 million
7 gain would be recorded in account 421.1, gain on
8 disposition of property, which those of accountants
9 on the phone know that it is an account below the
10 line. It is an account that falls below operating
11 income.

12 Q. So for regulatory -- essentially what
13 you're saying, for regulatory purposes, if you have
14 regulation follow the accounting, it would not be
15 treated as a regulatory gain and flowed back to
16 customers.

17 A. That's correct.

18 Q. Do you know what accounting entries VEDO
19 did actually use for the book transfer to VUHI?

20 A. The accounting that VEDO accomplished for
21 the transfer to VUHI was simply to remove the book
22 value from plant, so it was debit cash, credit net
23 plant for the difference, for the net book value, the
24 350,000 in my example.

1 Q. The entries would essentially have been
2 the same if VEDO had made the sale to the third party
3 except VEDO would have received the gain; is that
4 right?

5 A. That's right. In that case VEDO would
6 have recorded \$4.4 million worth of cash, a credit to
7 net plant for 350,000, and then a gain below the line
8 of the remaining 4 million or so.

9 Q. Okay. We will move now, Ms. Hardwick, to
10 the AGA dues, and I will refer you to the company's
11 response to OCC Interrogatory 563. Do you have that
12 in front of you?

13 A. Yes, I do.

14 Q. If VEDO was aware that within the AGA
15 dues there was advertising expense, would it be
16 VEDO's opinion that that should be removed for
17 purposes of test period expenses in this case?

18 A. No, I don't have that opinion. I think
19 it's too broad of a statement to say that advertising
20 by the AGA to the extent those costs are passed on in
21 the way of dues should be excluded how. Do we know
22 the advertising is not safety related?

23 Q. Does it depend, in your opinion, upon the
24 type of advertising, whether the advertising is

1 promotional or nonpromotional?

2 A. Well, I think it is certainly a
3 consideration. As I said, I think it is too broad of
4 a statement to simply say that advertising should be
5 excluded.

6 Q. Do you know about the type of advertising
7 that's included in the AGA dues?

8 A. No, I do not.

9 Q. So you wouldn't know, for instance, if
10 that was safety advertising or perhaps something of
11 promotional advertising; is that right?

12 A. I don't know, but I would say, just based
13 upon my only personal opinion and my own observation
14 of AGA documents, I would say very little of it would
15 be in the category that you're describing,
16 specifically not related to conservation, customer
17 safety, you know, the kinds of things that do add
18 value and provide value to customers. Most of what I
19 see is that type of advertising, so if you made that
20 link to what is a cost recovery mechanism for the AGA
21 and the recovery of dues, I would assume the bulk of
22 what they're doing is not the type of advertising
23 you're speaking of.

24 Q. And you indicated in your response that

1 based upon the documents you had seen. What kind of
2 documents have you been looking at with respect to
3 the AGA that would lead you to your conclusion?

4 A. Well, being a member of the industry, we
5 see lots of things that are published by the AGA,
6 articles, ads in trade magazines, those types of
7 things. That's what I was referring to.

8 Q. So even the ads in the trade magazines
9 would be, in your opinion, ads that wouldn't
10 necessarily -- shouldn't necessarily be excluded?

11 A. Yeah. In my opinion, yes.

12 Q. And the ads that you have seen in the
13 trade magazines, how would you characterize those
14 ads?

15 A. Again, I'd say they're primarily focused
16 on customer-related issues, safety, conservation,
17 efficiency, those kinds of things.

18 Q. Has VEDO reviewed the AGA budget for 2007
19 or 2008?

20 A. I'm not aware of that. I have not.

21 MS. GRADY: Ms. Hardwick, now is a nice
22 time take a five-minute break if you prefer because
23 we are moving on now to the revenue portion of my
24 questions. If this would be a good time, we could do

1 so.

2 THE WITNESS: That's certainly fine with
3 me.

4 MS. HUMMEL: Maureen, let's double that.
5 Let's come back at 2:30.

6 MS. GRADY: That's fine.

7 (Recess taken.)

8 Q. (By Ms. Grady) Ms. Hardwick, we will now
9 move to a discussion of the revenues associated with
10 the application that you filed. Can you basically
11 explain to me the company's budgeting process for
12 revenues, how they develop the revenues and how the
13 revenues are then input?

14 A. Yes. I think I can give you a brief
15 explanation how the process works. We have an
16 organization inside of Vectren that has the
17 responsibility for revenue management, and that's the
18 name of that organization, and the individuals in
19 that organization are responsible for not only the
20 development of the revenue budget but various
21 analyses, trending, statistical analysis, a variety
22 of analytical activities related to the revenue
23 budget.

24 That group is charged with preparing the

1 budget on an annual basis and also actually providing
2 significant input into the five-year forecast from a
3 revenue perspective. That group takes various inputs
4 like customer count, actual count, analysis related
5 to customer activity, meaning growth or customer
6 losses. It is typically an historical analysis.
7 They do a variety of analyses related to customer
8 usage, both upon an actual basis as well as a weather
9 normalized basis, and with all of those inputs and
10 analyses develop what they believe to be the
11 appropriate short-term, meaning the budget, and
12 long-term, meaning the forecast, expectations for
13 revenue.

