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DEO EXHIBIT 1.4 18

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Authority to Increase Rates for its Gas Distribution Service.	**Case No. 07-829-GA-AIR**
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of an Alternative Rate Plan for its Gas Distribution Service	**Case No. 07-830-GA-ALT**
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval to Change Accounting Methods	**Case No. 07-831-GA-AAM**
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with a Pipeline Infrastructure Replacement Program Through an Automatic Adjustment Clause, And for Certain Accounting Treatment	**Case No. 08-169-GA-ALT**
In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Recover Certain Costs Associated with Automated Meter Reading Deployment Through an Automatic Adjustment Clause, and for Certain Accounting Treatment	**Case No. 06-1453-GA-UNC**

FOURTH SUPPLEMENTAL DIRECT TESTIMONY OF JEFFREY A. MURPHY ON BEHALF OF DOMINION EAST OHIO

___ Management policies, practice and organization

___ Operating income

___ Rate base

___ Allocations

___ Rate of return

___ Rates and tariffs

_X_ Other (Stipulation and Recommendation)

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Fourth Supplemental Direct Testimony of

Jeffrey A. Murphy

I. INTRODUCTION

Q1. Please state your name, occupation and business address.

A1. My name is Jeffrey A. Murphy. I am employed by The East Ohio Gas Company d/b/a Dominion East Ohio ("DEO" or "Company") as its Director, Rates and Gas Supply. My business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

Q2. Are you the same Jeffrey A. Murphy that previously submitted Direct Testimony, Supplemental Direct Testimony, Second Supplemental Direct Testimony, and Third Supplemental Direct Testimony in Case Nos. 07-829-GA-AIR, 07-830-GA-ALT, 07-831-GA-AAM, 08-169-GA-ALT and 06-1453-GA-UNC?

A2. Yes.

Q3. What is the purpose of this supplemental direct testimony?

A3. My testimony supports the Stipulation and Recommendation ("Stipulation") filed in these proceedings on August 22, 2008.

II. THE STIPULATION AND RECOMMENDATION

Q4. Please describe the Stipulation.

A4. The Stipulation resolves all issues in the case with the exception of rate design in the consolidated cases. Among other things, the Stipulation recommends a net base rate revenue increase of $40,500,000 and 8.49% as the rate of return on rate base. The Company, the Staff and OOGA have agreed on a proposed rate design, reflected in Joint Exhibit 1-A. I address this proposed rate design in Section III of my testimony below.

Q5. Which parties have signed the Stipulation?

A5. In addition to the Company, the following parties signed the Stipulation: Commission Staff, Office of the Ohio Consumers' Counsel ("OCC"), Ohio Partners for Affordable Energy ("OPAE"), City of Cleveland ("Cleveland"), Neighborhood Environmental Coalition, Empowerment Center of Greater Cleveland, Cleveland Housing Network and Consumers for Fair Utility Rates (collectively, the "Citizens' Coalition"), Stand Energy, and The Ohio Oil & Gas Association ("OOGA") (collectively, "Signatory Parties").

Q6. Are there certain parties who are not part of the Stipulation?

A6. Integrys Energy Services, Inc., Interstate Gas Supply, UWUA Local G555, and Dominion Retail have not signed the Stipulation as of the filing of this testimony.

Q7. What were the major issues in this proceeding?

A7. The Company, Staff and intervenors had different positions concerning various aspects of date certain rate base, test year operating income, rate of return, certain proposed rate and tariff provisions, the PIR application, AMR application and rate design.

Q8. Does the Stipulation resolve these issues?

A8. Yes. With the exception of rate design, all of these issues have been resolved among the Signatory Parties.

Q9. Were all parties to this case included in the negotiations that resulted in the Stipulation and Recommendation?

A9. Yes. DEO circulated its initial settlement proposal at a meeting at the Commission on July 8, 2008, which was open to all parties. Numerous e-mails, conference calls, and other exchanges involving the parties followed over the next two months, even after depositions and the evidentiary hearing were underway. As new drafts of the settlement terms or Stipulation itself were reached, these were also shared with all parties.

Q10. Is the Stipulation a result of serious bargaining among capable, knowledgeable parties?

