

FILE

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

AUG 29 PM 5: 12

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 Service and)
Related Matters.)

PUCO
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 Differences between Actual)
And Approved Revenues, and Inclusion in)
Operating Expense of the Costs of Certain)
System Reliability Programs.)

Case No. 07-1081-GA-ALT

**REBUTTAL TESTIMONY OF
JERROLD L. ULREY ON BEHALF OF
VECTREN ENERGY DELIVERY OF OHIO, INC.**

- Management policies, practices, and organization
- Operating income
- Rate base
- Allocations
- Rate of return
- Rates and tariffs
- Other – Rate design

August 29, 2008

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REBUTTAL TESTIMONY OF JERROLD L. ULREY

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

2 A. My name is Jerrold L. Ulrey. My business address is One Vectren Square,
3 Evansville, IN. 47708.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Vectren Utility Holdings, Inc., the immediate parent company
6 of Vectren Energy Delivery of Ohio, Inc ("VEDO" or "Company"), as Vice
7 President Regulatory Affairs and Fuels.

8 **Q. Are you the same Jerrold L. Ulrey that filed Prepared Direct Testimony and**
9 **Supplemental Testimony previously in this proceeding?**

10 A. Yes.

11 **Q. Mr. Ulrey, what is the purpose of your rebuttal testimony?**

12 A. The purpose of my rebuttal testimony is to address claims made in testimony
13 filed by Staff witness Steven E. Puican and Office of Consumers' Counsel
14 ("OCC") witnesses William H. Novak and Roger D. Colton regarding the
15 Company's proposal to implement a residential rate design that provides the
16 Company with a reasonable opportunity to recover the fixed costs associated
17 with providing distribution service. The claims made in conjunction with these
18 proposals include claims about how such proposals may not be consistent with:
19 (1) the principle of gradualism which is used to guide the pace at which rates and

1 the rate design should be more closely aligned with the identified cost of
2 providing service; (2) the effect upon customers, and particularly low-income
3 customers, of the movement of rates and rate design to better reflect the cost of
4 providing service; and (3) the opportunity that is presented in these proceedings
5 to introduce a rate design that better aligns the interest of the Company and its
6 customers in favor of conservation programs. More specifically, the purpose of
7 my testimony is to provide information that would allow those claims to be
8 considered in conjunction with the revenue requirement and revenue distribution
9 which the parties are recommending in the Agreement in Principle ("Agreement")
10 which has been submitted in this proceeding.

11 **Q. Mr. Ulrey, how do the revenue requirement and revenue distribution**
12 **provisions in the Agreement affect the claims of Mr. Puican, Mr. Novak, and**
13 **Mr. Colton?**

14 **A.** The gas distribution service, or base rate, design ultimately approved by the
15 Commission for residential customers is obviously affected by the overall
16 revenue requirement and the revenue distribution that is approved by the
17 Commission. The rate design and the rate levels which have been the subject of
18 testimony and exhibits to this point have been based upon the proposed levels of
19 revenue and proposed revenue distribution in the Company's Application. This
20 testimony shows the various rate design alternatives using the Agreement base
21 rate revenue distribution.

1 Q. What are the rate design alternatives that have been advanced by the
2 parties in this proceeding?

3 A. The Company proposes a residential rate design for distribution service that
4 reflects gradual movement toward Straight Fixed Variable ("SFV") rate design
5 over a period of two rate case cycles. The Company's residential rate design
6 proposal in this case involves a two-stage rate implementation, with an initial
7 Stage 1 rate design as of the effective date of rates and a Stage 2 rate design to
8 be implemented later reflecting an increase in the customer charge and a
9 corresponding decrease in the volumetric charge portion of the rate. In both
10 stages, the residential rate design as well as the general service rate design
11 include remaining volumetric charges, so the Company proposes a transitional
12 decoupling rider, the Sales Reconciliation Rider - B ("SRR-B), that works to align
13 the interest of the Company and its customers in favor of expanded conservation
14 programs, by decoupling the link between sales volumes and base rate recovery
15 for both the residential rate class and the general service rate class.