14 They are responsible for and obtain
15 sign-off for assumptions like number of customers,
16 number of customers within each rate class, average
17 use per customer, revenue per unit, so, you know,
18 they have obviously access to all of the tariffs and
19 the base rates that are currently in place. They are
20 aware and know how all the various riders work so
21 they would calculate the revenue components related
22 to each of the riders, develop all those pieces, put
23 them all together, and then that results in the
24 budget, in the case of this longer term look, the

1 forecast.

2 They then coordinate review sessions with
3 various groups in the company, starting first with a
4 working group that involves my organization and
5 individuals in my organization, and then we move from
6 those discussions to higher level discussion with the
7 senior management team where revenue is discussed and
8 reviewed sort of in the context of the total budget,
9 and when I say total, I mean things like O&M and
10 depreciation, property taxes, all of those things
11 that lead to a net income budget. They then take
12 inputs or feedback from all of those various
13 sessions, make appropriate adjustments and the
14 resulting output is the final budget.

15 Q. Ms. Hardwick, are any of the witnesses in
16 this proceeding individuals that work in or under the
17 Revenue Management Group?

18 A. No, there are no witnesses that are in
19 that group. Witness Doty supervises that group, and
20 certainly is a key player in the development the
21 revenue budget.

22 Q. And when you say he's a key player in
23 development of the revenue budget, can you explain,
24 if you know, how he functions with respect to that?

1 A. Yes. He would be one of the individuals
2 as part of the senior management review team. He
3 certainly participates at that level and provides
4 feedback in that context, but on a more regular basis
5 is in consultation with the director that is
6 responsible for revenue management. That individual
7 would consult with him on specific assumptions, and,
8 if you will, sort of bounce things off of him as the
9 budget is being developed. He'd be involved in that
10 way also.

11 Q. When you refer to the budget, are you
12 referring to a one year or less period of time that
13 that applies to, and the forecast would be a
14 five-year period, or just longer than one year?

15 A. As I described the process, it relates to
16 both the short term and the long term. The short
17 term is defined as a one-year period, which is the
18 next year. So, for example, we're just now beginning
19 our 2009 budgeting process. It will be for the
20 calendar year 2009. Coincidental with that work we
21 are developing the forecast, which is a five-year
22 look, the first year being the budget, being in this
23 case 2009, and the forecast would be the four years
24 following 2009.

1 Q. Now, at what point in time -- like you
2 said right now you're working on the 2009 short-term
3 budget as well as five-year long term. At what point
4 in time during the year is that short-term budget
5 approved and it becomes the official budget of the
6 company?

7 A. The process runs a good part of the
8 summer. We complete all of our internal reviews of
9 that document late September, early October, and we
10 usually have it finished and wrapped up I'd say first
11 week of October. We then take that budget and
12 revenue being a portion of the overall budget, as you
13 understand.

14 Q. Yes.

15 A. Take that portion of the budget the last
16 week in October, so we target that time frame in
17 order to have the board approval, and generally it's
18 by November 1, the last week of October is typically
19 the time.

20 Q. Now, you indicated, and, again, you were
21 saying that the activities we were talking about, the
22 budgeting process for revenues, comes out of the
23 Revenue Management Group. Can you tell me who the
24 director of the Revenue Management Group is?

1 A. It's an individual by the name you have
2 Becky Boling, B-O-L-I-N-G.

3 Q. And is she a VUHI employee or a VEDO
4 employee?

5 A. She is a VUHI employee. She performs
6 that function for all of our utility operations.

7 Q. So the Revenue Management Group, like you
8 said, does all -- develops the budget information for
9 all of the subsidiaries of VUHI, including VEDO.

10 A. Yes, that's correct.

11 Q. Now, when you were discussing the Revenue
12 Management Group and the process, I just want to make
13 sure I understood and heard you correctly. You said
14 that the group obtains the sign-off for assumptions
15 or is able to sign off for the assumptions made.

16 A. I think I said they obtain sign-off.
17 What I meant by that was the group is responsible
18 for, you know, doing their own analysis and coming up
19 with a recommended set of assumptions. They then go
20 through that review process both at sort of the
21 working group level and then ultimately the senior
22 management level, and at that senior management level
23 is where sign-off is obtained for the set of
24 assumptions. So that is sort of the final checkoff,

1 if you will, about the assumptions that are used.

2 Q. Now, I'm assuming, we have been talking
3 about revenue, is there also a similar process for
4 the expenses related to budget?

5 A. Yes. There's a very similar process in
6 place for expenses, a very similar process for
7 capital investment, and those are the major areas.
8 We have a more informal process related to the other
9 elements of the income statement, but certainly that
10 formal process exists for revenue, expenses, and
11 capital investment.

12 Q. And would the titles of those groups be
13 expense management and capital investment management?

14 A. No. The expense management process or
15 the expense review process is really driven by the
16 business units, and I hate to introduce a new term,
17 but also under Witness Doty is a group that is
18 responsible for the expense development, budget
19 development, and analysis. There's a director over
20 that group by the name of Mark Gayhart,
21 G-A-Y-H-A-R-T. He's also a director that reports
22 directly in to Witness Doty, and he is responsible
23 for coordinating the development of assumptions and
24 specific inputs to the expense budget for all of the

1 key operating areas, so for all of the delivery
2 business of which VEDO is a part, for our electric
3 business, for other sort of key operating areas
4 within the business unit.

5 The rest of the expense budget, so things
6 like accounting, for example, human resources, legal,
7 some of those key corporate functions are really
8 coordinated through my organization through my
9 manager of budgeting.

