

1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

4 The Application of Vectren:

Energy Delivery of Ohio, :

5 Inc., for Authority to :

Amend its Filed Tariffs to:

6 Increase the Rates and :

Charges for Gas Services :

7 and Related Matters. :

:

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

9 The Application of Vectren:

Energy Delivery of Ohio, :

10 Inc., for Approval of an :

Alternative Rate Plan for :

11 a Distribution Replacement:

Rider to Recover the Costs:

12 of a Program for the :

Accelerated Replacement of:

13 Cast Iron Mains and Bare :

Steel Mains and Service :

14 Lines, a Sales :

Reconciliation Rider to :

15 Collect Difference Between:

Actual and Approved :

16 Revenues, and Inclusion in:

Operating Expense of the :

17 Costs of Certain :

Reliability Programs. :

18 - - -

19 PROCEEDINGS

20 VOLUME I

21 before Mr. Gregory Price, Attorney Examiner, at the  
22 Public Utilities Commission of Ohio, 180 East Broad  
23 Street, Room F, 10:00 a.m. on Tuesday, August 19,  
24 2008.

ARMSTRONG & OKEY, INC., Columbus, Ohio (614) 224-9481

1 APPEARANCES:

2 McNees, Wallace & Nurick  
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3 Ms. Gretchen J. Hummel  
Ms. Lisa G. McAlister  
4 Mr. Joseph M. Clark  
Fifth Third Center, Suite 1700  
5 21 East State Street  
Columbus, Ohio 43215

6  
and  
7  
Vectren Energy Delivery of Ohio, Inc.  
8 By Mr. Larry Friedeman  
One Vectren Square  
9 Evansville, Indiana 47708

10 On behalf of the Company.

11 Chester, Willcox & Saxbe, LLP  
By Mr. John W. Bentine  
12 Mr. Mark S. Yurick  
Mr. Matthew S. White  
13 65 East State Street  
Columbus, Ohio 43215

14  
On behalf of Interstate Gas Supply.

15  
Vorys, Sater, Seymour and Pease, LLP  
16 By Mr. Gregory R. Russell  
and Mr. W. Jonathan Airey  
17 52 East Gay Street  
P. O. Box 1008  
18 Columbus, Ohio 43216-1008

19 On behalf of Honda of America  
Manufacturing.

20

Mr. Nolan Moser

21 1207 Grandview Avenue, Suite 201

Columbus, Ohio 43212

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On behalf of Ohio Environmental Council.

23

24

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## 1 APPEARANCES (Continued):

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5 Ms. Colleen Mooney  
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7  
On behalf of Ohio Partners for  
8 Affordable Energy.

9 Janine L. Migden-Ostrander  
Ohio Consumers' Counsel  
10 By Ms. Maureen R. Grady  
Mr. Joseph P. Serio  
11 Mr. Michael E. Idzkowski  
10 West Broad Street, Suite 1800  
12 Columbus, Ohio 43215-3485

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

14  
Nancy Rogers, Ohio Attorney General  
15 Duane W. Luckey, Senior Deputy  
Attorney General  
16 Public Utilities Section  
By Mr. Werner L. Margard III  
17 and Ms. Anne L. Hammerstein  
180 East Broad Street, 9th Floor  
18 Columbus, Ohio 43215-3793

19 On behalf of the Staff of the Public  
Utilities Commission.

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Tuesday Morning Session,

August 19, 2008.

- - -

ATTORNEY EXAMINER: Good morning. The

Public Utilities Commission of Ohio has set for this

time and this place Case No. 07-1080-GA-AIR and Case

No. 07-1081-GA-ALT, being In the Matter of: The

Application of Vectron Energy Delivery of Ohio, Inc.,

for Authority to Amend its Filed Tariffs to Increase

the Rates and Charges for Gas Services and Related

Matters and In the Matter of: The Application of

Vectren Energy Delivery of Ohio, for Approval of an

Alternative Rate Plan for a Distribution Replacement

Rider to Recover the Costs for 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.

20           My name is Gregory Price. I am the  
21 Attorney Examiner assigned to preside over this case.  
22 Let's begin by taking appearances starting with the  
23 company.  
24           MS. HUMMEL: Thank you, your Honor. On

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1   behalf of Vectren Energy Delivery of Ohio, Inc., the  
2   firm of McNees, Wallace & Nurick by Samuel C.  
3   Randazzo Gretchen, J. Hummel, Joseph M. Clark, and  
4   Lisa G. McAlister, 21 East State Street, Columbus,  
5   Ohio 43215; and Lawrence K. Friedeman, vice president  
6   and deputy general counsel, Vectren Energy Delivery  
7   of Ohio, Inc., P.O. Box 209, Evansville, Indiana  
8   47709.

9           ATTORNEY EXAMINER: Thank you.

10          Intervenors.

11          MS. GRADY: Thank you, your Honor. On  
12   behalf of the approximately 300,000 residential  
13   customers of VEDO, the Office of Consumers' Counsel,  
14   Janine L. Migden-Ostrander, the Consumers' Counsel,  
15   by Michael E. Idzkowski, Joseph P. Serio, and Maureen  
16   R. Grady, Associate Consumers' Counsel, 10 West Broad  
17   Street, Suite 800, Columbus, Ohio 43215.

18          ATTORNEY EXAMINER: Thank you.

19          Mr. Airey.

20 MR. AIREY: Your Honor, on behalf of  
21 Honda of America Manufacturing, Vorys legal counsel,  
22 Jonathan Airey and Gregory Russell, 52 East Gay  
23 Street, Columbus.

24 MR. RINEBOLT: On behalf of Ohio Partners

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1 for Affordable Energy, David C. Rinebolt and Colleen  
2 L. Mooney, 231 West Lima Street, P.O. Box 1793  
3 Findlay, Ohio 45839.

4 ATTORNEY EXAMINER: Thank you.

5 Staff -- I'm sorry.

6 MR. WHITE: On behalf of Interstate Gas  
7 Supply, the law firm of Chester, Willcox & Saxbe,  
8 John W. Bentine, Mark Yurick, and Matthew White, 65  
9 East State Street, Columbus, Ohio 43215 and also  
10 general counsel for Interstate Gas Supply, Vincent  
11 Parisi, 5020 Bradenton Avenue, Dublin, Ohio 43017.