16 The Staff proposes a more direct movement to SFV, also with a two stage
17 approach, but without recommending approval of the SRR-B. The Staff
18 recommendation does not propose movement to full SFV residential rate design,
19 leaving fixed costs at risk for recovery in the volumetric charge, but nonetheless
20 recommends elimination of a longer-term role for a decoupling rider; and the
21 Company objected. In its objections 32 and 33 to the Staff Report, the Company
22 proposes, as an alternative, full implementation of a SFV rate design.

1 The OCC opposes the movement to SFV proposed by the Company and
2 recommended by Staff, and instead proposes a residential rate design that would
3 have smaller increases to the customer charges, leaving a larger portion of the
4 Company's fixed costs to be recovered through the volumetric charge portion of
5 rates. However, in addition, they propose the continuing use of a decoupling
6 rider similar to the Sales Reconciliation Rider – A ("SRR-A") that is part of the
7 Company's current residential rate design, for both the residential and general
8 service rate classes.

9 Again, all of these rate design proposals were presented and discussed in the
10 context of an assumption that the full amount of the Company's increase
11 proposed in its Application would be approved by the Commission.

12 **Q. Is there a common theme that you see in these rate design proposals?**

13 A. Yes. I believe that all the rate design proposals are motivated by a desire to
14 address and eliminate the disincentive for the Company to fully support
15 conservation efforts that is present when the fixed costs of providing distribution
16 service can only be recovered by the Company if customers maintain or increase
17 consumption relative to the level assumed for ratemaking purposes.

18 The difference between the parties in their rate design positions is reflected in
19 how they have recommended that the Commission advance this important policy
20 objective. Thus, the proposals have a common goal or end objective and
21 different means by which the parties propose to achieve this goal. The specific

1 recommendations made by the Parties to advance this policy objective are
2 affected by other objectives. For example, the Company and Staff have testified
3 that moving to a residential rate design that recovers the fixed costs of providing
4 natural gas service through the customer charge is warranted based on the goal
5 of setting rates that reflect the cost of providing service and to avoid sending a
6 misleading price signal to customers about costs that can be avoided by reducing
7 consumption.

8 **Q. How does the revenue requirement and revenue distribution results**
9 **embodied in the Agreement affect the residential rate design proposals**
10 **advanced by the Staff and the OCC?**

11 A. Attached as Rebuttal Exhibit JLU-1 is a table showing the residential rate
12 components resulting from the revenue requirement and revenue distribution
13 reflected in the Agreement. For various levels of summer and winter customer
14 charges, the resulting single-block volumetric rate and volumetric base rate
15 revenue are shown, as well as the equivalent average year-round customer
16 charge. For example, referring to the line showing an \$11.00 summer customer
17 charge and a \$17.00 winter customer charge, the resulting average year-round
18 customer charge is \$14.03, the single-block volumetric charge is \$0.06467; and,
19 the fixed costs to be recovered in the volumetric charge is \$15,241,105. This last
20 amount is the residential base revenue for which the Company would be at risk
21 of under-recovery, if a decoupling rider is not approved. And this residential
22 amount is in addition to the fixed costs remaining to be recovered in the

1 volumetric charges of the general service rate schedules of \$8.160 million, as
2 reflected in the general service rate design embodied in the Agreement, which
3 would also be at risk of under-recovery if a decoupling rider is not approved.

4 As noted in the exhibit, a one dollar increase in the average year-round customer
5 charge is equivalent to an approximate \$3.51 million decrease in volumetric base
6 revenues.

7 **Q. What is the potential financial impact to the Company if the Commission**
8 **adopts partial SFV and does not approve a transitional decoupling rider?**

9 A. It depends on the level of reduction in customer usage, but the following example
10 demonstrates the magnitude of the potential financial impact. Using the \$11.00
11 summer and \$17.00 winter customer charge scenario described above, \$15.241
12 million of fixed costs would be exposed to under-recovery in the residential
13 volumetric charge. That is in addition to the \$8.160 million exposed in the
14 general service volumetric charge, for a total of \$23.401 million. Assuming a four
15 and one quarter percentage (4.25%) reduction in residential and general service
16 volumetric usage, which is quite feasible given the high gas costs expected for
17 the upcoming winter, approximately \$1 million of fixed cost recovery would be
18 lost. That equates to approximately a 50 basis point reduction in the Company's
19 return on equity. If the reductions continue in subsequent years, the lost fixed
20 cost recovery and adverse impact to return are compounded.