10 Q. Okay. And your manager of budgeting
11 would be?

12 A. Joy Biggs, B-I-G-G-S. We also have a
13 director responsible for that area, amongst others.
14 His name is Patrick Edwards. He's also intimately
15 involved in that process.

16 Q. Thank you. If you can refer,
17 Ms. Hardwick, to the company's response to OCC
18 informal discovery, Item 1, request dated April 1,
19 2008 entitled Exhibit 1A through D, Revenue Model
20 Support. Formulas Intact.XLS. Do you have that the
21 front of?

22 A. I believe I do yes.

23 Q. Now, I want to specifically refer your
24 attention to the tab titled VEDO 2007 budget.

1 A. Okay.

2 Q. Now, the budget numbers that were
3 developed for each of the tariffs on this schedule,
4 would those have been the budget numbers according to
5 the Revenue Management Group?

6 A. Yes. They would be the result of that
7 process I described.

8 Q. Do you know how, for instance they would
9 determine the number of bills, for instance?

10 A. Well, my assumption is, and we certainly
11 could verify, my assumption the number of bills are
12 determined by the estimated customer count that they
13 have derived times 12.

14 Q. And the estimated customer counts are
15 developed, do you have an idea how those are
16 developed?

17 A. Again, they would rely very heavily on
18 historical information and historical customer growth
19 or decline trends. They typically use historical
20 analysis for all of those elements, you know,
21 something beyond just the most recent experience.
22 They really try to develop trends. They incorporate
23 any information they have about any demographics,
24 things happening in our particular service territory.

1 All of those factors are elements of their
2 assumptions around customer count.

3 Q. Would Mr. Doty have specifics about
4 how -- would he know the specifics about how the
5 budget numbers are developed, specifically the bills,
6 beyond what you have said? For instance,
7 Ms. Hardwick, you referred to looking at the number
8 of bills, looking at historical information. Would
9 Mr. Doty know the exact nature of the historical
10 information? Would he know what years are looked at?
11 Would he know the period of time? Would he know more
12 of the specifics?

13 MS. HUMMEL: If you know.

14 Q. If you know.

15 A. I hated to defer to him, but I would
16 assume, yes, he would know.

17 Q. And, likewise, if I had specific
18 questions about how the budget numbers were developed
19 of each of the tariffs on this schedule, like, for
20 instance, how the units/customers/d-day are
21 developed, that typically would be something that
22 Mr. Doty would have, you would think, have knowledge
23 of?

24 A. I would say that the detailed elements of

1 this calculation he's probably not going to be
2 intimately familiar with. The review process, as I
3 said, is really a higher level review. It's about
4 key assumptions, what growth rates have we used, what
5 average rate per customer have we used, you know, a
6 bit of sanity check on those types of assumptions.
7 He'll have that familiarity.

8 The details of the calculation I suspect
9 he's not going to be prepared to answer detailed
10 questions, and I know, obviously, we have done a
11 variety of data requests here, but if I'm not out of
12 bounds here, counselor, I would suggest that maybe we
13 could arrange for a discussion or perhaps we could
14 even prepare a more detailed written document that
15 explains how individual elements of the calculations
16 are done if that would be helpful.

17 Q. I know, speaking from our perspective and
18 our consultant's perspective, if there were more
19 detailed information about how the numbers were
20 developed on the revenues, on the gas revenues, it
21 would be extremely helpful for us. And whether it
22 takes the form of a document or discussions between
23 our consultant and people from the Revenue Management
24 Group of the company certainly would be your call.

1 A. What I might suggest first, let me have a
2 conversation with our revenue management people to
3 see exactly what may exist in the way of a narrative
4 or written document as to how the process works and
5 then also inquire of them how difficult it would be
6 to put something together, or would it be simpler to
7 just arrange a conversation. We are certainly open
8 though those alternatives.

9 Q. Thank you.

10 MS. HUMMEL: From my perspective, I want
11 us to all be mindful of where we are in the month of
12 August and what we have scheduled and just indicate,
13 Maureen, that we are going to in the analysis of what
14 kind of time we have available to do what kind of
15 activities, we are going to make sure we get our
16 primary responsibilities done. Susan is being very
17 generous, and we will really try to follow up on her
18 suggestion to the extent if it is any way possible,
19 but we are running out of time.

20 MS. GRADY: I understand. And I
21 understand if you were sitting probably at the table
22 with her, you might be kicking her.

23 MS. HUMMEL: I would never kick Susan,
24 believe me. We need Susan.

1 THE WITNESS: And Gretchen knows I kick
2 back.

3 MS. HUMMEL: I've seen it. I haven't
4 experienced it. I've done enough limping in my life,
5 I can tell you that.

6 MS. GRADY: I understand, not making
7 light of the fact. I do appreciate Susan's
8 responsiveness and willingness to respond to us and
9 do understand, Gretchen, your point as well.

10 MS. HUMMEL: Thank you.

11 Q. (By Ms. Grady) Do you have before you the
12 company's response to Item 2D of OCC informal data
13 request dated April 1, 2008.

14 A. Give me a moment to locate it.

15 Q. I think is a narrative response as
16 opposed to an attachment.

17 MS. HUMMEL: Would you repeat the
18 reference for me.

19 MS. GRADY: I believe item 2D to OCC's
20 informal data request, April 1, 2008. This might be
21 one I didn't send you because we had a little bit of
22 trouble finding it.