12 ATTORNEY EXAMINER: Now staff.

13 MR. MARGARD: On behalf of the Staff of  
14 the Public Utilities Commission, Nancy Rogers, Ohio  
15 Attorney General, Duane Luckey, section chief, Public  
16 Utilities Section, by Assistant Attorneys General,  
17 Werner L. Margard and Anne L. Hammerstein, 180 East  
18 Broad Street, Ninth Floor, Columbus, Ohio.

19 ATTORNEY EXAMINER: I'm sorry.

20 MR. MOSER: On behalf of the Ohio

21 Environmental Council, Nolan Moser, 1207 Grandview

22 Avenue, Suite 201, Columbus, Ohio.

23 ATTORNEY EXAMINER: Do we need to make

24 some space for you at the counsel table?

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1 MR. MOSER: No, if I could just find a  
2 chair.

3 ATTORNEY EXAMINER: Don't take that  
4 chair.

5 Ms. Hummel.

6 MS. HUMMEL: Thank you, your Honor. I  
7 think it would be appropriate if we just simply  
8 marked all of our exhibits at this point, and then we  
9 would be able to proceed through the hearing without  
10 having to do that all the time. I have prepared a  
11 list of exhibits, which I am now distributing them,  
12 and I will quickly read the exhibits and the numbers  
13 which we have reserved for them into the record and  
14 we will -- we have two copies here for the court  
15 reporter of each of the exhibits.

16 We would like to mark the Application --  
17 we would like to mark the Application in this case  
18 filed on November 20, 2007, by VEDO -- I will refer  
19 to the company as VEDO -- as Company Exhibit No. 1;

20 the Direct Testimony of Jerome A. Benkert filed on  
21 November 20, 2007, Company Exhibit 2; Direct  
22 Testimony of Robert L. Goocher filed on November 20,  
23 2007, as Company Exhibit 3; and the Supplemental  
24 Testimony of Robert L. Goocher filed on July 23, 2008

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1 as Company Exhibit 3a; the Direct Testimony of Paul  
2 R. Moul filed November 20, 2007 Company Exhibit 4;  
3 the Supplemental Testimony of Paul R. Moul filed July  
4 23, 2008, as Company Exhibit 4a; Direct Testimony of  
5 Ms. Susan Hardwick filed November 20, 2007, as  
6 Company Exhibit 5; the Supplemental Testimony of Ms.  
7 Susan Hardwick filed July 23, 2008, as Company  
8 Exhibit 5a; the Direct Testimony of Michael F. Gorman  
9 filed November 20, 2007, as Exhibit 6; the Direct  
10 Testimony of Kerry A. Heid filed November 20, 2007 as  
11 Company Exhibit 7; and the Supplemental Testimony of  
12 Kerry A. Heid filed July 23, 2008, as Company Exhibit  
13 7a; the Direct Testimony of H. Edwin Overcast filed  
14 November 20, 2007, as Company Exhibit 8; the Direct  
15 Testimony of Jerrold L. Ulrey filed November 20,  
16 2007, as Company Exhibit 9; Supplemental Testimony of  
17 Jerrold L. Ulrey filed July 23, 2008, as Company  
18 Exhibit 9a; the Direct Testimony of James M. Francis  
19 filed November 20, 2007, as Company Exhibit 10; and

20 the Supplemental Testimony of James M. Francis filed  
21 July 23, 2008, as Company Exhibit 10a; the Direct  
22 Testimony of Scott E. Albertson filed November 20,  
23 2007, as Company Exhibit 11; Supplemental Testimony  
24 of Scott E. Albertson filed July 23, 2008, as Company

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1 Exhibit 11a; the Direct Testimony of Daniel G. Berry  
2 as Company Exhibit 12; the Direct Testimony of  
3 William S. Doty as Company Exhibit 13; and the  
4 Supplemental Testimony of William S. Doty filed July  
5 23, 2008, as Company Exhibit 13a; the Direct  
6 Testimony of Ronald B. Keeping filed November 20,  
7 2007, as Company Exhibit 14; the Direct Testimony of  
8 Ellis S. Redd filed November 20, 2007, as Company  
9 Exhibit 15; the Direct Testimony of Douglas A. Karl  
10 filed November 20, 2007, as Company Exhibit 16; the  
11 Supplemental Testimony of L. Douglas Petitt filed  
12 July 23, 2008, as Company Exhibit 16a; the Direct  
13 Testimony of Matthew F. Rose filed November 20, 2007  
14 as Company Exhibit 17; the Notice of Intent to File  
15 an Application for an Increase in Rates filed on  
16 September 28, 2007, as Company Exhibit 18; the Proofs  
17 of Publication for the Application for Evidentiary  
18 Hearing filed August 13, 2008, as Company Exhibit 19.  
19 And I would like to reserve for the Proofs of

20 Publication of the Local Public Hearings the exhibit

21 number of Company Exhibit 20.

22 ATTORNEY EXAMINER: Thank you. All the

23 exhibits will be marked as described by Ms. Hummel.

24 (EXHIBITS MARKED FOR IDENTIFICATION.)

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1 MS. HUMMEL: And as a matter of  
2 housekeeping, I would like to move those exhibits  
3 into evidence at this time in case I forget later.

4 ATTORNEY EXAMINER: Ms. Grady.

5 MS. GRADY: Yes, your Honor. We would  
6 have objections to some of those exhibits. If you  
7 would rather us wait until a more appropriate time.

8 ATTORNEY EXAMINER: We will deal with the  
9 admission and the objections as they come up.

10 MS. GRADY: Thank you.

11 ATTORNEY EXAMINER: Anything further?

12 MS. HUMMEL: If this is an appropriate  
13 time, we also have a witness list in hard copy that  
14 we distributed electronically last night. I would  
15 simply like to pass it out and give copies to your  
16 Honor and to the court reporter.

17 ATTORNEY EXAMINER: That would be fine.

18 Mr. Randazzo.

19 MR. RANDAZZO: Yes, your Honor, I would

20 just, for the record, indicate as everybody in the  
21 room knows, in addition to proceeding to present the  
22 evidence here today, we have been having ongoing  
23 discussions with all the parties about the potential  
24 of resolving issues in this case in their entirety or

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1 narrowing the issues to consider resolving, I have  
2 asked parties to stick around today after the  
3 evidentiary session to continue those discussions. I  
4 wanted to make that a matter of public record.  
5 Everybody in the room knows we have been working  
6 on that, but it may not be apparent to the public  
7 record, and I thought it might be useful to do so.