1 **Q. Why has Mr. Puican proposed to retain a portion of the Company's fixed**
2 **costs in the volumetric charge?**

3 A. The Staff Report of Investigation and the testimony of Mr. Puican support the use
4 of a two-stage movement to partial SFV approach for residential rate design.
5 The Staff's recommendation does not adopt a full SFV residential rate design in
6 that it leaves fixed costs to be recoverable volumetrically. As I explained in my
7 supplemental testimony, the Staff proposal does not include ongoing use of a
8 decoupling rider beyond that which is necessary to amortize the deferrals
9 accumulated as part of the current decoupling mechanism approved by the
10 Commission in Case No 05-1444-GA-UNC. In my supplemental testimony, I
11 described the Staff position on staged partial SFV **without a transitional**
12 **decoupling rider** as constituting a significant step backward because it works to
13 perpetuate the rate design disincentive for Company-sponsored or promoted
14 conservation programs at the same time that the Company was proposing a
15 significant increase in the funding for such programs. While strongly supporting
16 a SFV rate design, Mr. Puican stated in his testimony (at page 13) that the Staff
17 was not recommending total elimination of the volumetric charge portion of the
18 residential rate based on the principal of gradualism.

19 **Q. If the Commission prefers to not extend the use of a decoupling rider**
20 **beyond the time necessary to amortize the deferrals created as a result of**
21 **the Commission's Order in Case No. 05-1444-GA-UNC, do you believe that**
22 **the principal of gradualism works against the Commission's approval, in**

1 **this case, of a full SFV residential rate design to collect the residential**
2 **revenue that the parties have recommended as part of the Agreement?**

3 A. No. Whatever one might think about the rate design significance of the principal
4 of gradualism in the context of the Company's proposed increase in its
5 Application, I believe that the revenue requirement and revenue distribution
6 embodied in the Agreement present a different and better opportunity to: (1)
7 move directly to a full SFV residential rate design; (2) better match rates with the
8 cost of providing service; (3) send a strong signal that the Commission is
9 committed to eliminating volumetric recovery of fixed costs that misaligns the
10 interests of the Company and its customers when it comes to conservation; (4)
11 establish a rate design that will be more sensitive to the interests of low income
12 residential customers who, based on our VEDO-specific analysis explained by
13 Dr. Overcast, tend to use more natural gas than the average residential
14 customers; (5) make it easier for residential customers to understand their
15 natural gas bill and the portion of that bill which is associated with the gas
16 distribution service subject to the Commission's jurisdiction; (6) provide
17 residential customers with better and more reliable knowledge about the long-
18 term bill impacts of conservation programs; (7) eliminate the work and potential
19 complications associated with transitional reconciliation mechanisms such as the
20 decoupling rider proposed by the Company; (8) make bills more predictable and
21 stable for residential customers; and, (9) produce a rate design end result for
22 residential customers that is well within the levels of monthly charges that exist

1 for other gas utilities in Ohio and for household services in the Dayton, Ohio area
2 in general.

3 **Q. Based on the Agreement and full implementation of SFV, what would be the**
4 **level of residential customer charges for Rates 310 and 315?**

5 A. Based on the Agreement and full implementation of SFV, the customer charges
6 for Rates 310 and 315, our residential rates, would be \$12.00 for the summer (six
7 months, May through October) and \$24.62 for the winter (six months, November
8 through April) or an average of \$18.37 per month. At these customer charge
9 levels, there would be no volumetric charge component to the design of the
10 residential base rate.

11 Attached to my testimony as Rebuttal Exhibit JLU-2 is the base rate revenue
12 proof that shows that the full SFV rates produce the appropriate revenue
13 reflected in the Agreement for residential customers.

