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Susan Hardwick

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of: 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.	Case No. 07-1080-GA-AIR
In the Matter of: 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.	Case No. 07-1081-GA-ALT

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TELEPHONE DEPOSITION OF M. SUSAN HARDWICK

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

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APPEARANCES:

McNees, Wallace & Nurick
By Ms. Gretchen J. Hummel (via telephone)
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215

On behalf of the Company.

Janine L. Migden-Ostrander
Ohio Consumers' Counsel
By Ms. Maureen R. Grady
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10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485

On behalf of the Residential Consumers of the State of Ohio.

Nancy Rogers, Ohio Attorney General
Duane Luckey, Senior Deputy Attorney General
Public Utilities Section
By Mr. Werner L. Margard III (via telephone)
180 East Broad Street, 9th Floor
Columbus, Ohio 43215-3793

On behalf of the Staff of the Public Utilities Commission.

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ALSO PRESENT:

OCC:
Ms. Kathy Hagans
Ms. Bruce Hayes

ALSO PRESENT VIA TELEPHONE:

Vectren:
Mr. Larry Friedeman
Mr. Cas Swiz

PUCO Staff:
Mr. Ross Willis

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M. SUSAN HARDWICK

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

EXAMINATION

By Ms. Grady:

Q. Good afternoon, Ms. Hardwick.

A. Good afternoon.

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

(EXHIBIT MARKED FOR IDENTIFICATION.)

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

Can you tell me, Ms. Hardwick, what

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

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

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

A. Yes, I do.

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

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

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

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

MS. GRADY: Let me rephrase, Gretchen.

MS. HUMMEL: Okay.

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

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

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

MS. HUMMEL: Objection.

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

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

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

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

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

A. I think that depends on the situation, I suppose. I think if it is property held for future use that has a direct relationship to the property that is in service and is intended to be in service, is available for service, and by that an example might be where we've installed a pipeline into a subdivision, that property should be classified as used and useful property. That's not in service yet. The house is not occupied. The service is not being delivered, but I would consider that property that is in service and used and useful.

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

A. Yes. In that context, yes.

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

A. Yes.

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

A. I do.

Q. Okay. And can you tell me, was the land that was referenced in the Eagle report as the land parcel in Centerville, was that purchased by VEDO to relocate a gas regulator station, if you know?

A. I believe so, yes.

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

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

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

A. Yes, it would have been.

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

A. No, I do not.

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

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

Q. Moving along, Ms. Hardwick, I want to talk about deferred taxes for a moment. Are deferred taxes a reduction to rate base? Is that a practice that's used in Ohio ratemaking?

A. Yes, to my knowledge.

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

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

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

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

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

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

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

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

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

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

Q. Yes.

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

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

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

Q. Yes.

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

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

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

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

A. Yes.

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

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

Q. And --

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

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

A. No. It's not a materiality issue. It's really by class of property or account. We generally typically maintain our records at the account level. All assets that find their way into a particular account have the same book life and same tax life so we are able to calculate the deferred taxes on that class of assets without having to go to the individual asset level. It can certainly be calculated on an asset-by-asset basis. We just don't do it routinely.

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

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

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

A. Well, the second item really was just one -- what I was trying to say was just one item. I need to know the installation date because that's the date that will trigger the beginning of depreciation for both book and tax. And the other piece of information I need is the tax life and the book life, I think I may have said rate or life interchangeably there, but one drives the other. So if I know the tax life and the book life, I can calculate what the estimated deferred taxes would be.

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

A. Yes, we do.

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

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

Q. Okay. And when you mentioned the deferred taxes, we were also looking for the property tax expense and accumlated depreciation. Are those pieces of information that the company could provide without an undue amount of work?

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

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

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

Q. Thank you.

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

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

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

A. I do.

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

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

Q. Sure.

A. And I could scroll back up here to look at this, but let me just ask you, does this relate to the ERT devices or is that all meters that you are referring to?

Q. I believe this is the ERT devices.

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

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

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

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

A. Could you ask that again, please?

Q. Sure. As I understand it, Ms. Hardwick, you have a pig launcher on one end of the A80 line and a pig receiver on the other end of the A80 line.