8 ATTORNEY EXAMINER: It's noted on the  
9 record. Thank you.

10 Anything else? Let's take our first  
11 witness.

12 MS. HUMMEL: Thank you, your Honor. The  
13 company calls Paul R. Moul to the witness stand,  
14 please.

15 (Witness sworn.)

16 ATTORNEY EXAMINER: Please be seated and  
17 state your name and business address for the record.

18 THE WITNESS: My name is Paul, middle  
19 initial R, that's Moul, M-O-U-L. My business address

20 is 251 Hopkins Road, Haddonfield, New Jersey.

21 ATTORNEY EXAMINER: Thank you.

22 Ms. Hummel.

23 MS. HUMMEL: Thank you, your Honor. I

24 will give Mr. Moul a moment to get settled, if you

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1 don't mind.

2 - - -

3 PAUL R. MOUL

4 being first duly sworn, as prescribed by law, was

5 examined and testified as follows:

6 DIRECT EXAMINATION

7 By Ms. Hummel:

8 Q. Good morning, Mr. Moul.

9 A. Good morning.

10 Q. Mr. Moul, would you explain for the  
11 record by whom you are employed for the purposes of  
12 presenting testimony in this proceeding and for what  
13 subject matter, please.

14 A. Yes. I am an independent financial and  
15 regulatory consultant, and I have been engaged by  
16 Vectren Energy Delivery of Ohio to present evidence  
17 on the cost of common equity.

18 Q. Do you have in front of you copies of  
19 what have been marked as Company Exhibit 4 and 4a?

20       A.  I do.

21       Q.  And could you identify --

22           ATTORNEY EXAMINER:  Ms. Hummel, I have --

23  oh, I'm sorry.  I'm confused.  Thank you.  4 and 4a.

24           MS. HUMMEL:  Thank you.

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1 Q. Would you identify for the record the --

2 what those exhibits are, please.

3 A. Exhibit 4 is my prepared direct

4 testimony. It consists of 41 pages of testimony,

5 question and answer form. To accompany that I have

6 an additional document, which is my narrative, it's

7 identified as Appendixes A through J, which goes

8 along with my direct testimony. And then I have a

9 financial exhibit which I have called PRM Exhibit 1,

10 and that is a 27-page document that's been broken

11 down into 12 schedules. And then Exhibit 4a is my

12 supplemental testimony.

13 Q. Thank you. And were these exhibits

14 prepared by you or under your supervision?

15 A. They were, yes.

16 Q. Do you have any changes or corrections

17 that you would like to make to Company Exhibit 4 or

18 4A?

19 A. I only have one that I am aware of at

20 this time and that would be in Exhibit 4a at page 7

21 on line 21.

22 Q. And what is that?

23 A. Near the end of line 21 there is a figure

24 there of "11.23 percent" and that should be changed.

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1 The correct figure is 11.35 percent, and those are

2 the only changes I am aware of at this time.

3 Q. Thank you. Mr. Moul, if you were asked

4 the same questions contained in Company Exhibits 4

5 and 4a today, would your answers be the same with the

6 correction you just made?

7 A. Yes, they would.

8 MS. HUMMEL: Thank you, Mr. Moul.

9 I move for the admission of Company

10 Exhibits 4 and 4a, and I make Mr. Moul available for

11 cross-examination, your Honor.

12 ATTORNEY EXAMINER: Thank you. Let's go

13 off the record for one minute, please.

14 (Discussion off the record.)

15 ATTORNEY EXAMINER: Back on the record.

16 Mr. White, cross?

17 MR. WHITE: No.

18 ATTORNEY EXAMINER: Mr. Airey?

19 MR. AIREY: No cross.

20 ATTORNEY EXAMINER: Mr. Rinebolt?

21 MR. RINEBOLT: No cross, your Honor.

22 MR. MOSER: No cross.

23 ATTORNEY EXAMINER: Ms. Grady?

24 MS. GRADY: No.

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1 CROSS-EXAMINATION

2 By Ms. Grady:

3 Q. Good morning Mr. Moul.

4 A. Good morning.

5 MS. GRADY: I couldn't resist. I'm  
6 sorry.

7 Q. Now, Mr. Moul, as I read your direct and  
8 rebuttal testimony in this proceeding, and this was  
9 late last night, I can't help but note that the word  
10 "adjusted" appears throughout your testimony; that  
11 is, your direct as well as your supplemental. Is  
12 that your -- would you agree with that that you use  
13 the term "adjusted" quite frequently in your  
14 testimony?

15 A. Certainly I have used the word "adjusted"  
16 a number of different times and in a variety of  
17 contexts.

18 Q. And would you accept, subject to check,  
19 that in your direct testimony you use the word

20 "adjusted" a total of approximately 55 times?

21 A. Oh, I could accept that, subject to

22 check. I didn't add that up.

23 Q. And would you also agree, subject to

24 check, in your rebuttal testimony you used the word

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1 "adjusted" approximately 25 times?

2 A. Again, I could accept that, subject to  
3 check.

4 Q. Now, Mr. Moul, you make a number of  
5 adjustments in your cost to capital calculation, do  
6 you not, including your calculations in the DCF model  
7 and the CAPM model?

8 A. I do.

9 Q. Now, I would like to talk to you about  
10 some of those adjustments starting first with the DCF  
11 model. Would you agree with me that you make two  
12 adjustments to your DCF model? One adjustment would  
13 be for the prospective dividends to calculate the  
14 dividend yield, and I am referring to pages 15 and 16  
15 of your testimony, and then a second leverage  
16 adjustment to reflect the differences in book value  
17 and market value as shown on pages 23 through 25 of  
18 your testimony.

19 A. Yes, that's correct. And I think I also

20 made an adjustment for floatation costs. That was

21 the third one.

22 Q. Thank you. I missed that adjustment.

23 Now, let's turn to page 28 of your direct testimony,

24 if you will. Here you show your DCF results; is that

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1 correct?

2 A. I do.

3 Q. Now, if we look at the DCF results in the  
4 middle of the page, is it true, Mr. Moul, that your  
5 DCF results, absent the leverage adjustment, shows a  
6 yield of 3.84 percent, a growth of 5 percent,  
7 totaling 8.84 percent?