14 **Q. If the Commission were to approve full implementation of SFV and these**
15 **customer charges for Rates 310 and 315, would that eliminate all the**
16 **volumetric or usage-sensitive “price signals” that are within the residential**
17 **rate schedules?**

18 A. No. The cost of natural gas supply, funding for PIPP and Uncollectible Expenses
19 Riders, and other components in the residential rate schedules would continue to
20 be recovered from residential customers based on their usage volumes and will

1 continue to make up 75% to 80% of the total annual residential bill for a typical
2 customer based on current natural gas prices.

3 **Q. You indicated that a residential rate design based on the Agreement**
4 **revenue distribution and implementation of full SFV would produce a rate**
5 **design end result for residential customers that is well within the monthly**
6 **charges that exist for other gas utilities in Ohio and for household services**
7 **in the Dayton, Ohio area, in general. Can you be more specific?**

8 A. Yes, in the recent Duke Energy Ohio rate case (Case No. 07-589-GA-AIR), the
9 Commission approved an average year-round residential customer charge of
10 \$20.25 in Year 1 and \$25.33 in Year 2. In the recently issued Staff Report of
11 Investigation filed in the Columbia Gas of Ohio rate increase proceeding (Case
12 No. 08-0072-GA-AIR), the Staff recommends year-round residential customer
13 charges of \$19.50 in Year 2, which represents a movement to full SFV rate
14 design. In the Staff Report of Investigation in this case, the Staff recommends
15 customer charges of \$11.96 in the summer and \$20.04 in the winter, for an
16 approximate average year-round customer charge of \$16.00 based on the
17 Application revenue requirement. During my cross examination by the OCC, I
18 discussed the rate designs used for telephone and cable television services
19 purchased by residential customers. Attached, as Rebuttal Exhibit JLU-3, is a
20 table showing the monthly charges for a variety of household services available
21 in the Dayton, Ohio area. Also, Company witness H. Edwin Overcast's rebuttal
22 testimony illustrates the customer charges which have been established in Ohio

1 by customer-owned electric utilities. While these observations are not controlling
2 for purposes of establishing VEDO's rates and charges, I do believe they suggest
3 that a full SFV residential rate design in this case, averaging \$18.37 year-round,
4 would not produce a monthly customer charge that is unusual.

5 **Q. Do you agree with Mr. Novak's and Mr. Colton's assertions that low-income**
6 **customers are adversely impacted by the move to full SFV residential rate**
7 **design?**

8 A. No. As described by the rebuttal testimony of Dr. Overcast, the Company's
9 recent analysis of the relationship between the Company's customers' incomes
10 and their annual usages shows that lower income customers use more than the
11 average annual usage of all residential customers on VEDO's system.
12 Therefore, full SFV rate design would on average benefit low-income customers
13 by reducing the amount of their gas distribution bills compared to rates including
14 a volumetric charge component.

15 **Q. Does the likely timing of a Commission order in this case approving new**
16 **rates have any significance relative to residential bill impacts and**
17 **implementation of a full SFV rate design?**

18 A. Yes, I think it does have significance. The 275-day window for issuing an order
19 in this case closed on August 21, 2008. Assuming that the Commission issues
20 an Order relatively soon, the Company's new rates will take effect as we move
21 into cooler weather and then, shortly thereafter, the winter heating season.

1 Implementation of full SFV rate design for residential customers would make this
2 winter's heating bills more predictable and stable for all residential customers.
3 Based on the VEDO-specific data presented by Dr. Overcast, lower income
4 residential customers tend to use, on average, more natural gas than the
5 average residential customer. Accordingly, the improved bill predictability and
6 stability that comes from full SFV will also tend to reduce the relative
7 responsibility that lower income residential customers have for the overall
8 residential revenue requirement.