A10. Yes. Each party to the Stipulation regularly participates in rate proceedings and other regulatory matters before the Commission, and each party was represented by similarly experienced and competent counsel. As can be seen by reviewing the parties to the Stipulation, a broad range of interests is represented: the Company, the Staff of the Commission, various consumer groups (themselves representing a range of consumer interests), a major natural gas marketer, and natural gas producers. The negotiations involved significant give-and-take, with the parties to the Stipulation compromising on numerous issues which had been actively litigated up to the point agreement was reached. And these negotiations were all premised on a thorough analysis of the Company's applications, by the Commission, its independent auditor, and OCC, among others.

As a result of these negotiations, the Company will recover less revenue than it requested in its applications, and the Company has also agreed to terms and conditions of service that it did not request. At the same time, the Stipulation provides revenue greater than that advocated by other parties in these cases. This is further evidence that the bargaining in this case was serious.

Q11. Does the Stipulation violate any important regulatory principle or practice?

A11. No. In fact, the Stipulation advances many such principles and practices. The 8.49% rate of return recommended by the Stipulation is consistent with returns authorized for comparable utilities. The Automated Meter Reading ("AMR") program, which the

Stipulation recommends approving, will allow the Company to provide monthly meter reading and thus better match billing for service to the period the service is rendered. The Parties have also agreed to credit certain savings achieved by the AMR program as an offset to the AMR Cost Recovery Charge. Likewise, the Pipeline Infrastructure Replacement ("PIR") program, which the Stipulation recommends approving, provides for annual previews of the PIR program proposed for the coming year as well as an annual Post Audit procedure of the program. The Stipulation also recommends a 5-year initial term for the program, as well as caps on charges, which is consistent with sound regulatory practices and the principle of gradualism. As with the AMR program, the Parties have also agreed to credit certain savings achieved by the PIR program as an offset to the PIR Cost Recovery Charge. And the Stipulation is based in large part on the findings and recommendations of the Staff Reports, which analyzed the Company's applications and made recommendations for the purpose of ensuring the resultant rates, terms, and conditions of service comply with sound regulatory principles and practices.

Q12. Does the Stipulation, as a package, benefit ratepayers and the public interest?

A12. Yes. The Stipulation provides for a $40.5 million net base rate revenue increase, whereas the Company fully supported a net increase of approximately $72.5 million in its Application. Thus, the Stipulation provides over $30 million less than requested by the Company.

The Stipulation recommends approval of two new initiatives that will enhance both service and safety. It recommends approval of the AMR program, which will provide numerous service and billing benefits to customers and will also enable DEO to achieve new efficiencies. The PIR program will also promote the continued safe and reliable operation of its pipeline system, with DEO taking over ownership and responsibility for newly installed, replaced and repaired curb-to-meter service lines. In addition to recommending approval of the programs themselves (which will benefit customers), the parties agreed to credit certain savings achieved by the programs to offset the amounts recovered by the riders. The parties also agreed to audit procedures and other forms of review that ensure transparency and accountability.

The Stipulation also provides for a substantial increase in the funding of programs to assist customers. For example, increased levels of demand-side management ("DSM") spending are recommended—up to $9.5 million from DEO's current expenditure of $3.5 million per year. To determine how best to allocate and deploy these funds, the parties agreed to convene a joint "DSM Collaborative." The parties also agreed that the Company would provide by year-end 2008 a shareholder-funded $1.2 million to organizations providing payment assistance to DEO customers as well as education regarding the efficient use of natural gas.

The Stipulation also recommends a number of adjustments to the terms and conditions proposed by the Company designed with the interests of consumers in mind. For example, the parties agreed to adjust the proposed Late Payment Charge to credit amounts that would otherwise be recovered through the Company's Uncollectibles Expense Rider and also to reduce the impact of that charge on customers participating in the PIPP program or on short-term and budget billing plans. The Stipulation also modifies the security deposit payment provisions by allowing the payment to be billed in three equal installments, rather than all at once. DEO has also committed to study whether it is feasible (A) to provide adjusted bill due dates (to enable customers to pay at more convenient dates) and (B) to reduce certain fees associated with certain forms of payments.

There are additional benefits to those described above, but these should be sufficient to show that the Stipulation provides benefits to ratepayers and is in the public interest.

Q13. Does the Stipulation and Recommendation help protect low-income customers?