A. That's correct.

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

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

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

A. Actually, no, I don't.

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

A. Yes, it is.

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

A. I'll give you my -- the accountant's explanation of that, having spoken to Mr. Francis, who was responsible for the installation of the A80 line. I've asked him that very question and did so at the time the pipeline was completed. The pig launcher and receiver are installed as part of the pipe. They were physically in place, and they are attached to the pipe. They cannot be extracted from the pipe. They could not install the pipe to employ this technology without having the launcher and receiver in place and attached as they are.

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

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

Q. Okay. When you say in your opinion they were used, are you again equating that term with available?

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

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

A. Yes.

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

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

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

A. Because they haven't been unitized yet.

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

A. Unitization involves the specific identification of all of the elements of an asset and the classification of all of those individual elements of an asset into the appropriate FERC account, and until that unitization occurs, assets are completed, moved out of CWIP, moved into completed construction, not classified. They stay in that bucket. They are depreciated. They are available and used in service; they just haven't made it to the final state of unitization. And that process takes anywhere from a year to two years to complete after the project is placed in service.

Q. And unitization sounds like an accounting activity somewhat.

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

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

A. That's correct, yes.

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

A. I am not.

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

A. I believe transmission only.

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

A. No.

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

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

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

A. I believe it was passed in 2002. I think 2004, maybe late 20003 is when the first set of requirements kicked in, but they're very specific requirements about how much of your pipe has to be inspected by what date. It is a very rigorous set of requirements.

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

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

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

A. Yes.

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

A. I don't believe so related to transmission plant. There is a lot of activity currently related to distribution pipes, and you're probably aware there are rules being drafted and circulated for comment now related to distribution pipes that are a lot along the lines of transmission pipes, a lot of requirements around inspection and other safety and reliability considerations. Those rules are not final. They are in the development stage.

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

A. I cannot. Mr. Francis certainly could.

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

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

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

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

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

A. Yes.

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

A. Yes.

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

A. I have it here.

Q. Now, can you tell me why the balance, if you look at the January '05 through December '07, the balance has remained static and constant throughout that time frame? Can you tell me why that is?

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

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

Q. That would be helpful because I had a whole series of questions here about why that information didn't tie into other OCC interrogatory responses, such as 351 and 112 and 36. So I guess I would -- I guess I could defer those questions because if this is an incorrect schedule, I don't think we need to spend a lot of time asking why the information doesn't tie back.

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

A. The written response?

Q. Yes.

A. Or the table?

Q. 351 I believe is the table.

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

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

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

Q. Yes.

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

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

A. Let me locate that one if you would.

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

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

Q. Thank you.

A. Yes, the 2005 number is correct also, so the typed responses to 36 are correct.

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

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

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

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

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

A. The actual test year?

Q. Yes.

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

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

A. Okay.

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

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

Q. We would appreciate receiving that information.

A. Okay.

Q. Now, response to OCC Interrogatory 512 I'll give you to moment to get that.

A. I have it.

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

A. I do.

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

A. Currently, you mean as of today?

Q. Yes.

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

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

A. Yes.

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

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

Q. Okay.

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

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

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

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

A. Again, I need to consult with our meter shop manager. The response there related to the 3,331 I believe I said are being installed as replacements or used as spares. We have traditionally maintained a number of meters, or in this particular case, meter devices as spares because of the lead time, a long lead time issue, so we maintain a number of them as spares so that when we do have a replacement, we have one available to install. So we're always going to have more meters, or in this case, more ERTs than we actually have installed simply for that reason, to ensure we don't have customer outages for lengthy periods of time while waiting for a meter to arrive.

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

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

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

A. Yes, I am.

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

A. Yes, it does.

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

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

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

A. No, it does not.

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

A. Yes, there is.

Q. And do you know how much is included in the test year associated with VUHI incentive compensation?

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

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

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

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

A. Yes, I do.

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

A. No, it is not.

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

A. Not literally. The allocation to VEDO from VUHI for the asset charge starts first with the asset balance at VUHI, and then the allocation to the individual utility companies is derived based on the appropriate factors. Depreciation expense is allocated. Property taxes are allocated. The return that is calculated by the company is done separately by the company. I mean, it also ends up being separate calculations starting with the VUHI asset base. It's a long-winded answer to your question, but the end result is as you described, that the plant balance at VUHI does get allocated to each of the utility companies.