8 A. Yes. That's the addition of those two  
9 values.

10 Q. Is it also true, Mr. Moul, that your  
11 leverage adjustment as shown on page 28 is .5  
12 percent?

13 A. Yes, that's correct.

14 Q. Can you identify any commissions, other  
15 than Pennsylvania, that have adopted your leverage  
16 adjustment?

17 A. I can think of one other.

18 Q. And what would that one other be?

19 A. The State of Connecticut, Department of

20 Public Utility Control.

21 Q. Can you recall any proceedings in which  
22 any other commissions have rejected your leverage  
23 adjustment?

24 A. I can.

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1 Q. And what would those commissions be, if  
2 you know?

3 A. Just off the top of my head I think that  
4 would include Virginia, West Virginia, Massachusetts,  
5 and Kentucky, but I am a little fuzzy on Kentucky.  
6 They said they did not adopt the leverage adjustment,  
7 yet when they came up with their final  
8 recommendation, it seems to me that they might have  
9 given it some weight, at least in part, so it is not  
10 entirely clear to me what Kentucky has done.

11 Q. And are there any other ones to which you  
12 know where the Commission has rejected your leverage  
13 adjustment beyond the ones you just stated?

14 A. There may be others that just don't come  
15 to mind at the moment.

16 Q. Now, let's discuss your CAPM. Now, under  
17 your CAPM model you make an adjustment for the  
18 leverage Beta and that would be shown on page 36; is  
19 that right?

20       A. That is correct.

21       Q. Now, on page 35 and in 35 you are talking

22 again about the Betas as you note that the actual

23 average Value Line Beta for your gas group -- and

24 when I say gas group, your companies that you used in

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1 your analysis -- the actual average Value Line Beta

2 would be .81 percent, correct?

3 A. That is correct.

4 Q. But on page 43 you use a leverage Beta of

5 1.04 percent, do you not?

6 A. Yes. That's recognizing the additional

7 financial risk associated with the book value capital

8 structure versus the market cap that provides the

9 foundation for the market Beta.

10 Q. Now, if an investor picked up an issue of

11 Value Line, would he or she find Beta values of .81

12 or .97 for the gas group on average?

13 A. Could I have that question again, please.

14 MS. GRADY: Could you reread the

15 question, please.

16 (Record read.)

17 Q. Beta values.

18 A. Sure, I understand that. Well, first of

19 all, if they picked up Value Line, they would see the

20 individual Betas for each of the companies, but if  
21 you average the group, the average would be the .81  
22 that we talked about.

23 Q. Okay. And the .97 Betas that you cite on  
24 page 36, those are the ones that are derived by you;

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1 is that correct?

2 A. Yes. And the derivation is only  
3 necessary because of the way we set rates. Investors  
4 don't use book value capital structures like we use  
5 in the rate setting process. That's why investors  
6 won't go through the exercise.

7 Q. Now, if an investor were to use leverage  
8 Betas, he or she would have to develop those Betas on  
9 their own, right?

10 A. Oh, sure. And the formula I use for --  
11 that was developed by Robert Mahaad -- is a standard  
12 formula that you could find in any good finance  
13 textbook. It's not an exotic formula in any stretch  
14 of the imagination. It's standard finance.

15 Q. Can you identify any decision by this  
16 Commission in which it has adopted leverage Betas?

17 A. I don't think I could do that because in  
18 the cases I have been involved in, at least in recent  
19 years in Ohio, all the cases have been settled so I

20 can't say that I've seen a Commission order that even

21 addressed the issue.

22 Q. Now, let's switch gears a moment,

23 Mr. Moul, and talk about your return on equity

24 recommendation. What return on equity are you

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1 recommending for VEDO in this proceeding?

2 A. 11.50 percent.

3 Q. Now, on page 4 of your testimony, that's  
4 your direct testimony, you determine, do you not,  
5 that by using a market approach to cost of equity,  
6 that the average equity return is 11.36 percent; is  
7 that correct?

8 A. Yes. The straight-up average of the  
9 three market models, DCF, risk premium, CAPM, does  
10 provide that average.

11 Q. And then you recommend that the return on  
12 equity be 11.5 percent, correct?

13 A. Yes.

14 Q. And the upward adjustment from 11.36 to  
15 11.5, it's not really based on any factors that  
16 affect the risk profile of VEDO; is that correct?

17 A. No, and I wouldn't characterize it as  
18 adjustment either. I don't really see the  
19 distinction between 11.36 and 11.50. It's not --

20 cost of equity isn't that much of a science, and  
21 typically when I make recommendations, I do them in  
22 quarter percentage point increments, and by my way of  
23 thinking, 11.5 and 11.36 are pretty much the same  
24 figure in studying the cost of equity.

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1 Q. I'm sorry. I didn't mean to interrupt

2 you. Is your answer complete?

3 A. Yes, uh-huh.

4 Q. Now, just so the record is clear, what

5 you are saying is when you adjusted the equity return

6 from 11.36 to 11.5 percent, that was not based on

7 looking at factors with respect to the risk of VEDO?

8 A. No. First of all, again, I don't want to

9 quibble with you, but I don't see that as an

10 adjustment. I think the 11.50 represents a good

11 representation of 11.36 given the fact that I view

12 the cost of equity in quarter point increments. But

13 the answer to your question it was not VEDO specific.

14 I would have whether -- with this set of numbers

15 whether I was doing a study for VEDO or some other

16 utility.

17 Q. I appreciate that. Now, you indicate in

18 your answer that you don't see much of a distinction

19 between the 11.36 and 11.5, right?

20       A. Right. Cost of equity is not that much

21 of a science.

22       Q. And the common equity costs in your

23 opinion and under your analysis could just as soon be

24 11.25 percent, correct?

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1       A. It could also look at it in that context,  
2 you are quite correct.

3       Q. Mr. Moul, are you aware of any proceeding  
4 during the last five years in which this Commission  
5 has awarded a gas utility a return on equity as high  
6 as you are recommending in this proceeding, whether  
7 it was through a settlement or through litigation?

8       A. I don't think I can answer that question.  
9 I am not familiar with all the proceedings the  
10 Commission's had over that time frame and what types  
11 of returns they have been granting. My understanding  
12 was that most of the cases here in the state are  
13 resolved by settlements.

14      Q. Mr. Moul, I guess perhaps you  
15 misunderstood my question. I was not asking you  
16 about all commission proceedings. I just wanted to  
17 focus on whether you are aware of any commission  
18 proceedings where the commission has awarded a gas  
19 utility a return on equity as high as you are

20 recommending in this proceeding.