9 **Q. If the Commission wanted to eliminate a decoupling rider after amortization**
10 **of the deferrals created as a result of the Commission's Order in Case No.**
11 **05-1444-GA-UNC while adopting, in this case, a residential rate design that**
12 **transitioned to full SFV, do you have a suggestion for the Commission's**
13 **consideration?**

14 **A.** I do have a suggestion. But, for the reasons explained above, I do not think that
15 a transitional or staged introduction of SFV for residential customers, absent a
16 transitional decoupling rider, is appropriate in the present context which includes,
17 among other things, a strong likelihood of conservation program funding that is
18 some 25% higher than proposed by VEDO in its Application. Nonetheless, if the
19 Commission determines that a staged approach to full SFV, without a decoupling
20 rider, is warranted in this case, I recommend that the residential customer
21 charges approved in this case for service rendered through October 31, 2009 be
22 set at \$12.00 summer and \$20.00 winter (a year-round average of \$16.04) with a

1 volumetric charge that will produce the balance of the residential revenue
2 requirement. These customer charge levels are very close to the customer
3 charges recommended in the Staff Report of Investigation for Stage 2 residential
4 rate schedules. Based on the residential revenue distribution in the Agreement,
5 the residually determined volumetric component would be \$0.03473 per Ccf, as
6 shown in the table in Rebuttal Exhibit JLU-1.

7 Effective for service rendered on and after November 1, 2009, the transition to a
8 full SFV residential rate design would be completed with the effectiveness of
9 residential customer charges at \$12.00 summer and \$24.62 winter and the
10 elimination of the volumetric charge component. Again, this transitional
11 approach, which I believe is unnecessary and unwarranted based on the present
12 facts, assumes that there would be no decoupling rider such as the SRR-A
13 beyond that necessary to amortize the deferrals created as a result of the
14 Commission's Order in Case No. 05-1444-GA-UNC.

15 In Rebuttal Exhibit JLU-2 is the base rate revenue proof that shows that this
16 transitional or staged introduction of full SFV rates produces the appropriate
17 revenue for residential customers.

18 **Q. Does that complete your rebuttal testimony?**

19 **A.** Yes it does.

**Residential Rate Design Alternatives Based on Agreement
Revenue Distribution to Rates 310/315**

Summer Customer Charge	Winter Customer Charge	Average Year-Round Customer Charge	Volumetric Rate (\$/Ccf)	Volumetric Base Revenue
\$10.00	\$10.00	\$10.00	\$0.12470	\$29,388,678
\$10.00	\$14.00	\$12.02	\$0.09461	\$22,297,216
\$11.00	\$17.00	\$14.03	\$0.06467	\$15,241,105
\$12.00	\$20.00	\$16.04	\$0.03473	\$8,184,994
\$12.00	\$22.00	\$17.05	\$0.01969	\$4,640,442
\$12.00	\$24.62	\$18.37	\$0.00000	\$0

Notes:

- (1) One dollar increase in summer and winter customer charges equivalent to \$3.51 million decrease in volumetric base revenues.
- (2) Summer months are May-October. Winter months are November-April.
- (3) Budget bill customers will effectively experience the Average Year-Round Customer Charge.

VECTREN ENERGY DELIVERY OF OHIO

CASE NO. 07-1080-GA-AIR

COST OF SERVICE STUDY

DATA: 3 MONTHS ACTUAL AND 9 MONTHS ESTIMATED

TYPE OF FILING: REBUTTAL

REBUTTAL EXHIBIT JLU-2

WITNESS: ULREY

BASE RATE REVENUE PROOF AT FULL SFV RATES

<u>DESCRIPTION</u> (1)	<u>Number of Bills</u> (2)	<u>Billing Quantities</u> (Ccf) (3)	<u>Present Rates</u> (\$/Ccf) (4)	<u>Revenue at Present Rates</u> (5)	<u>Proposed Rates</u> (\$/Ccf) (6)	<u>Revenue at Proposed Rates</u> (7)	<u>Increase in Revenues</u> (8)
<u>Rates 310/315 RESIDENTIAL SALES & TRANSPORTATION SERVICE</u>							
Summer Customer Charge	1,737,671		\$ 7.00	\$12,163,698	\$12.00	\$20,852,054	
Winter Customer Charge	1,772,866		\$ 7.00	\$12,410,063	\$24.62	\$43,647,963	
First 50 Ccf		120,007,607	\$0.11986	\$14,384,112	\$0.00000	\$0	
Over 50 Ccf		115,667,433	\$0.10442	\$12,077,993	\$0.00000	\$0	
Total Rate 310/315 Therms and Revenues	3,510,537	235,675,040		\$51,035,866		\$64,500,017	\$13,464,151

