

**FILE**

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RECEIVED-DOCKETING DIV

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

**2008 AUG 22 PM 4: 53**

**PUCO**

In the Matter of the Application of The East :  
Ohio Gas Company dba Dominion East Ohio : Case No. 07-829-GA-AIR  
for Authority to Increase Rates for its Gas :  
Distribution Service. :

In the Matter of the Application of The East :  
Ohio Gas Company dba Dominion East Ohio : Case No. 07-830-GA-ALT  
for Approval of an Alternative Rate Plan for its :  
Gas Distribution Service. :

In the Matter of the Application of The East :  
Ohio Gas Company dba Dominion East Ohio : Case No. 07-831-GA-AAM  
for Approval to Change Accounting Methods. :

In the Matter of the Application of The East :  
Ohio Gas Company dba Dominion East Ohio : Case No. 08-169-GA-ALT  
for Approval of Tariffs to Recover Certain :  
Costs Associated with a Pipeline Infrastructure :  
Replacement Program Through an Automatic :  
Adjustment Clause, and for Certain Accounting :  
Treatment. :

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

**PREFILED TESTIMONY  
OF  
IBRAHIM SOLIMAN  
ACCOUNTING AND ELECTRICITY DIVISION  
PUBLIC UTILITIES COMMISSION OF OHIO**

**Staff Exhibit \_\_\_\_\_**

**August 22, 2008**

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1     **1.     Q.     Please state your name and business address.**

2  
3     A.     My name is Ibrahim Soliman. My business address is 180 E. Broad Street,  
4             Columbus, Ohio 43215.

5  
6     **2.     Q.     By whom are you employed?**

7  
8     A.     I am employed by the Public Utilities Commission of Ohio.

9  
10    **3.     Q.     What is your current position with the Public Utilities Commission of**  
11            **Ohio and what are your job duties?**

12  
13    A.     I am a Public Utilities Administrator II in the Accounting and Electricity  
14             Division of the Utilities Department. My duties include the planning of rate  
15             case investigations, supervising auditors assigned to the investigation of rate  
16             cases and overseeing the preparation and presentation of both text and  
17             schedules for the Operating Income and Rate Base sections of the Staff's  
18             Report of Investigation. I am also responsible for preparing and presenting  
19             written and oral testimony in support of Staff's position presented in staff  
20             reports.

21  
22    **4.     Q.     Would you briefly state your educational background and work**  
23            **experience?**

24  
25    A.     I graduated from Cairo University in 1976 with a Bachelor of Science Degree  
26             in Business Administration with a major in Accounting. In June of 1978, I  
27             immigrated to the United States of America. I was employed by Lewis and  
28             Michael Storage Inc. from February of 1979 to July of 1980 as a junior  
29             accountant. In July of 1980, I began my employment with the Commission

1 as a Utility Examiner I and was assigned to my current position in December  
2 of 2002. I am a Certified Public Accountant, a Certified Internal Auditor,  
3 and a Certified Management Accountant.  
4

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

6  
7 A. The purpose of my testimony in this proceeding is to respond to objections  
8 regarding the Staff's recommended revenue requirement and resulting  
9 revenue increase as shown on Schedule A-1 of the Staff's Report of  
10 Investigation.  
11

12 **6. Q. Specifically, what objections are you responding to?**

13  
14 A. I will address the Applicant's Objection Numbers 1 through 13; Office of  
15 Consumers' Counsel's Objection Numbers II A and B 1, 2, 3, 4, 5, 7, 8, 9, 10,  
16 11, and 12; and Ohio Partners for Affordable Energy's Objection Number 4.  
17

18 **Purchase of Supplier Accounts Receivable**  
19

20 **7. Q. The Applicant agrees with the Staff's recommendation to extend the**  
21 **two-week remittance of payments to Energy Choice suppliers to thirty**  
22 **days. However, the Applicant indicates that the Staff has not recognized**  
23 **the effect of this longer remittance period in its calculation of working**  
24 **capital. What is your response to this objection?**  
25

26 A. The Staff agrees with the Applicant that the extension of payments to thirty  
27 days requires such recognition of a working capital allowance. The required  
28 working capital allowance is based on the difference between the 30-day