23 A. As are we. The only one we can locate is
24 2C. We did not see is 2D.

1 Q. Okay. As I understand it, we asked in 2D
2 for the following information: A calculation of the
3 linear regression coefficients and resulting
4 correlation factors used by the company in weather
5 normalization. And I understand that the company's
6 response was: Please see data provided in A through
7 C above, and I guess when we looked at A through C
8 above, we didn't see that information.

9 So my follow-up question is, did you run
10 a linear regression analysis associated with your
11 weather normalization?

12 A. No, we did not. I suspect that's what we
13 were attempting to say in that answer saying by
14 "refer to data above," meaning that's all we got.

15 Q. Now, I'm going to refer you to the
16 company's response to OCC Interrogatory 458, I
17 believe it is 458, unless I mistranscribed the
18 numbers, where the company was requested to provide
19 historical monthly sales volumes and customers by
20 tariff from 2001 through 2008. Do you have that in
21 front of you?

22 A. Yes, I do.

23 Q. If you give me a moment, I will have that
24 as well. The response that was provided by the

1 company, do you know whether the response in fact is
2 the historical monthly sales volume by tariff, or is
3 it something else?

4 A. The document that I am looking at, which
5 actually is labeled Interrogatory No. 548, which I
6 think was the follow-up to 458, if I'm looking at the
7 right document, this is historical sales by customer
8 class.

9 Q. Yes. I guess my question is, did the
10 company -- does the company have the same information
11 by tariff as opposed to customer class?

12 MS. HUMMEL: I apologize for stepping on
13 you. Maureen, I believe we responded to that as a
14 response that Susan said to Interrogatory 548, which
15 specifically referred to Interrogatory 458 in its
16 body, narrative body.

17 Q. Ms. Hardwick, 458, as far as you know,
18 does that provide historical sales volume by tariffs
19 for customers?

20 A. Give me just one moment, please.

21 Q. Thank you.

22 MS. HUMMEL: Ms. Hardwick, if your
23 recollection is different from mine, please correct
24 mine.

1 A. Let me attempt to explain what is
2 included in this. I think the answer to the question
3 is yes.

4 Q. Okay.

5 A. The document, and I think if you'll
6 reflect on our initial response, the problem we had
7 with this was the period being asked for. Part of
8 the period we were under a tariff system, part of the
9 period we were under sort of a customer
10 classification system.

11 Q. Yes.

12 A. I know your request was to have that data
13 on a comparable basis.

14 Q. Yes.

15 A. So what we've done in this revised
16 response, which is the response to 548, is try to put
17 the information on a comparable basis, so for the
18 first couple of pages, so for the 2001, 2002, 2003,
19 2004 years, they are on a customer class basis, which
20 is what they were at the time.

21 Q. Yes.

22 A. When you move to 2005, we are on a tariff
23 system, and the tariffs have been grouped into the
24 same categories as those earlier years so that you

1 can compare them in total, so general service, you
2 know, we group the right tariffs to make general
3 service, which compares to the old customer
4 classification of general service. So we've done
5 sort of both things but tried to group them so that
6 the comparability is there, if that makes sense.

7 Q. If I was looking at your response to
8 Interrogatory 548, does that information reconcile to
9 the rate 330 data contained in the company's filing,
10 if you know, for the three months of actual June
11 through August?

12 A. For the three months of actual June
13 through August we would have to check, but that would
14 be the expectation, that the three months of actual
15 data that's reflected in tariff 330, I'm looking at
16 page 7 of 8, that should be the three months of
17 actual that is in the test year. Now, again, we
18 would need to check that just to make sure, but that
19 would be the intent of the schedule.

20 Q. Okay. Now, also in Interrogatory 548,
21 there appears to be missing data for rate 345. Do
22 you see that, or not see that?

23 A. I don't see that, and I think I shouldn't
24 see that. 345 are not sales customers. They are

1 transportation customers.

2 Q. Okay. So 548 just deals with the rates
3 as opposed to transport customers?

4 A. Yes. Specifically it deals with sales
5 customers only, which means, you know, they get a
6 revenue bill and we got gas costs as opposed to
7 transportation customers who just pay transportation.

8 Q. Is there a schedule or is there
9 information that would show the transportation
10 customer revenues by tariff similar to what is shown
11 on Interrogatory 548 for the rates customers?

12 A. I don't believe we have prepared an
13 analysis like that, no.

14 Q. Okay. Earlier you referred to the period
15 of time prior to April 2005 when your rate structure
16 was changed. Is there any way to ascertain the
17 volumes in customer counts for rate 320 and rate 325
18 prior to rate structure change?

19 A. I have to have you have repeat that, if
20 you would?

21 Q. Ms. Hardwick, you indicated earlier that
22 in 2005, and I believe it's April 2005, your tariff
23 system or rate structure changed. And I guess my
24 question, is there a way to ascertain the volume and

1 customer count for rates 320 and 325 prior to
2 April 2005 when the rate structure was changed?

3 MS. HUMMEL: If you know, Susan.

4 Q. If you know.

5 A. I don't know sitting here this moment. I
6 think it's one that I need to think about a little
7 bit to see whether or not we can derive that
8 information. My guess is no, but let us verify that.

9 Q. Okay, thank you. Now, Ms. Hardwick, I'm
10 going to move along to more specific questions, and I
11 want to focus right now on page 12 of your testimony,
12 your Schedule 3.3 adjustment.