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

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

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

A. Yes.

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

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

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

Q. Ms. Hardwick, is it correct that if the assets were owned directly by Vectren, they would be included in rate base?

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

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

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

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

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

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

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

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

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

VEDO are deducted from VEDO's rate base.

Q. Yes.

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

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

A. Okay, I have it.

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

A. Yes, they were.

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

A. That's correct.

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

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

Q. Sure.

A. Just one moment, please.

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

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

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

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

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

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

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

(Discussion off record.)

MS. GRADY: Gretchen, you are correct in that -- I'm looking at the B3.2, page 2 of 5 schedule of the company, and we can see that the 311 accounts -- the 311 FERC accounts relate to company accounts 611.1, 611.2, and 611.3.

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

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

A. Yes, they do.

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

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

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

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

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

A. Yes, I believe I have.

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

A. I believe it is incorrect, yes.

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

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

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

MS. GRADY: Let me have the answer read

if you could.

(Record read.)

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

A. That's correct.

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

A. That's correct.

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

A. I do.

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

A. Correct.

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

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

A. Yes, I do.

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

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

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

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

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

A. Yes.

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

A. No.

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

A. I believe so, yes.

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

A. I have that.

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

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

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

Q. Yes.

A. In that event the accounting that would be done on VEDO's books would be to remove the net book central of the plant, which I believe was roughly $350,000, somewhere in that neighborhood. To remove the net book value of the plant from its books and records, so that would be a reduction in plant, rate base, whatever.

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

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

A. That's correct.

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

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

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

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

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

A. Yes, I do.

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

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

Q. Does it depend, in your opinion, upon the type of advertising, whether the advertising is promotional or nonpromotional?

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

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

A. No, I do not.

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

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

Q. And you indicated in your response that based upon the documents you had seen. What kind of documents have you been looking at with respect to the AGA that would lead you to your conclusion?

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

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

A. Yeah. In my opinion, yes.

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

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

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

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

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

THE WITNESS: That's certainly fine with me.

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

MS. GRADY: That's fine.

(Recess taken.)

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Yes.

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

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

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

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

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

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

A. Yes, that's correct.

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

A. I think I said they obtain sign-off. What I meant by that was the group is responsible for, you know, doing their own analysis and coming up with a recommended set of assumptions. They then go through that review process both at sort of the working group level and then ultimately the senior management level, and at that senior management level is where sign-off is obtained for the set of assumptions. So that is sort of the final checkoff, if you will, about the assumptions that are used.

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

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

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

A. No. The expense management process or the expense review process is really driven by the business units, and I hate to introduce a new term, but also under Witness Doty is a group that is responsible for the expense development, budget development, and analysis. There's a director over that group by the name of Mark Gayhart, G-A-Y-H-A-R-T. He's also a director that reports directly in to Witness Doty, and he is responsible for coordinating the development of assumptions and specific inputs to the expense budget for all of the key operating areas, so for all of the delivery business of which VEDO is a part, for our electric business, for other sort of key operating areas within the business unit.

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

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

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

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

A. I believe I do yes.

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

A. Okay.

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

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

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

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

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

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

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

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

MS. HUMMEL: If you know.

Q. If you know.

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

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

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

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

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

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

Q. Thank you.

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

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

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

THE WITNESS: And Gretchen knows I kick back.

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

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

MS. HUMMEL: Thank you.

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

A. Give me a moment to locate it.

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

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

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

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

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

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

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

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

A. Yes, I do.

Q. If you give me a moment, I will have that as well. The response that was provided by the company, do you know whether the response in fact is the historical monthly sales volume by tariff, or is it something else?

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

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

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

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

A. Give me just one moment, please.

Q. Thank you.

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

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

Q. Okay.

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

Q. Yes.

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

Q. Yes.

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

Q. Yes.

A. When you move to 2005, we are on a tariff system, and the tariffs have been grouped into the same categories as those earlier years so that you can compare them in total, so general service, you know, we group the right tariffs to make general service, which compares to the old customer classification of general service. So we've done sort of both things but tried to group them so that the comparability is there, if that makes sense.