1 payment to Energy Choice suppliers and the 33.3-day receipt of payment  
2 from customers.  
3

4 The Applicant's witness Murphy provided the calculation of an additional  
5 working capital allowance of \$9,873,250 in his second supplemental direct  
6 testimony. Later, Mr. Murphy provided a revised calculation of \$8,111,000.  
7 The Staff reviewed the revised calculation and recommends the addition of  
8 \$8,111,000 to the working capital allowance.  
9

#### 10 **Pilot Program Revenue** 11

12 **8. Q. The Applicant objects to the Staff's proposal to credit \$930,825 of**  
13 **transportation service revenues and \$2,789,175 of storage service**  
14 **revenues from the Applicant's pilot storage program toward amounts**  
15 **that would otherwise be recovered through the Transportation**  
16 **Migration Rider – Part B. What is your response to this objection?**  
17

18 **A. The Staff and the Applicant excluded the Pilot Program revenues (\$930,825**  
19 **and \$2,789,175) from test year operating revenues. The pilot program started**  
20 **in 2006 and ended in March 2007. This program was developed to assess the**  
21 **impact of the migration of gas from storage fields due to increased capacity**  
22 **and sustained higher base storage withdrawals throughout the winter season.**  
23 **A future program may require additional capital investments.**  
24

1 The Staff is aware that the Pilot Program revenues are a non-recurring event  
2 and has excluded such revenues from base rate revenues. However, the test  
3 year Pilot Program revenues were generated by utilizing the date certain  
4 plant-in-service investment. Therefore, the Staff believes that ratepayers  
5 should receive the benefit from the pilot program revenues. There are two  
6 ways to pass this benefit to the ratepayers: the first option is to credit the  
7 entire amount of revenues to the Transportation Migration Rider – Part B,  
8 and the second option is to include the revenues in the test year and amortize  
9 them over a five-year period.

10  
11 The Staff recommends that the pilot program revenues be credited to the  
12 Transportation Migration Rider – Part B.

13  
14 **Workforce Reduction Curtailment Loss**

15  
16 **9. Q. The Applicant objects to the Staff's elimination from test year operating**  
17 **expenses of \$149,417 related to the amortization of a portion of the**  
18 **curtailment loss incurred in late 1995 as a result of a nonunion**  
19 **workforce reduction. What is your response to this objection?**

20  
21 **A.** In 1995, a year after the rates resulting from the last base rate case were  
22 implemented, the Applicant experienced a number of early retirements. As a  
23 result of these early retirements, the Applicant incurred savings along with  
24 some losses. One of the losses experienced by the Applicant was a  
25 curtailment loss associated with the acceleration of its FASB 106 obligations  
26 for early-retired employees. The Applicant deferred the loss on its books

1 without Commission authorization, but is requesting recovery of the loss in  
2 this rate case proceeding.

3  
4 Without Commission authorization, the Applicant should have written off the  
5 curtailment loss to its 1995 financial statement.

6  
7 The Staff believes that any realized savings, such as labor and benefits  
8 resulting from the early retirements, should also be recognized in the  
9 determination of the net effect of the early retirement event. The Staff also  
10 believes that revenues received over the fourteen-year period in current base  
11 rates, without recognition of the early retirement savings, should offset any  
12 such curtailment loss. Therefore, the Staff recommends no recognition of the  
13 curtailment loss.

14  
15 **Forfeited Discount / Late Payment Revenue**

16  
17 **10. Q. The Applicant objects to the Staff's inclusion of forfeited discount / late**  
18 **payment charge revenue in the test year operating revenues and its**  
19 **rejection of the Applicant's recommendation to credit all forfeited**  
20 **discount / late payment charge revenue against amounts recovered**  
21 **through its bad debt rider. What is your response?**

22  
23 **A.** The Applicant currently has a forfeited discount provision for its West Ohio  
24 division, but not for the East Ohio division. The Applicant proposed a late  
25 payment charge of 1.5% on unpaid balances for both the West Ohio and East  
26 Ohio divisions. The Applicant also proposed an adjustment to remove West  
27 Ohio forfeited discount revenue of \$104,158 from test year operating  
28 revenues and to credit all future late payment charge revenues against  
29 amounts recovered through the bad debt rider.