13 A. Yes, I have that.

14 Q. Now, you have reduced service charge
15 revenues by 739,459 for estimated customer levels; is
16 that right?

17 A. That's correct.

18 Q. And this reduction is proposed to the
19 three and nine test year data; is that right?

20 A. That's correct, yes.

21 Q. You say that customer count reduction to
22 budget assumptions was determined on a
23 tariff-by-tariff basis. Do you have that reference?

24 A. Okay. Could you refer me to a line

1 number?

2 Q. Yes. That would be page 12 of your
3 testimony, and that would be lines 26 through 29.

4 A. Yes, I see that.

5 Q. Okay. Do you know on a tariff-by-tariff
6 basis what the exact customer count reduction for the
7 residential sales and residential transportation
8 were?

9 A. I do know that. That's the
10 4,253 customer change that you're referring to. I do
11 know that by tariff. I don't have it here by my
12 fingertips. We need to locate the schedule that's
13 included on, but, yes, we have that data.

14 Q. You said it's included on the schedule.
15 Are you talking about a schedule filed in this case
16 already?

17 A. Yes, it is. It has been filed. Again, I
18 need -- I'm tap dancing here until we find the
19 reference, but, yes, it is on a schedule that has
20 been filed.

21 Q. If you just provide us with the schedule
22 reference, we would appreciate it when you would be
23 able to do that.

24 A. Okay.

1 Q. Now, in your adjustment, your C3.3
2 adjustment, you say you reflect on an annual average
3 the customer count for all tariffs was reduced by
4 4,245 total customers. Do you see that?

5 A. I believe it's 4,253, yes.

6 Q. I am having a little trouble with my
7 numbers today. I was better the other day, but not
8 today. Thank you for correction.

9 Were each of these customer count
10 reductions to reflect the company's assumption
11 customers would leave the system completely when
12 increases in base rate associated with this
13 proceeding went into effect?

14 A. I believe the assumption is based on the
15 belief that customers will leave the system for a
16 period of time. And by that I mean they may choose
17 to leave the system in the summer and elect to come
18 back on the system in the winter. That's an element
19 of that assumption, as well as some customers leaving
20 completely.

21 Q. Would the assumption about the seasonal
22 customer or the seasonal leaving, would that only
23 apply to residential customers under the tariff
24 structure the company has proposed?

1 A. The assumption is for both residential
2 and general service.

3 Q. Okay. When you said they would leave for
4 a period of time, do you know what period of time you
5 assumed in that customer count reduction?

6 A. No, I don't know the specific assumption.
7 Again, I think it's a seasonal assumption, and there
8 was probably a generic or general assumption made
9 that it was during the summer period where service
10 was not needed for space heating.

11 Q. Would there be another witness of
12 Vectren's in this proceeding that would have more
13 specific information about the assumption?

14 A. I hate to punt backwards, but I suspect
15 Mr. Ulrey would know the answer to that question.

16 Q. Okay.

17 MS. HUMMEL: I think you will find the
18 answer in the questions you asked him the other day.
19 I know we are all tired, Maureen, but I think if you
20 check the transcript you will probably be pretty
21 happy.

22 MS. GRADY: I can do that. I know we had
23 a general discussion what would cause customers to
24 leave the system. I don't know that we specified the

1 exact period of time, but I will look at that. Thank
2 you.

3 MS. HUMMEL: I also think Mr. Ulrey
4 discussed the assumptions made for this particular
5 adjustment and another one that looked similar.

6 MS. GRADY: I appreciate that.

7 MS. HUMMEL: Okay.

8 A. If I may interrupt also, the customer
9 change schedule that we were trying to locate a
10 moment ago, you can find that at production of
11 documents No. 6.

12 Q. Okay, thank you.

13 A. A tab labeled Test Year Summary.

14 Q. Thank you. Now, the increase in base
15 rates that you refer to there on line 31 of page 12
16 of your testimony, is that the increase that's going
17 to occur sometime in the fourth quarter 2008? Is
18 that your assumption?

19 A. Yes. It is the increase that would be as
20 a result of this particular proceeding, yes.

21 Q. Now, the staff did not accept your
22 adjustment; is that correct?

23 A. That is correct.

24 Q. Let's move along now, Ms. Hardwick, to

1 the annualized revenue adjustment for AUPC and
2 weather that's reflected on Schedule C3.4. On
3 Schedule C3.4 you have proposed to reduce the
4 operating revenues by 211,899; is that correct?

5 A. That is correct.

6 Q. And that reduction is related to
7 adjusting the AUPC, the average use per customer, and
8 weather assumptions contained in the three and nine
9 test year data?

10 A. Yes, that's correct.

11 Q. And you testify, do you not, that the
12 AUPC is driven by customer count levels and normal
13 weather factors?

14 A. Correct.

15 Q. Okay. Let's talk about the customer
16 count levels for a moment. The lower the customer
17 count levels, the lower the average use per customer;
18 is that right?

19 MS. HUMMEL: May I have that read back,
20 please.

21 (Record read.)

22 A. I believe that's backwards.

23 Q. Okay. Can you explain to me then how
24 that works?

1 A. The basic premise of the assumption here
2 is that the volumes don't change. The only variable
3 is the customer count. If customer count goes down,
4 the average use goes up.

5 Q. Now I understand. Is that because the
6 usage is divided by the number of customers to get to
7 AUPC?

8 A. Yes.

9 Q. And I had that. It's just been a long
10 day, I think. Now, the customer count levels you're
11 referencing would be those reductions that you
12 proposed in C3, in your C3 schedule, correct?