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

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

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

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

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

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

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

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

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

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

Q. Ms. Hardwick, you indicated earlier that in 2005, and I believe it's April 2005, your tariff system or rate structure changed. And I guess my question, is there a way to ascertain the volume and customer count for rates 320 and 325 prior to April 2005 when the rate structure was changed?

MS. HUMMEL: If you know, Susan.

Q. If you know.

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

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

A. Yes, I have that.

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

A. That's correct.

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

A. That's correct, yes.

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

A. Okay. Could you refer me to a line

number?

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

A. Yes, I see that.

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

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

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

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

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

A. Okay.

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

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

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

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

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

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

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

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

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

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

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

Q. Okay.

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

MS. GRADY: I can do that. I know we had a general discussion what would cause customers to leave the system. I don't know that we specified the exact period of time, but I will look at that. Thank you.

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

MS. GRADY: I appreciate that.

MS. HUMMEL: Okay.

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

Q. Okay, thank you.

A. A tab labeled Test Year Summary.

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

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

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

A. That is correct.

Q. Let's move along now, Ms. Hardwick, to the annualized revenue adjustment for AUPC and weather that's reflected on Schedule C3.4. On Schedule C3.4 you have proposed to reduce the operating revenues by 211,899; is that correct?

A. That is correct.

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

A. Yes, that's correct.

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

A. Correct.

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

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

(Record read.)

A. I believe that's backwards.

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

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

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

A. Yes.

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

A. Correct.

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

A. Yes. That is correct, yes.

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

A. Well, it's a bit of a tricky answer to the question. I think, practically speaking, yes, all months. The actual months in the test year are baseload months so there's no weather sensitivity in those months anyway. So technically the answer is yes.

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

A. That's correct.

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

A. Yes, we do.

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

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

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

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

Q. You can answer, Ms. Hardwick.

MS. HUMMEL: If you know the answer, you

can answer it.

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

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

A. Give me just a moment to locate it.

Q. Sure.

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

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

MS. HUMMEL: Thanks.

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

A. Yes, I do.

Q. Are you familiar with this document?

A. I am generally familiar with the document.

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

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

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

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

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

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

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

A. Yes, that is correct.

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

A. Yes, VEDO.

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

A. That appears to be correct yes.

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

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

Q. Yes.

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

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

529, if you will.

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

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

A. I do see the document, yes.

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

A. Yes, I am.

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

A. Yes.

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

A. You said on an unadjusted basis, correct?

Q. Yes.

A. Yes, you could.

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

A. Yes.

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

A. 259?

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

A. I do, yes.

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

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

Q. So that would be 2006 through May 2008?

A. Yes, that's correct.

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

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

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

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

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

A. Yes, that's correct.

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

A. Yes, that is correct.

Q. And can you tell me, Ms. Hardwick, how there is such a large difference between the actual volumes under rate 315 and the three and nine figure unadjusted on the test-year basis?

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

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

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

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

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

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

A. Yes.

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

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

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

Q. I understand and appreciate that answer. I guess I was just trying to determine in understanding how you built the average use per customer into your filing, how if you had this change in revenues how it would affect that average use per customer figure. Wouldn't it be intuitive your average use per customer would increase if the revenues associated with residential transportation were 7 million ccfs higher than what was built into the unadjusted test year?

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

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

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

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

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

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

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

MS. HUMMEL: If you know.

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

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

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

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

If you know, if you understand.

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

Q. Yes.

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

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

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

Q. I understand at the bottom line the revenue differential is not great. I guess when we are looking at it, we're looking at it in terms of class, making sure that customer class is getting fairly accounted for in terms of revenue contribution.

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

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

THE WITNESS: Sure, thank you.

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

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

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

(No response.)

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

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

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State of Ohio :
: SS:
County of ________________ :

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

____
M. Susan Hardwick

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

____
Notary Public

My commission expires _________________, ________.

- - -

CERTIFICATE

State of Ohio : SS:
County of Franklin :

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

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

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

Rosemary F. Anderson / KST

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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