1  
2 The Staff agrees with the Applicant's proposals and recommends that  
3 \$104,158 be removed from test year operating revenues and all future late  
4 payment revenues be credited against the bad debt rider.

5  
6 Staff Witness Rutherford will testify to the 1.5% uniform late payment  
7 charge.

8  
9 **Storage Migration Loss**

10  
11 **11. Q. The Applicant objects to the Staff's elimination of the storage migration**  
12 **loss of \$437,045 from test year operating expenses. What is your**  
13 **response?**

14  
15 A. The Applicant explains that a portion of the storage service rate reflects the  
16 cost of gas migrating from storage over the course of the injection and  
17 withdrawal season. The Applicant does not retain that part of storage  
18 revenues. Instead, it credits that portion to amounts that would otherwise be  
19 recovered in the Transportation Migration Rider – Part B. Because test year  
20 operating revenues include that portion of storage service revenue amounting  
21 to \$437,945, the Applicant proposed an expense adjustment to offset the  
22 revenue amount included in the test year operating revenues.

23  
24 The Staff agrees with the Applicant and recommends that the storage  
25 migration loss of \$437,945 be included with test year operating expenses.

1                   **Uncollectible Accounts Expense**

2

3   **12.   Q.    The Applicant objects to the Staff's exclusion of \$150,354 in test year**  
4                   **miscellaneous uncollectible accounts expense. What is your response to**  
5                   **this objection?**

6

7           A.    The Staff synchronized uncollectible accounts expense with related revenues  
8                   collected through the bad debt tracker and the PIPP rider. The Applicant  
9                   explained that the \$150,354 remaining amount of test year uncollectible  
10                  accounts expense relates to certain traditional transportation accounts and  
11                  contractors billed for damage to company lines whose arrearages are not  
12                  covered by either the bad debt tracker or the PIPP rider.

13

14               The Staff agrees with the Applicant and recommends that the miscellaneous  
15               uncollectible accounts expense of \$150,354 be included with test year  
16               operating expenses.

17

18                   **Rate Case Expense**

19

20   **13.   Q.    The Applicant objects to the Staff's proposed reduction of rate case**  
21                   **expense from \$1,829,616 to \$1,000,000, and to the proposed amortization**  
22                   **over five years rather than three. What is your response to this**  
23                   **objection?**

24

25           A.    The Applicant's last rate case was filed in 1993. The Staff believes that a  
26                   five-year amortization of the current rate case expense is a reasonable period  
27                   and is consistent with the Staff's recommendations in recent gas utility base  
28                   rate proceedings. The Staff also believes that a rate case expense of



1 \$1,000,000 is a reasonable amount for the Applicant to present its case in  
2 front of the Commission.

3  
4 A comparison of the \$1,000,000 amount to recent levels of rate case expenses  
5 (\$485,000 Duke Energy 07-589-GA-AIR), (\$715,000 Columbia Gas 08-  
6 0027-GA-AIR), and (\$1,241,000 Vectren Energy 07-1080-GA-Air)  
7 illustrates that the Staff's recommendation of \$1,000,000 for rate case  
8 expense for this case is reasonable.

9  
10 **Order 636 Transition Costs**

11  
12 **14. Q. The Applicant objects to the Staff's three-year amortization period for**  
13 **the accumulated over-recovery of Order 636 transition costs. What is**  
14 **your response to this objection?**

15  
16 **A. The Applicant argues that if rate case expense must be amortized over a five-**  
17 **year period, the over-recovered transition costs should also be amortized over**  
18 **five years.**

19  
20 The Staff agrees with the Applicant that the amortization periods should be  
21 consistent and recommends that the accumulated over-recovery of Order 636  
22 transition costs be amortized over a five-year period.