21 A. I am not aware of any.

22 Q. Now, Mr. Moul, would you agree with me

23 that weather normalization, decoupling, and other

24 similar features as you reference in your testimony

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1 at page 3, lines 20 through 21, help stabilize  
2 earnings?

3 A. I think what I said, it helps stabilize  
4 earnings and margins. It certainly is a contributor  
5 to earnings stability but there's a lot more going on  
6 between the collection of revenues and the  
7 realization of earnings than just whatever decoupling  
8 could achieve.

9 Q. Now, Mr. Moul, decoupling removes the  
10 volumetric risk in sales and revenues, and then the  
11 company is not subjected to customer usage patterns  
12 or weather; is that correct?

13 A. Yes, depending on how decoupling is  
14 structured and, of course, the flip side of that is  
15 customers are protected as well if there is  
16 variations going in the other direction so it -- it's  
17 a benefit to both the company and its customers.

18 Q. You would agree with me, Mr. Moul, that  
19 rating agencies are more favorably inclined in their

20 credit analysis in companies with decoupling, weather

21 normalization, and other similar features?

22 A. I agree with that.

23 Q. Now, Mr. Moul, you testify, do you not,

24 to the natural gas -- let me strike that.

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1           You testify, do you not, Mr. Moul, to the  
2 natural gas risk factors which is part of the  
3 qualitative analysis you do on VEDO's risk; is that  
4 right?

5       A. Yes.

6       Q. Now, you testify at page 5 of your  
7 testimony, I am going to direct you to lines 27 and  
8 28, that "loss of load due to conservation, fuel  
9 switching or plant closures cannot be mitigated for  
10 large customers." Do you see that reference?

11      A. I do. I see that reference.

12      Q. Would you agree with me, Mr. Moul, that  
13 plant closures can be mitigated by plant openings?

14      A. Yes. Replacing load lost, industrial  
15 load for plant closures, to the extent there are  
16 some, can be mitigated by new large volume users,  
17 yes.

18      Q. Mr. Moul, have you looked at VEDO's  
19 projected customer growth in its long-term forecast

20 report filed with the Commission?

21 A. No, I have not.

22 Q. So you would not know, Mr. Moul, what the

23 projected average use for customers would be

24 whether -- let me strike that.

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1           You are not aware of VEDO's projected  
2 customer growth?

3       A. No, I do not. I have not looked at any  
4 specific reports. I have discussed the matter with  
5 the company's management, and I believe another  
6 company witness might be better prepared to respond  
7 to your question.

8       Q. And you have not looked at, Mr. Moul,  
9 with respect to the company's long-term forecasts the  
10 projected average usage for customers, those being  
11 residential or commercial?

12      A. You're right, I have not looked at that.

13      Q. And do you know, Mr. Moul, whether the  
14 customer growth projected by the company for  
15 residential as well as commercial customers offset  
16 the average use or decline in the company's forecast?

17      A. I couldn't respond to that question. I  
18 do know from speaking with the company management  
19 that growth rates are quite low in those classes of

20 customers.

21 Q. Now, on page 6, lines 28 through 29, you  
22 indicate that: "Some of the loss can be offset by  
23 economic growth." Do you see that reference?

24 A. It can.

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1       Q. And do you know, Mr. Moul, whether VEDO  
2 has had economic growth to offset the type of risk  
3 you are referencing there?

4       A. I don't know that directly. Of course,  
5 right now, we are in a soft spot of the economy so  
6 that economic growth has not been particularly robust  
7 either here or nationally.

8       Q. By economic growth you are talking about  
9 customer growth in the service territory?

10      A. Well, I am talking about real growth in  
11 the domestic economy. I do know that in Western Ohio  
12 the growth and the customer count, at least on the  
13 residential side, is not what it's been elsewhere in  
14 the country.

15      Q. Mr. Moul, you testify on page 6, lines 28  
16 through 29, that: "The Company faces potential net  
17 negative growth and lost margins." Do you see that  
18 reference?

19      A. Yes.

20 Q. Are you referring to VEDO as the company

21 there?

22 A. I am. The C is capitalized.

23 Q. Do you know if VEDO is projecting net

24 negative growth and lost margins that you are

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1   referencing there?

2       A.   The statement was made based upon a --  
3   discussions I have had with the company's management.

4       Q.   So are you saying then that VEDO is  
5   projecting net negative growth and loss margins?

6       A.   You would have to check with the company  
7   witness on that.

8       Q.   Now, I am going to turn to your  
9   supplemental testimony now, Mr. Moul. Specifically I  
10   direct your attention to page 3, lines 3 through 5.  
11   I will give you a moment to get that.

12       A.   I have that.

13       Q.   Now, here you indicate that: "Due to the  
14   imprecise nature of measuring the cost of equity, the  
15   use of additional methods/models provides a sounder  
16   foundation for establishing the cost of equity." Do  
17   you see that reference?

18       A.   That would be on what page now?

19       Q.   That is -- I'm sorry, page 3, lines 3

20 through 5.

21 A. Yes, I see that.

22 Q. Do you mean there that the results

23 derived from the use of four models is better than

24 the results derived from the use of two models?

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1       A. It is.

2       Q. And why is that?

3       A. Well, each model has infirmities,  
4 limitations. They are simplifying assumptions made  
5 to develop the models and the simplifying assumptions  
6 do not always reflect the behavior of investors. So  
7 since no model is perfect, all models have both  
8 simplifying assumptions in the development of the  
9 model, and there is always the problem with the  
10 accuracy of the data -- well, it's not the data  
11 that's inaccurate but how representative the data is  
12 of investor expectations. There is a degree of  
13 imprecision in each model and in my view since each  
14 of these models has limitations you are far better  
15 off using multiple models to come up with the  
16 recommendation, and the more models you use, I  
17 believe the better foundation your recommendation  
18 has.

19       MS. GRADY: Thank you, Mr. Moul.

20           That's all the questions I have, your

21 Honor.

22           ATTORNEY EXAMINER: Thank you.

23           Mr. Margard?

24           MR. MARGARD: No questions, thank you,

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1 your Honor.

2 ATTORNEY EXAMINER: Redirect.

3 MS. HUMMEL: No, thank you, your Honor.

4 Thank you, Mr. Moul.

5 ATTORNEY EXAMINER: I don't have any

6 questions. You are excused. Thank you.

7 MS. HUMMEL: Ready to proceed?

8 ATTORNEY EXAMINER: Yes, ma'am.

9 MS. HUMMEL: Thank you, your Honor. The

10 company calls Robert L. Goocher.