13 A. Correct.

14 Q. Okay. And then under the company's
15 approach, the AUPC was also decreased and total
16 consumption for year was decreased on the basis of
17 using a 10 versus 30-year weather normalization; is
18 that right?

19 A. Yes. That is correct, yes.

20 Q. And the weather normalization was applied
21 to the actual months and the projected months of the
22 test year, or just the projected months?

23 A. Well, it's a bit of a tricky answer to
24 the question. I think, practically speaking, yes,

1 all months. The actual months in the test year are
2 baseload months so there's no weather sensitivity in
3 those months anyway. So technically the answer is
4 yes.

5 Q. Now, you indicate the net impact of both
6 these changes reduces the total consumption across
7 all the tariffs by 1,798,030 ccf.

8 A. That's correct.

9 Q. Do you know on a tariff-by-tariff basis
10 what the reduced consumption figures that comprise
11 that ccf reduction are?

12 A. Yes, we do.

13 Q. And where would that information be, if
14 you know?

15 A. I believe that detail you can find on
16 workpaper -- in the workpaper section, reference
17 WPC3.1A.

18 Q. Okay. Now, can you tell me how this all
19 ties in, if at all, to VEDO's 2007 long-term forecast
20 report filing in 07-120?

21 MS. HUMMEL: Objection, no foundation for
22 the question.

23 Q. You can answer, Ms. Hardwick.

24 MS. HUMMEL: If you know the answer, you

1 can answer it.

2 A. I cannot answer that question. I am not
3 intimately familiar with the long-term forecast in
4 07-120.

5 Q. Thank you. I'd like to go now to Eagle
6 Data Request 117-D, and I'll give you a moment to
7 find that.

8 A. Give me just a moment to locate it.

9 Q. Sure.

10 MS. HUMMEL: Would you mind telling us
11 what the heading on top of the document is.

12 MS. GRADY: Sure. Vectren Energy
13 Delivery of Ohio, Inc., AUPC Analysis, Eagle Data
14 Request 117-D, page 1 of 2. It's a two-page
15 document. It says Gas AUPC Analysis, and there's
16 another heading that says Residential-RER Model,
17 Weather Normalized AUPC.

18 MS. HUMMEL: Thanks.

19 Q. Ms. Hardwick, do you have that document
20 in front of you?

21 A. Yes, I do.

22 Q. Are you familiar with this document?

23 A. I am generally familiar with the
24 document.

1 Q. Do you know where this document came
2 from, who would have put this document together, if
3 you know?

4 A. I believe it was prepared by the Revenue
5 Management Group.

6 Q. Do you know what this document is used
7 for?

8 A. Well, my assumption it was put together
9 specifically to respond to the request from Eagle for
10 historical average use per customer information.

11 Q. Okay. Do you know if this document was
12 used or related to the adjustment that you sponsor in
13 C3.3 or C3.4?

14 A. If you are asking me was it used to
15 derive the information, I don't think so. Again, I
16 think this just an historical analysis prepared in
17 response is to the request by Eagle.

18 Q. Thank you. I appreciate that. If you
19 know, would Gas South be Vectren Indiana South and
20 Gas North be Vectren Indiana North?

21 A. Yes, that is correct.

22 Q. And Gas Ohio would equal VEDO or
23 Vectren -- VEDO.

24 A. Yes, VEDO.

1 Q. And this document shows residential sales
2 but no residential transportation; is that correct?

3 A. That appears to be correct yes.

4 Q. And certainly you can tell me you don't
5 know, and I understand you said you're generally
6 familiar with this. Do you know how the weather data
7 was incorporated here, or is that way beyond what you
8 would know?

9 A. This schedule, as indicated in the
10 heading, is weather normalized.

11 Q. Yes.

12 A. My belief, although I don't have direct
13 knowledge, my belief is it weather normalized using a
14 30-year weather normalization assumption. So this
15 process would be similar to any weather normalization
16 calculation where they're comparing actual degree
17 days to that 30-year normal and then adjusting the
18 results to arrive at a weather normalized result. So
19 the declines you see here on average use would be on
20 a weather normalized basis using the 30-year average.

21 Q. Okay. Let's go now -- thank you for
22 running through that document. I know that was not
23 prepared by you so I appreciate your responses on
24 that. Let's go to your response to OCC Interrogatory

1 529, if you will.

2 A. Let me locate that. Okay, I have it.

3 Q. Give me a moment and I will locate that
4 as well. Actually, I think it might be 539. What
5 I'm looking at is -- it does look like 539. I'm
6 looking at the little tag line, which is about seven
7 point. It says Document Revenue Detail Template,
8 Interrogatory 539, 01060508JCS. Do you see that? Is
9 that what you are looking at? It's a three-page
10 document.

11 A. I do see the document, yes.

12 Q. I have a number of questions on this, and
13 first let me ask you, are you generally familiar with
14 this document?

15 A. Yes, I am.

16 Q. Okay. Now, this was provided to OCC on
17 July 30, 2008, and shows the actual sales volumes and
18 revenues from January 2006 through May 2008; is that
19 correct?

20 A. Yes.

21 Q. And if I wanted to see how the actual
22 sales volumes and the revenues compared to the three
23 and nine sales volumes and revenues on an unadjusted
24 basis, I could use this data, couldn't I?