23  
24 **Challenge Earnings Goals Budget Expense Adjustment**

25  
26 **15. Q. The Applicant objects to the Staff's removal of test year expenses of**  
27 **\$5,025,182 associated with so-called Challenge earnings goals included in**  
28 **test year operating expenses. What is your response to this objection?**

1           A.     In 2006, as part of the annual financial planning process, the Applicant  
2                 developed a preliminary financial plant that reflects projected revenues and  
3                 operating expenses for 2007 calendar year. In order to develop a consolidated  
4                 financial plan that is consistent with the overall Dominion Resources plan, a  
5                 reduction to the Applicant's preliminary budget was warranted. The  
6                 Applicant shows the reduction as a credit to operation and maintenance  
7                 (O&M) expenses in its 2007 SAP budget representing a placeholder for the  
8                 Applicant's challenge earnings goals.

9  
10                During the preparation of its application, the Applicant converted test year  
11                O&M expenses from its own natural accounts (SAP) to FERC accounts.

12                During this process, the Applicant added back to the test year O&M expenses  
13                the challenge earnings amount that was removed from the final approved  
14                budget.

15  
16                The Staff believes that the final approved budget should be used in the  
17                determination of the revenue requirement in this case and recommends the  
18                exclusion of the challenge earnings amount as shown on the Staff Report  
19                Schedule C-3.24.

20  
21                **Pension Expense**

22  
23       16.     **Q.     The Applicant and the OCC object to the Staff's proposed ratemaking**  
24                **treatment of the test year pension expense credit, pension assets, and**  
25                **pension-related deferred income taxes in rate base. What is your**  
26                **response to this objection?**  
27

1 A. The adjusted test year pension expense credit of \$50.5 million and the  
2 overfunding status of the pension plan is both material and abnormal and as  
3 such warrant special ratemaking treatment of pension expense.  
4

5 **17. Q. What is the Applicant's ratemaking proposal for pension expense?**  
6

7 A. The Applicant proposes to (1) exclude the pension expense credit from test  
8 year operating expense, (2) exclude date certain pension assets of \$629  
9 million from rate base, and (3) exclude pension related deferred income taxes  
10 of \$220 million from rate base.  
11

12 **18. Q. What is the impact of the Applicant's proposal?**  
13

14 A. The Applicant's proposal will translate to a \$0 revenue requirement for  
15 pension expense in this proceeding. It passes the favorable performance of  
16 the pension plan to its employees and shareholders.  
17

18 **19. Q. What is the OCC's ratemaking proposal for pension expense?**  
19

20 A. The OCC proposes to (1) include a negative pension of \$50.5 million in test  
21 year operating expense, (2) remove pension assets of \$629 million from rate  
22 base, (3) reduce rate base by \$220 million for pension assets related deferred  
23 income taxes, and (4) adjust pension expense to \$0 in the lead/lag calculation.  
24

25 **20. Q. What is the impact of OCC's proposal?**  
26

27 A. The OCC's proposal will translate to a \$78.8 revenue requirement reduction.  
28 It unfairly passes the entire favorable performance of the pension plan to

1 ratepayers even though the superior performance of the pension plan was not  
2 derived from ratepayers' contributions.

3  
4 Also, the OCC's proposal also does not include enough working capital to  
5 recognize the revenue shortfall impact of including the pension credit in test  
6 year operating expenses.

7  
8 **21. Q. What is the Staff's ratemaking proposal for pension expense?**

9  
10 A. The Staff proposes to (1) include the negative pension expense of \$50.5  
11 million in test year operating expense, (2) include pension assets of \$629  
12 million in rate base, and (3) reduce rate base by \$220 million for pension  
13 assets related deferred income taxes.

14  
15 **22. Q. What is the impact of the Staff's proposal?**

16  
17 A. The Staff's proposal will translate to a \$5 million revenue requirement  
18 reduction. Under the Staff's proposal, ratepayers, employees, and  
19 shareholders will all share the favorable performance of the pension plan as  
20 the ratepayers' rates will be low as a result of the inclusion of the pension  
21 credit, and the Applicant will have sufficient revenues to offset the use of the  
22 negative pension expense as well as provide safe and reliable service to its  
23 customers.