11 I moved Exhibits 4 and 4a for admission

12 earlier, your Honor. Would you be willing to rule on

13 that now, please?

14 ATTORNEY EXAMINER: Any objections to the

15 admission of Exhibits 4 and 4a?

16 Hearing none, those exhibits will be

17 admitted.

18 (EXHIBITS ADMITTED INTO EVIDENCE.)

19 (Witness sworn.)

20 ATTORNEY EXAMINER: Please be seated and

21 state your business address for the record.

22 THE WITNESS: It's Robert Goocher,

23 Vectren Corporation, One Vectren Square, Evansville,

24 Indiana 47708.

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1 THE ATTORNEY EXAMINER: Please proceed.

2 - - -

3 ROBERT L. GOOCHER

4 being first duly sworn, as prescribed by law, was

5 examined and testified as follows:

6 DIRECT EXAMINATION

7 By Ms. Hummel:

8 Q. Thank you. Good morning, Mr. Goocher.

9 A. Good morning.

10 Q. Mr. Goocher, would you explain for the  
11 record by whom you are employed and in what capacity,  
12 please.

13 A. Vectren Corporation, I am vice president  
14 and treasurer.

15 Q. Thank you. Do you have in front of you  
16 copies of what have been marked as Company Exhibits 3  
17 and 3A?

18 A. I do.

19 Q. And could you briefly explain for the

20 record what those exhibits are, please.

21 A. 3 is my direct testimony on behalf of

22 Vectren Energy Delivery of Ohio and 3A is the

23 supplemental testimony on behalf of Vectren Energy

24 Delivery of Ohio.

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1 Q. Thank you. And were these exhibits  
2 prepared by you or under your supervision?

3 A. Yes.

4 Q. And do you have any changes or  
5 corrections or additions that you would like to make  
6 to Company Exhibits 3 or 3A at this time?

7 A. I do not.

8 Q. If you were asked the same questions that  
9 are contained in Company Exhibits 3 and 3a today,  
10 would your answers be the same?

11 A. Yes.

12 MS. HUMMEL: Thank you. I move for the  
13 admission of Company Exhibits 3 and 3a, and I offer  
14 Mr. Goocher for cross-examination, your Honor.

15 ATTORNEY EXAMINER: Thank you. We will  
16 defer ruling on the admission until after  
17 cross-examination.

18 Environmental Council.

19 MR. MOSER: No cross, please.

20 ATTORNEY EXAMINER: Honda.

21 MR. RUSSELL: No questions.

22 ATTORNEY EXAMINER: OCC.

23 MR. IDZKOWSKI: Yes, your Honor, we do

24 have some questions.

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1                   - - -

2                   CROSS-EXAMINATION

3   By Mr. Idzkowski:

4       Q.   Mr. Goocher, I am Mike Idzkowski with  
5   Ohio Consumer's Counsel. Just a couple of background  
6   questions regarding the various companies of Vectren  
7   Corporation and VEDO and VUHI. Vectren is the parent  
8   corporation?

9       A.   That's correct.

10      Q.   And VUHI is an interim subsidiary?

11      A.   Yes.

12      Q.   And then VEDO, Vectren Energy Delivery of  
13   Ohio, is an Ohio corporation that's a subsidiary of  
14   Vectren Corporation. It is also a subsidiary of  
15   VUHI?

16      A.   VUHI, we call it VUHI, is the direct  
17   subsidiary of Vectren Corporation. Vectren Energy  
18   Delivery of Ohio would be a direct subsidiary of  
19   Vectren Utility Holdings.

20 Q. And I understand you work for the parent

21 company Vectren and VEDO?

22 A. Yes. I am vice president and treasurer

23 of a number of entities including VEDO, VUHI, Vectren

24 Corporation.

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1 Q. Indiana Gas --

2 A. Correct.

3 Q. -- Company? Southern Gas & Electric

4 Company?

5 A. Yes.

6 Q. You hold the same titles to all those

7 companies?

8 A. Yes.

9 Q. Okay. In your testimony you often use

10 the word "we" and sometimes I see "we" might pertain

11 to VEDO and sometimes to Vectren. I just want to be

12 sure in your testimony, in your cross here today,

13 that we are clear about that. In some cases you are

14 talking about a company whose interests include other

15 Indiana companies in your testimony that was filed.

16 A. I mean, I do refer to some of the other

17 companies. Maybe if you will give me some specific

18 references, we can talk about it specifically.

19 Q. Yeah. They are kind of mixed throughout.

20 Maybe we will come across some of them. Maybe if we  
21 have to, we will clarify that. Now, you testified  
22 that VEDO, the Ohio corporation, finances its  
23 operations through V-U-H-I or VUHI. Is that how you  
24 pronounce it?

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1       A. We just call it VUHI, yes, Vectren

2 Utility Holdings, that's our acronym we refer to.

3       Q. They do all their financing of operations

4 through VUHI, correct?

5       A. Yes.

6       Q. And VEDO raises equity through internal

7 sales of stock to VUHI; is that correct?

8       A. Yes.

9       Q. And it acquires its short-term and

10 permanent debt through VUHI also?

11       A. Yes.

12       Q. So all of it's financing through -- debt

13 and stock is through VUHI?

14       A. That's correct.

15       Q. And then VUHI incurs debt and a portion

16 of that is loaned to VEDO; is that how it works?

17       A. Yes, it is.

18       Q. And you said that was, I believe you

19 testified, in accordance with VEDO's needs and the

20 needs of other operating utilities to meet their

21 short-term and their long-term debt financing

22 requirements, correct?

23 A. Yes.

24 Q. So VEDO's debt structure is determined in

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1 part by the debt needs of Vectren's other non-Ohio  
2 companies, correct?

3 A. No. VEDO's individual debt needs are  
4 determined by how much debt that it needs to finance  
5 its operations.

6 Q. And has no impact by these other  
7 companies?

8 A. Not -- not directly. The debt is raised  
9 at the Vectren Utility Holdings Company's level to  
10 basically support and finance the operations of the  
11 regulated subsidiaries, one of which is VEDO, so it  
12 has no direct link. We determine how much debt or  
13 equity is needed in each of the entities and  
14 basically provide for it directly there.