A13. Yes, in several ways. The proposed levelized rate design for the GSS Class avoids an outcome in which customers who cannot afford to make energy conservation investments effectively subsidize those customers who make those investments (*see* Q&A 20). In addition, half of the $6 million annual increase in DSM spending proposed in the Stipulation and Recommendation is targeted toward low-income customers. That results in an 86% increase in low-income DSM-related spending when compared to the $3.5 million currently spent each year in the Company's low-income weatherization program. Finally, the Stipulation and Recommendation also includes the following provision designed to help low-income DEO customers:

> By December 31, 2008, DEO shall provide $1,200,000 of shareholder-funded assistance to organizations that will help DEO customers in the areas of payment assistance and education regarding the efficient use of natural gas. Of that amount, $900,000 shall be directed to the following organizations operating in the Greater Cleveland area: (1) $125,000 to the Consumer Protection Association to enhance the work they are currently engaged in with DEO in helping set up workable payment arrangements for troubled customers; (2) $425,000 to the Empowerment Center of Greater Cleveland to assist DEO customers, especially low income families as well as their neighborhoods; and (3) $350,000 to be used as a fuel fund by the Salvation Army and other community groups. This fund would provide a backup to help families avoid disconnection when all other resources have already been used. The remaining $300,000

shall be directed to organizations operating elsewhere in DEO's service territory.

(Stip. ¶ 3.D.)

Q14. In light of the matters discussed above, do you believe that the Stipulation satisfies the three-part criteria for Commission approval of the Stipulation?

A14. Yes, I do.

III. JOINT EXHIBIT 1-A TO THE STIPULATION

Q15. What is Joint Exhibit 1-A?

A15. This exhibit represents a proposed rate structure for the General Sales Service and Energy Choice Transportation Service (collectively, "GSS Class") rate schedules.

Q16. Please describe the proposed rate structure for the GSS Class rate schedules.

A16. Joint Exhibit 1-A of the Stipulation and Recommendation sets forth the following rate structure for the GSS Class:

	Year 1	Year 2
Service Charge:	$12.50 / month	$15.40 / month
Volumetric Charge:		
First 50 Mcf:	$ 0.625 / Mcf	$ 0.355 / Mcf
Over 50 Mcf:	$ 1.051 / Mcf	$ 0.603 / Mcf

The GSS Class rate schedules also will be modified to limit eligibility to customers consuming less than 3,000 Mcf per year.

Q17. How would you describe the rate design indicated in Joint Exhibit 1-A?

A17. The rates contained in that exhibit are based on a modified straight fixed variable ("SFV") rate design. I use the term "modified" to indicate that, unlike more conventional

SFV rates, the rates proposed in the Stipulation and Recommendation do not recover all fixed cost in the fixed monthly customer charge. In year 1, for example, only 71% of annual base rate revenues will be provided by the $12.50 fixed monthly charge for the average residential customer using 99.1 Mcf per year. In year 2, that percentage rises to 84% with the $15.40 monthly charge. Because DEO's costs to provide distribution service are almost entirely fixed, the proposed rate design marks only an initial step toward full SFV rates.

Q18. Why is the Company willing to adopt such a rate design in lieu of the more traditional rate design and decoupling mechanism proposed in its Application?

A18. As explained on page 42 of my Direct Testimony, DEO prefers SFV to the combination of traditional rate design and decoupling. There are at least five reasons why.

First, as noted in the Alt. Reg. Exhibit B included in the Application, moving to a straight fixed variable rate design would address the problem of declining use per customer ("UPC") more effectively by permitting much greater recovery of fixed charges in a demand rate rather than a usage charge. However, that rate design was inconsistent with the Commission's historical approach to calculating customer-related cost, which significantly understates the amount of costs that do not vary with usage. Under the circumstances, the Sales Reconciliation Rider ("SRR") represents an acceptable means to achieve an outcome consistent with traditional rate of return regulation within the historical rate design approach utilized by the Commission.

Second, as with the revenue decoupling proposed in DEO's Application, the proposed rate design also advances state energy policy as modified by Amended Substitute Senate Bill No. 221 ("S.B. 221"), which was signed into law earlier this year. S.B. 221 defined a revenue decoupling mechanism as "a rate design or other cost recovery mechanism that provides recovery of the fixed costs of service and a fair and reasonable rate of return, irrespective of system throughput or volumetric sales," R.C. 4929.01(O), and modified the state energy policy so as to "promote an alignment of natural gas company interests with consumer interest in energy efficiency and energy conservation," R.C. 4929.02(A)(12). By providing for the recovery of a greater portion of fixed cost, the proposed rate design significantly reduces the adverse revenue impact that the Company would otherwise experience from energy conservation by end use customers.