BASE RATE REVENUE PROOF AT PARTIAL (TRANSITIONAL) SFV RATES

<u>DESCRIPTION</u> (1)	<u>Number of Bills</u> (2)	<u>Billing Quantities</u> (Ccf) (3)	<u>Present Rates</u> (\$/Ccf) (4)	<u>Revenue at Present Rates</u> (5)	<u>Proposed Rates</u> (\$/Ccf) (6)	<u>Revenue at Proposed Rates</u> (7)	<u>Increase in Revenues</u> (8)
<u>Rates 310/315 RESIDENTIAL SALES & TRANSPORTATION SERVICE</u>							
Summer Customer Charge	1,737,671		\$ 7.00	\$12,163,698	\$12.00	\$20,852,054	
Winter Customer Charge	1,772,866		\$ 7.00	\$12,410,063	\$20.00	\$35,457,322	
First 50 Ccf		120,007,607	\$ 0.11986	\$14,384,112	\$0.03473	\$4,167,864	
Over 50 Ccf		115,667,433	\$ 0.10442	\$12,077,993	\$0.03473	\$4,017,130	
Total Rate 310/315 Therms and Revenues	3,510,537	235,675,040		\$51,035,866		\$64,494,370	\$13,458,504

Monthly Charges for Typical Household Services
in the Dayton, Ohio Area

(August, 2008)

Time Warner Cable

	Service	Month
Dayton, Centerville, Troy	Basic	\$39.95
	Internet	\$29.95
	Digital Phone	\$39.95
	Cable + Internet + Digital Phone	\$109.85
Wilmington (Cincinnati)	Standard cable	\$34.95
	Digital Cable	\$39.95
	Standard cable + Road Runner	\$59.85
	Standard cable + Internet + Digital Phone	\$84.85

Dish Network Satellite	Basic Plan	\$32.99
	Satellite + Vonage phone	\$44.98
	Vonage residential Basic 500 minutes Plan	\$14.99

Internet Service Plans Month

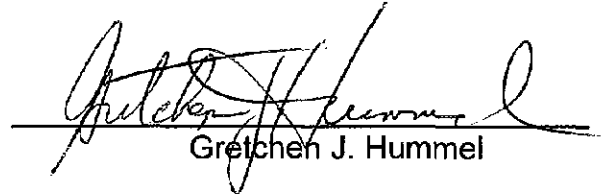
Time Warner Cable	High Speed Internet	\$29.95
AT&T	Basic DSL (768 Kbps)	\$19.99
	Express DSL (1.5 Mbps)	\$25.00
	Pro DSL (3.0 Mbps)	\$30.00
	Elite DSL (6.0 Mbps)	\$35.00
Verizon	Starter Package (768 Kbps)	\$19.99
	Power Package - 1 yr contract (3.0 Mbps)	\$29.99
	Power Package - no contract (3.0 Mbps)	\$37.99
Verizon Satellite Internet	Home Service Plan (1,000 Kbps)	\$59.99
	Pro Service Plan (1,200 Kbps)	\$69.99
	Pro Plus Service (1,500 Kbps)	\$79.99

Mobile Phone Service Plans Month

AT&T	450 minutes	\$39.99	
	900 minutes	\$59.99	
	Unlimited	\$99.99	
Sprint / NEXTEL	450 minutes	\$69.99	
	900 minutes	\$89.99	
	Unlimited	\$99.99	
Verizon	450 minutes	Nationwide Basic	\$39.99
	900 minutes	Nationwide Basic	\$59.99
	1350 minutes	Nationwide Basic	\$79.99
	Unlimited	Nationwide Basic	\$99.99

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Rebuttal Testimony of Jerrold L. Ulrey on Behalf of Vectren Energy Delivery of Ohio, Inc.* was served upon the following parties of record this 29th day of August 2008, *via* electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.



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