15 Q. Would you agree it has an indirect impact  
16 on VEDO's debt structure?

17 A. I think that would be fair.

18 Q. Okay. You testified in your direct  
19 testimony at page 3 "It is Vectren's intention to

- 20 continue to use VUHI as the principal entity to
- 21 provide short-term and permanent debt financing for
- 22 all of Vectren's utility subsidiaries, including
- 23 VEDO," correct?
- 24 A. Yes.

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1 Q. And you state Vectren is doing so, and  
2 here you say "we" meaning Vectren, "We believe that  
3 this approach is the most efficient means of issuing  
4 debt and securing debt capital." Correct?

5 A. Yes.

6 Q. Now, when you talk about issuing debt,  
7 you are referring to Vectren issuing debt, correct?

8 A. Probably referring to Vectren Utility  
9 Holdings issuing debt.

10 Q. So we are talking about Vectren Utility  
11 Holdings' needs when you said: "We believe that this  
12 approach is the most efficient means of issuing debt  
13 and securing capital"? You are talking about  
14 Vectren's needs, correct?

15 A. I think I am referring to Vectren Utility  
16 Holdings' needs, which is basically the aggregation  
17 of the needs of each of the operating utilities which  
18 does include Vectren Energy Delivery of Ohio.

19 Q. Okay. But that's separate from VEDO.

20 Therefore, VEDO's capital structure is controlled in

21 part by these non-Ohio utilities; is that correct?

22 A. No. I wouldn't say that.

23 Q. Now, in your long-term debt calculation

24 that you have used, you've used the VEDO long-term

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1 debt cost of 7.02, correct?

2 A. Yes.

3 Q. And for the capital structure you have  
4 utilized the Vectren consolidated capital structure,  
5 Vectren Corporation, correct?

6 A. Yes.

7 Q. You didn't -- you didn't synchronize the  
8 long-term debt costs with the capital structure, did  
9 you?

10 A. I used the long-term debt costs that were  
11 associated with the debt that exists at Vectren  
12 Energy Delivery of Ohio. I used the actual debt  
13 costs. There was no need to synchronize it with  
14 anything else.

15 Q. Now, VEDO was purchased in 2001, I  
16 believe?

17 A. I believe that's correct.

18 Q. And when it was purchased, it was  
19 originally financed with short-term debt and then

20 permanently financed through additional equity?

21 A. There was additional equity that was

22 issued to finance the operation, and in addition

23 there was Vectren Utility Holdings' debt that was

24 issued, a portion of the proceeds were used to reloan

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1 to VEDO to permanently finance the operation, so a  
2 combination of debt and equity to finance the  
3 acquisition on a permanent basis in 2001.

4 Q. And there were also two pieces of  
5 long-term VUHI debt that was partly assigned to VEDO  
6 to support the operations at that point in time?

7 A. Yes.

8 Q. And these two issues would have been  
9 included in the 7.02 cost of long-term debt that you  
10 are proposing -- that you propose for this  
11 proceeding, correct?

12 A. Partially. One of the issues that was  
13 originally assigned in 2001 was a higher coupon piece  
14 of debt. It was actually called and retired in 2006.  
15 Some new debt was issued in 2006 to replace the debt  
16 that had been retired. So essentially the same  
17 amount of long-term debt was outstanding. We called  
18 a higher coupon and replaced it with a lower coupon  
19 issued in 2006.

20 Q. And the two issues were raised in 2001

21 and 2006, correct?

22 A. The two issues on the books now, one was

23 raised in 2001; the other was raised in 2006. The

24 2006 piece replaced I think pretty much dollar for

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1 dollar the same amount of debt that had been put in  
2 place in 2001.

3 Q. And on the 2001 issuance, VUHI, they pay  
4 interest to the noteholders semiannually, correct?

5 A. Again, there are two issues of debt in  
6 the 2001 issuance, pays semiannually the premium,  
7 that's correct.

8 Q. And for the 2006 issuance VUHI pays  
9 interest to the noteholders quarterly; is that  
10 correct?

11 A. That's correct.

12 Q. Now, I am going to ask you a few  
13 questions about a part of your testimony regarding an  
14 equity forward sales agreement.

15 A. Yes.

16 Q. And this is in your direct testimony  
17 submitted in December of 2007 in the part dealing  
18 with cost of capital, which is pages 2 through 7. In  
19 that you testify how the parent company, Vectren

20 Corporation, will receive \$125.3 million of equity

21 proceeds from an equity forward agreement, correct?

22 A. Yes.

23 Q. And on page 5, lines 1 to 2, you testify

24 that Vectren sold 4.6 million shares of common stock

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1 in a public offering in February, 2007, and instead  
2 of delivering new shares at that time to investors  
3 and receiving cash proceeds, Vectren executed an  
4 equity forward sale agreement, correct?

5 A. Yes.

6 Q. And this equity forward sale agreement  
7 was executed with an affiliate of one of the  
8 underwriters. Would that be like a stockbroker?

9 A. Correct.

10 Q. And whereby the affiliate borrowed 4.6  
11 million Vectren common stock shares from  
12 institutional investors who owned existing shares of  
13 Vectren's common stock and then delivered those  
14 borrowed shares to the new equity investors in  
15 February, 2007; do I have that correct?

16 A. Yes.

17 Q. And your testimony states further that  
18 Vectren expects to settle this equity forward  
19 agreement in the spring of 2008. And you said that

20 at that time Vectren would get \$125.3 million and  
21 deliver the 4.6 million shares, which it ultimately  
22 did, correct?

23 A. Yes.

24 Q. And this transaction of borrowing stocks

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1 and waiting for proceeds to deliver newly issued  
2 stocks, this equity forward deal benefited Vectren  
3 directly, not VEDO directly, correct?

4 A. It benefited Vectren directly and  
5 indirectly and all the other entities that are under  
6 the corporation providing some additional equity on  
7 the balance sheet that supports the strong cap  
8 structure.

9 Q. You said in your testimony this "allowed  
10 Vectren to better match the timing of receipt of  
11 equity offering proceeds and the associated shared  
12 dilution with the implementation of new gas and  
13 electric base rates at Vectren South, which were  
14 designed to provide a return on the new equity  
15 employed." You testified to that at page 5, lines 15  
16 to 18, correct?

17 A. Correct.

18 Q. So this deal was used for the financial  
19 benefit of the Indiana utility Vectren South,

20 correct?