24  
25 **23. Q. What is the impact of the three pension proposals in the calculation of**  
26 **the total revenue increase in this case?**

27  
28 A. The following comparison shows the total revenue increases for this case  
29 under each proposal using the midpoint of the Staff's rate of return range:

	Revenue	Pension
	<u>Increase</u>	<u>Impact</u>
Applicant	\$44,659,320	\$0
Staff	\$39,586,186	\$(5,073,134)
OCC	\$(34,220,735)	\$(78,880,005)

In summary, the Staff's proposal will reduce the total revenue requirement by \$5 million, which will translate to lower rates for ratepayers and will also provide sufficient revenue for the Applicant to provide safe and reliable service to its customers. The OCC's proposal will result in a substantial revenue shortfall that may affect the Applicant's ability to provide safe and reliable service to its customers. The Applicant's proposal will pass the favorable performance of the pension plan to its employees and shareholders.

**24. Q. What is the Staff recommendation?**

A. The Staff's proposed ratemaking treatment of the pension expense balance the needs of the Applicant to maintain its financial stability and its commitment to shareholders, with the needs of its ratepayers to minimize costs and provide safe, reliable, and efficient service. The Staff recommends that the Commission adopt the Staff's proposed ratemaking treatment of pension expense in this proceeding. The Staff believes that if its proposal is adopted, the ratepayers, employees, and shareholders will benefit from the favorable performance of the Applicant's pension plan.

1  
2 **Labor Expense – Restricted Stock Grant**  
3

4 **25. Q. The OCC objects to the Staff's failure to exclude \$250,419 (\$279,860 x**  
5 **.8948 O&M ratio) in restricted stock grant expenses from the calculation**  
6 **of the salaries labor expense adjustment on Schedule C-3.8a. The OCC**  
7 **argues that this expense is an employee incentive that is tied to the**  
8 **profitability of the company, and therefore, benefits investors rather**  
9 **than ratepayers. What is your response to this objection?**  
10

11 **A. The Staff disagrees with OCC. The Applicant's salary structure is**  
12 **based on base salary compensation plus performance incentive compensation.**  
13 **The Staff believes that the restricted stock grant is a component of the**  
14 **performance incentive compensation. The purpose of the performance**  
15 **incentive compensation is to reward qualified employees who were attracted**  
16 **from a competitive labor market, for competency, productivity, and**  
17 **experience. It also encourages employees to become more productive and**  
18 **efficient in running their daily operation. The Staff, therefore, recommends**  
19 **no adjustment to test year labor expense.**  
20

21 **Incentive Plan Expense**  
22

23 **26. Q. The OCC objects to the Staff's failure to exclude 50% of test year**  
24 **employee performance incentive compensation expense on Schedule C-**  
25 **3.10. What is your response to this objection?**  
26

27 **A. The OCC claims that fifty percent of the employee performance incentive**  
28 **compensation is attributable to the achievement of the corporate earnings and**  
29 **recommends that the Applicant's shareholders bear fifty percent of the**

1 expense because they are the sole beneficiaries of increased corporate  
2 earnings.

3  
4 The Staff disagrees with OCC that shareholders are the only beneficiaries of  
5 achieving corporate earnings.

6  
7 **First**, it is uncertain that a 50/50 split of the incentive expense, as proposed  
8 by OCC, represents a reasonable sharing of responsibility between ratepayers  
9 and shareholders.

10  
11 **Second**, employee performance incentive compensation is a component of  
12 the employee salary package. By offering incentive compensation, the  
13 Applicant encourages its employees to be creative and find new ideas to  
14 enhance customer services, increase operational efficiency, and improve the  
15 safety and reliability of its distribution system. That will result in cost savings  
16 being passed to ratepayers by delaying rate case filings and therefore  
17 reducing future rate case revenue increases. The Staff believes that ratepayers  
18 benefit from a successful incentive compensation plan.

19  
20 **Third**, ratepayers benefit from a financially sound utility that will attract  
21 investors and enable the utility to obtain low cost capital to finance its  
22 operation. That will result in a lower capital costs to be passed on to  
23 ratepayers by lowering the rate of return requested in rate cases and thus  
24 lowering total capital investments included in rate base.

25  
26 The Staff concludes that the Applicant's ratepayers clearly benefit from its  
27 performance incentive compensation plan and therefore, recommends no  
28 adjustment to test year operating expenses.