1 A. You said on an unadjusted basis, correct?

2 Q. Yes.

3 A. Yes, you could.

4 Q. And if I wanted to do that, I would look
5 at June 2007 through May 2008, and I would total the
6 volumes and the revenues to get an actual -- a test
7 year actual number?

8 A. Yes.

9 Q. Okay. Now, the column at the very back
10 of Interrogatory 259 is entitled Test Year. Do you
11 see that?

12 A. 259?

13 Q. I'm sorry, the document we were just
14 talking about, 539. On the third page of the
15 document we were talking about, there's a column
16 entitled Test Year. Do you see that?

17 A. I do, yes.

18 Q. Now, that column really is not a test
19 year; isn't that correct?

20 A. That's correct. I think it is
21 mislabeled. It is the sum dating all the way back to
22 January 2006, which I believe is the first column.

23 Q. So that would be 2006 through May 2008?

24 A. Yes, that's correct.

1 Q. Okay. Would you accept, subject to
2 check, test-year volumes for rate 315 on an actual
3 basis were 61,749,581?

4 MS. HUMMEL: Where would you like her to
5 check that number, please?

6 Q. Well, we kind went through what you do.
7 You go through the June 2007 through May 2008 columns
8 and total them, and that would give you the actual
9 test year volume.

10 A. Okay. That is the correct volume, yes.

11 Q. And then, again, following my sort of
12 hypothetical, I would compare that volume -- if I
13 wanted to compare the actual test-year volumes to
14 what was built into the company's unadjusted test
15 year volume, I would go to rate 315 found on WPC21.A,
16 and if we go to that document we will find that the
17 volume was 54,411,754 ccf.

18 A. Yes, that's correct.

19 Q. And now, the difference then between the
20 actual ccf for the rate 315 residential in the test
21 year amount then would be 7.3 million ccf, subject to
22 check.

23 A. Yes, that is correct.

24 Q. And can you tell me, Ms. Hardwick, how

1 there is such a large difference between the actual
2 volumes under rate 315 and the three and nine figure
3 unadjusted on the test-year basis?

4 A. I cannot tell you that off the top of my
5 head. We certainly could prepare an analysis that
6 would try to explain the difference, but I could not
7 answer that today.

8 Q. Would you agree then based upon what we
9 have just gone through, that for test-year purposes
10 the ccf usage for rate 315 residentials was
11 considerably below the actual usage over the test
12 period?

13 A. Yes, I would agree that it is
14 significantly lower.

15 Q. Now, Ms. Hardwick, if the actual usage
16 for rate 315 residentials was used instead of the
17 WPC2.1 three and nine figures, what impact, all other
18 things being equal, would there be on your filing?

19 A. Now, with the qualifier with all things
20 being equal, it would result in a higher revenue
21 number. I mean, it's a higher volume number so it
22 would logically be a higher revenue number.

23 Q. So it would impact your revenue
24 projection numbers; is that right?

1 A. Yes.

2 Q. Would it also impact the average use per
3 customer for the residential customer class?

4 A. I hesitate to answer the question because
5 I think it's sort of an isolation of one assumption.
6 I mean, there are number of factors, like customer
7 count, like all the other tariffs. I mean, I think
8 there's a variety of factors that are relevant, so
9 I'm hesitant to draw a conclusion that you simply
10 make that assumption change and you suddenly have a
11 revenue number for the test year which is higher
12 which means your revenue increase is lower.

13 I mean, that's the way the math would
14 work, but, again, I would not draw that conclusion as
15 to the end result without doing that analysis for all
16 tariffs revising all of the appropriate assumptions
17 or sort of stabilizing all the assumptions around
18 customer count, usage, all that stuff.

19 Q. I understand and appreciate that answer.
20 I guess I was just trying to determine in
21 understanding how you built the average use per
22 customer into your filing, how if you had this change
23 in revenues how it would affect that average use per
24 customer figure. Wouldn't it be intuitive your

1 average use per customer would increase if the
2 revenues associated with residential transportation
3 were 7 million ccfs higher than what was built into
4 the unadjusted test year?

5 A. Again, making the assumption that the
6 customer count remained the same in both comparisons
7 or both set of numbers, then yes, that would be the
8 result. I think the customer count assumption is the
9 key assumption, however.

10 Q. And so you're saying -- are you saying
11 then that the 7 million ccf actual usage has to be
12 associated with a difference in customer count? Are
13 you making that assumption?

14 A. Well, the 7 million -- the change in the
15 ccf that we describe in the entry that is trying to
16 capture average use and weather makes the assumption
17 that volume stays the same. That's one set of
18 assumptions. That's one calculation. There's a
19 separate calculation that deals with customer change.

20 In your analysis or the 7 million units
21 variance, I have to take all of those things into
22 account to really explain what the 7 million variance
23 is due to. It is going to be a function of weather,
24 a function of average use, a function of the number

1 of customers.

2 Q. Now, what kind of revenue impact would
3 you expect a 7 million ccf usage under the
4 residential transportation to amount to, if you know?
5 Would you just price the 7 million ccf out of the
6 residential transportation rate?

7 A. Whatever the average rate is. I think
8 you need to use an average rate, you know, with the
9 steps. You can't just use one block or one step to
10 do the pricing. You need to use an average price,
11 but it would be the average price for that particular
12 tariff, yes, I mean, as a way to estimate that impact
13 following your analysis.

14 Q. Now, Ms. Hardwick, would there be some
15 other witness that VEDO has sponsored that would be
16 able to identify the cause of the differential on
17 residential transportation volumes, actual versus the
18 unadjusted test year?