Third, the proposed rate design is supported by cost of service studies.[1]

Fourth, the proposed rate design is preferred because it sends better price signals to customers.[2]

Fifth, the rate design recommended by certain parties in the Stipulation and Recommendation is consistent with the levelized rate design approved by the Commission in its May 28, 2008 Opinion and Order in Case No. 07-589-GA-AIR, et al.[3]

Q19. How is the rate design set forth on Joint Exhibit 1-A supported by the cost of service information submitted in this proceeding?

A19. The major rate design issue being contested in this proceeding is the extent to which the Company's cost of service should be recovered from customers through fixed versus volumetric charges. The operation and maintenance expenses set forth in Schedule C-2.1 of the Company's Application are predominantly fixed in nature and do not vary with usage. The same can be said of the other major elements of the cost of service set forth

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[1] *See* Question & Answer No. 19.

[2] *See* Question & Answer No. 20.

[3] *See* Question & Answer No. 21.

on other Standard Filing Requirements schedules, including depreciation, taxes not otherwise collected in riders and return on rate base. Thus, a rate design that recovers a greater portion of the cost of service through fixed rather than volumetric charges is consistent with the nature of the Company's cost of service as set forth in its Application.

The proposed rates are also consistent with the class cost of service study included as Schedule E-3.2. As explained by Mr. Andrews during his August 1, 2008, cross-examination by OCC, "the cost of service study that Dominion submitted in its filing would support any rate design that with the combination of charges that were included produce that revenue requirement." (Transcript of August 1, 2008 proceedings, Case No. 07-829-GA-AIR (consol.), page 225.) Because the allocation of the revenue increase adopted in the Stipulation and Recommendation apportions less revenue to the GSS Class than that proposed by the Company in its Application, the class cost of service study would support an even higher revenue requirement from the GSS Class.

Q20. In what way does the proposed rate design send better price signals than the combination of a more traditional rate design and decoupling rider?

A20. There are several reasons that the proposed rate design sends better price signals. Under the proposed levelized rate design:

— Customers have greater certainty with respect to the impact of the conservation decisions they make. Under decoupling, conservation decisions impact future base rates in a largely unknown manner. When customers reduce their consumption of natural gas, the decoupling rider is increased in a subsequent period to offset the impact on base rate revenues. As a result, individual customers cannot readily project how much they will save on base rates by engaging in conservation measures under decoupling. In fact, if everyone conserved at the same rate, there would be no reduction at all in the base rate revenues eventually paid by customers, other things being equal.

— There is a more accurate indication of avoided cost. When customers conserve, the one cost they truly avoid is the cost of the commodity itself. They do not contribute to any meaningful reduction in the cost of distribution service. There is no change whatsoever in the cost of the physical plant used to serve the customer, meter reading expenses, billing and remittance processing, or other predominantly fixed cost aspects of providing gas distribution service. A rate that incorrectly implies that the cost of service is reduced when usage declines does not send an accurate price signal to customers.

— There is a more equitable distribution of cost. While decoupling provides an opportunity to recover fixed cost in the aggregate, it results in non-conservers subsidizing new conservers. If my neighbor conserves more than I do, my costs go up when the decoupling rider is subsequently adjusted to reflect his reduced UPC. While making conservation investments may be a conscious choice for some customers, there are many customers who would like to make conservation investments but cannot afford to do so. Decoupling disproportionately affects the latter group.

— There is a better reflection of cost. No one in this proceeding has argued that the cost of distribution service varies directly with usage. OCC's Mr. Radigan conceded in his July 23, 2008 deposition that most gas utility costs are fixed as indicated in the following exchange:

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thing. Essential equipment that you
need to serve the customer.
Q. Hold on a minute.
In your review of the Dominion
cost-of-service studies and other
materials, which DEO costs vary with
usage?
A. There may be -- you'd have
to do a study, but the size of the main
may increase with usage, the size of
service may increase with usage, the
size of the meter may increase with
usage.
There may be a slight increase in
O&M. But generally for a gas utility,
most of the costs are fixed.