1                   **Lobbying Expense**

2

3   **27.   Q.    The OCC objects to the Staff's failure to exclude \$80,404 in lobbying**  
4                   **expenses related to the Applicant's Columbus office. What is your**  
5                   **response to this objection?**

6

7           A.    The Staff agrees with the OCC that an additional \$80,404 in lobbying  
8                   expenses needs to be excluded from test year operating expenses.

9

10                  **Industry Dues**

11

12   **28.   Q.    The OCC objects to the Staff's failure to remove an additional \$21,276**  
13                   **from test year operating expenses for those industry dues that the**  
14                   **Applicant identified in its workpapers WPC-3.6/WPC-3.19/WPC-3.21.**  
15                   **What is your response to this objection?**

16

17           A.    The OCC did not provide testimony or a breakdown of the additional \$21,276  
18                   industry dues to demonstrate that the membership dues to the gas industry  
19                   organizations do not provide a direct and primary benefit to ratepayers.  
20                   Therefore, the Staff recommends no additional exclusion for industry dues.

21

22                  **Demonstration and Selling Expense**

23

24   **29.   Q.    The OCC objects to the Staff's failure to exclude \$103,057 from Account**  
25                   **912, Demonstration and Selling Expenses, from the test year arguing**  
26                   **that such expenses are promotional in nature. What is your response to**  
27                   **this objection?**



1 A. FERC Uniform System of Accounts defines costs to be included in Account  
2 912 as those of labor, materials used and expenses incurred in promotional,  
3 demonstrating, and selling activities to promote or retain the use of utility  
4 services by present and prospective customers. Since the above mentioned  
5 promotional activities do not provide benefits to the ratepayers, the Staff  
6 agrees with the OCC and recommends the exclusion of \$103,057 from test  
7 year operating expenses.

8  
9 **Post-In-Service AFUDC**

10  
11 **30. Q. The OCC objects to the Staff's failure to adjust date certain rate base to**  
12 **exclude post-in-service AFUDC. What is your response to this objection?**

13  
14 A. The Staff agrees with the OCC that AFUDC should cease when a project is  
15 placed in service. The Applicant identifies \$33,701 in post-in-service  
16 AFUDC that should be excluded from date certain rate base, but did not  
17 provide the associated accumulated depreciation.

18  
19 The Staff believes however, that the net impact on rate base is insignificant  
20 and therefore, recommends no adjustment to rate base. The Staff also  
21 recommends that the Applicant comply with the applicable accounting  
22 requirements to thus ensure the appropriate capitalization of AFUDC.

23  
24 **Deferred Weatherization Expense**

25  
26 **31. Q. The OCC supports the Staff's disallowance of the amortization of**  
27 **deferred weatherization expense. The OCC, however, notes that a**  
28 **portion of this deferral was previously disallowed by the Commission,**

1           **implying that should inclusion be granted by the Commission, such**  
2           **inclusion should be net of the disallowed portion. What is your response?**

3  
4           A.    I agree.

5  
6   **32.   Q.    Ohio Partners for Affordable Energy claims that there is an excess**  
7           **recovery of weatherization deferrals and recommends that such excess**  
8           **recovery be spent on weatherization activities. What is your response to**  
9           **this objection?**

10  
11          A.    The Applicant proposed an adjustment to amortize deferred weatherization  
12               costs and associated carrying charges in excess of the amount that was  
13               approved and amortized in the last rate case.

14  
15               The Applicant did not obtain an authorization from the Commission to defer  
16               these excess costs for future recovery. Therefore, the Staff did not amortize  
17               such costs in test year operating expenses. Also, the Staff believes that there  
18               is no excess recovery of weatherization costs that would warrant recognition  
19               in this proceeding.

20  
21               **Flow Through**

22  
23   **33.   Q.    Will you respond to the Applicant's objection numbers 1, 3, 12, and 13;**  
24           **and OCC's objection numbers 1 and 12?**

25  
26          A.    These are flow-through calculations. Any changes to the calculations of rate  
27               base and operating income will require corresponding adjustments to the  
28               calculation of the revenue requirement.

1


2   **34.   Q.   Does this conclude your testimony?**

3

4           A.   Yes, it does.

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Prefiled Testimony of Ibrahim Soliman, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 22<sup>nd</sup> day of August, 2008.



**Anne L. Hammerstein**

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