19 MS. HUMMEL: If you know.

20 A. I again hate to punt this to Mr. Doty.
21 He might be able to answer this, and we certainly
22 could help him be prepared to answer that question if
23 you want to cover that with him in his deposition.
24 Or we could supply the data separately.

1 Q. Yes, I think we would want to pursue this
2 issue. I have just several more questions, and then
3 that will be the end. Understanding what you do
4 about ratemaking and the rate process, would you
5 believe that the 7 million ccf of volumes of gas, the
6 actual usage, would you believe that -- strike that.

7 Ms. Hardwick, would you believe that the
8 7 million ccf usage differential between the
9 residential transportation actual and the test year
10 unadjusted would have an impact on the cost
11 allocation in the design of rates under the company's
12 application?

13 MS. HUMMEL: If you know. I object on
14 the basis she already answered the question about --
15 she's already provided an answer indicating that you
16 can't make an actuated adjustment like that.

17 If you know, if you understand.

18 A. I don't know if it's directly responsive,
19 but let me make a comment. You know, again, I
20 hesitate to focus just on that one tariff and just
21 that 7 million unit variance. I mean recognizing
22 what that tariff is, it's a CHOICE transportation
23 tariff.

24 Q. Yes.

1 A. You really need -- that needs to be a
2 relevant factor in the analysis because of the nature
3 of CHOICE customers. They move in and out. They
4 move between CHOICE and sales. There's very much a
5 potential for significant volatility in those
6 specific classes. I think we need to make sure that
7 because of the isolation of one tariff, we are not
8 sort of missing the forest for the trees.

9 Q. And in trying to follow up on your
10 reasoning, would you then expect if there's an
11 increase in the residential transportation volumes on
12 an actual basis, would you expect then there would be
13 a corresponding decrease on residential sales
14 volumes?

15 A. Well, I think that could logically
16 follow. I think again if you focused on your
17 comparison, you're trying to compare the actual test
18 year to what is in the case. Total volume, there's
19 less than a 200,000 unit variance between the actual
20 test year and the case, 517.3 million units versus
21 517.1.

22 Q. I understand at the bottom line the
23 revenue differential is not great. I guess when we
24 are looking at it, we're looking at it in terms of

1 class, making sure that customer class is getting
2 fairly accounted for in terms of revenue
3 contribution.

4 A. I would think if that's the focus of the
5 analysis in the specific question, and, again, I hate
6 to do that, but I think that is a Mr. Ulrey sort of
7 discussion.

8 MS. GRADY: If I may have a moment, I
9 believe we may be ready to conclude. If you give me
10 two minutes. I'd appreciate it.

11 THE WITNESS: Sure, thank you.

12 MS. GRADY: Ms. Hardwick, I believe those
13 are all the questions I have for you at this time. I
14 appreciate your time and your candor in your answers.

15 THE WITNESS: Sure. Thank you. It is my
16 pleasure.

17 MS. GRADY: I now open the questioning to
18 any other parties who would like to cross-examine
19 Ms. Hardwick.

20 (No response.)

21 MS. GRADY: Hearing no response, we can
22 now go off the record.

23 (The deposition concluded at 3:40 p.m.)

24 - - -

1 State of Ohio :
2 County of _____ : SS:

3 I, M. Susan Hardwick, do hereby certify that I
4 have read the foregoing transcript of my deposition
5 given on Friday, August 8, 2008; that together with
6 the correction page attached hereto noting changes in
7 form or substance, if any, it is true and correct.

8 _____
M. Susan Hardwick

9 I do hereby certify that the foregoing
10 transcript of the deposition of M. Susan Hardwick was
11 submitted to the witness for reading and signing;
12 that after she had stated to the undersigned Notary
13 Public that she had read and examined her deposition,
14 she signed the same in my presence on the _____
15 day of _____, 2008.

16 _____
Notary Public

17 My commission expires _____, _____.
18 - - -
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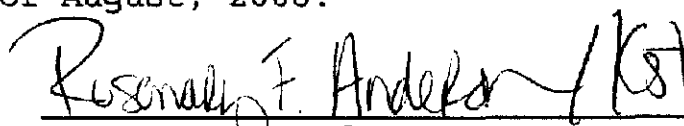
1
2 CERTIFICATE

3 State of Ohio :
4 : SS:
5 County of Franklin :

6 I, Rosemary F. Anderson, Notary Public in and
7 for the State of Ohio, duly commissioned and
8 qualified, certify that the within named M. Susan
9 Hardwick was by me duly sworn to testify to the whole
10 truth in the cause aforesaid; that the testimony was
11 taken down by me in stenotypy in the presence of said
12 witness, afterwards transcribed upon a computer; that
13 the foregoing is a true and correct transcript of the
14 testimony given by said witness taken at the time and
15 place in the foregoing caption specified and
16 completed without adjournment.

17 I certify that I am not a relative, employee,
18 or attorney of any of the parties hereto, or of any
19 attorney or counsel employed by the parties, or
20 financially interested in the action.

21 IN WITNESS WHEREOF, I have hereunto set my
22 hand and affixed my seal of office at Columbus, Ohio,
23 on this 11th day of August, 2008.

24 

Rosemary F. Anderson,
Professional Reporter, and
Notary Public in and for the
State of Ohio.

My commission expires April 5, 2009.

(RFA-8183-2)

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