A price signal that suggests that costs vary with usage is not as accurate as one that properly recognizes the nature of the costs incurred in providing service. While much has been made of the fact that low-usage customers will bear more revenue responsibility under the levelized rate design, that rate design basically corrects inequities from the traditional approach by having all GSS Class customers bear a more appropriate share of the cost to serve.

Q21. Do the same factors considered by the Commission in its May 28, 2008 Opinion and Order in Case No. 07-589-GA-AIR et al apply to the rates proposed in this case as well?

A21. Yes. As in that case, the evidence of record demonstrates a significant decline in use-per-customer ("UPC") at DEO for some time. (Staff Report at page 45.) Since 1990, residential UPC has declined from over 130 Mcf per year to under 100 Mcf. Although the UPC was fairly stable for the past two years, DEO's forecasts project a continuation of the one to two percent decline in UPC per year as older, less efficient gas appliances are replaced and gas prices continue to rise, resulting in price-induced conservation. DEO's 24% decrease in residential UPC since 1990 has not been offset by the 9% increase in DEO's residential customer base over that same time frame. In fact, as noted in the Staff Report, DEO's residential customer base has actually declined over the last two years by nearly 9,000 customers. Because residential customers comprise 78% of GSS Class volumes and 93% of customers, they exert tremendous influence on the Company's ability to recover its revenue requirement from that class.

Another factor considered by the Commission in its decision in Duke is the commitment to conservation measures. That commitment has been significantly increased in DEO's case from the current funding level of $3.5 million to $9.5 million, of which $6.5 million is devoted to low-income customers. The Stipulation and Recommendation also provides an opportunity to increase ratepayer funded spending through the DSM collaborative process and subsequent applications requesting Commission approval of such funding.

As the Commission noted, there are some similarities between the levelized rate design approach and a decoupling rider. The advantages of a levelized rate design cited by the Commission in its May 28, 2008 Opinion and Order apply to the rate design proposed in this case as well. Those advantages include more stable customer bills throughout the year, a less complicated approach to establishing rates and more accurate price signals being sent to consumers.

Q22. Please explain the derivation of the rates included in Joint Exhibit 1-A.

A22. The year 1 and year 2 rates are designed to generate the appropriate base rate revenue for the GSS Class. Using the revenue increase allocation set forth in Table 1 on page 30 of the Staff Report, DEO assigned the appropriate portion of the $40.5 million total Company revenue increase to the GSS Class. The Company then worked with Commission Staff to devise rates that would move in the direction of an SFV rate design over two years. The resulting proposed rates mitigate the impact of that rate design approach by maintaining a volumetric component to the rates and phasing it in over a two-year period.

The existence of a rate block for consumption over 50 Mcf per month is another concession to the principle of gradualism in that it results in larger customers paying a larger share of the revenue requirement than their volumes would otherwise dictate. Of the GSS Class's test year usage of 143.3 Bcf, approximately 18.8 Bcf or 13% falls into the over 50 Mcf per month block. Over 15.8 Bcf or 84% of the usage in that block is comprised of the non-residential class. In total, 50% of non-residential GSS Class volumes will be priced at the higher commodity rate, while less than 3% of the residential volumes will be priced at that rate. Because smaller non-residential customers have a load factor that is very similar to that of residential customers, the resulting rate design provides more homogeneity among those customers consuming less than 50 Mcf per month.

The 3,000 Mcf cap on the annual usage of customers eligible to receive service under the GSS and ECTS rate schedules reflects the need to limit larger customer access to a rate schedule designed for much lower levels of usage. The 3,000 Mcf figure reflects the point at which customers under current rates would, on average, begin to receive less expensive service under the large volume ("LV") rate schedules, LVGSS and LVECTS. In order to avoid unwarranted migration from their larger volume, more expensive counterparts, DEO has to limit access to the SFV-based GSS and ECTS rate schedules that would be considerably less expensive at any usage level than their LVGSS and LVECTS versions.

IV. JOINT EXHIBIT 1-B TO THE STIPULATION

Q23. Please describe Joint Exhibit 1-B to the Stipulation.

A23. Joint Exhibit 1-B is a letter containing commitments made by DEO to OOGA. The letter explains DEO's perspective regarding certain tariff provisions of interest to OOGA. Paragraph 4 of the Stipulation requires that the Company file tariff sheets consistent with those commitments after the execution of the Stipulation.

V. CONCLUSION

Q24. Does this conclude your testimony?

A24. Yes.