21 A. The direct benefit was for Vectren South.

22 Again, it benefits the entire consolidated entity by

23 having additional equity, stronger cap structure for

24 the entire corporation, so I think indirectly it

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1 benefits all the entities but the direct benefit --

2 Q. Direct benefit.

3 A. -- I agree was associated with the

4 Vectren South utility primarily.

5 Q. And the stock arrangement was actually a

6 consideration in Vectren South's rate case in

7 Indiana, correct?

8 A. Yes.

9 Q. And in your supplemental testimony you

10 state that Vectren received this money in June of

11 '08, \$125 million, correct?

12 A. Correct.

13 Q. And you would agree -- or you agree,

14 don't you, that the first point -- the first point at

15 which those funds were available for Vectren's

16 corporate purposes was June, 2008, correct?

17 A. They could have been available any time

18 from February of '09 -- excuse me -- February of '07

19 to February, '09, decided to actually receive those

20 funds in June, 2008.

21 Q. Actually received June, 2008.

22 A. That's correct.

23 Q. And the \$125 million equity infusion was

24 recognized on VEDO's consolidated balance sheet in

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1 June of 2008 when the net proceeds were received,

2 correct?

3 A. Could you repeat that.

4 Q. Yes, certainly. And the \$125 million

5 equity infusion was recognized on VEDO's consolidated

6 balance sheet in June of 2008 when the net proceeds

7 were received.

8 A. Not on VEDO's balance sheet.

9 Q. Where was it?

10 A. It would have been Vectren Corporation

11 and Vectren Utility Holdings.

12 MS. GRADY: If I may have a minute, your

13 Honor.

14 ATTORNEY EXAMINER: Certainly.

15 MS. GRADY: Can I have the witness's last

16 answer reread?

17 ATTORNEY EXAMINER: Certainly.

18 MR. IDZKOWSKI: Thank you.

19 (Record read.)

20 Q. And then it was pushed down to Vectren

21 Utility Holdings at that time as well?

22 A. Yes.

23 Q. And that date would have been around

24 June 27, 2008?

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1       A. That's correct.

2       Q. And that \$125 million equity infusion,  
3 that was recognized on the balance sheet of Southern  
4 Indiana Gas & Electric around December, 2006,  
5 correct?

6       A. I don't remember the exact date, but it  
7 was well in advance of the time the proceeds -- cash  
8 proceeds were actually received, so I am guessing  
9 sometime in late '06.

10      Q. Thank you. And the net proceeds of this  
11 infusion was something less than 120 -- a little bit  
12 less than 125 million, correct?

13      A. I think it turned out to be 124.8  
14 million, if I recall.

15      Q. Now, the dollars were really targeted --  
16 this money was really targeted primarily towards the  
17 Southern Indiana Gas & Electric utility, isn't that  
18 correct? That's where there were larger levels of  
19 capital expenditures and the general needs were?

20       A. That was where the proceeds were actually

21 utilized, with Vectren South, that's correct.

22       Q. I'm sorry, you said that's where the

23 dollars were utilized?

24       A. Yes.

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1       Q. And none of the dollars associated with  
2 the equity -- equity forward agreement were targeted  
3 to VEDO operations directly.

4       A. That's correct.

5       Q. Okay. So Vectren had -- Vectren, the  
6 parent company, had Southern Indiana Gas & Electric  
7 show the equity on their books in the rate  
8 proceedings before the Indiana Public Utilities  
9 Commission, correct?

10      A. That's correct.

11      Q. And I think you testified and then the  
12 equity was included in the capital structure for  
13 Indiana and, therefore, when rates were set and the  
14 order was received in the gas and electric cases for  
15 Southern Indiana Gas & Electric, we basically had  
16 recovery of the capital costs associated with the  
17 approximately 125 million of new equity. You  
18 testified to that, correct?

19      A. Yes.

20 Q. Now, Vectren, the parent company, did  
21 this to avoid -- Vectren did this to avoid an  
22 earnings dilution?

23 A. That was the primary reason, that's  
24 correct.

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1 Q. And you describe this in your deposition,  
2 "this was a win-win situation for Southern Indiana,"  
3 correct?

4 A. I don't remember exactly what I said. I  
5 would have said it was win-win situation for all the  
6 Vectren companies.

7 Q. Would you like to take a look at your  
8 deposition at page 30.

9 MR. IDZKOWSKI: May I approach, your  
10 Honor?

11 MS. HUMMEL: May I -- Mr. Idzkowski, may  
12 I see what you are handing the witness, please?

13 MR. IDZKOWSKI: Yes. It is his  
14 deposition transcript. I will give you a copy.

15 MS. HUMMEL: Thank you. Just state the  
16 reference again, please.

17 Q. So at the bottom of page 30 I think you  
18 were talking -- in response to a question you were  
19 giving a long answer, and at the end of page 30 can

20 you read from line 18 to page 31, line 1, please.

21 A. Beginning line 18 on page 30.

22 Q. Page 30 to line 1 on 31, please.

23 A. "So basically by the time we issued the

24 equity, we had a revenue stream that was basically

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1 supporting the incremental costs of equity and,  
2 therefore, our shareholders did not have to suffer  
3 earnings dilution under a more traditional approach  
4 where you would have issued equity on the front side  
5 and got recovery of the rates at a later date, so it  
6 was a win-win situation, we felt like, all the way  
7 around."

8 Q. And the next question, if you can read  
9 the answer to that, it says: "And when you talk  
10 about a win-win situation for Southern Indiana and  
11 for the investors, is that who the win-win refers  
12 to?" Can you read that answer, please.

13 A. Yes. "Well, it just allowed us to be  
14 able to go ahead and have the equity committed and  
15 actually issued and new shareholders in place, the  
16 amount of proceeds determined, but not necessarily  
17 have to issue the shares and have them outstanding in  
18 the earnings per share computations that would  
19 typically go along so the existing shareholders did

20 not see any earnings" -- "any dilution in their  
21 shares because of the additional shares until there  
22 was a revenue stream that basically offset that."  
23 Q. The existing shareholders are from what  
24 company, Mr. Goocher?

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1       A. Vectren Corporation.

2       Q. Okay. Now, Vectren settled this equity  
3 forward deal in June of '08 because the new rates set  
4 in the Indiana Public Utilities Commission case gave  
5 them a revenue stream to avoid an earnings dilution,  
6 correct?

7       A. That's correct.

8       Q. You basically were able to recover the  
9 capital costs associated with approximately  
10 \$125 million of the new equity, correct?

11      A. Correct.

12           MR. IDZKOWSKI: If I may have a moment,  
13 please, your Honor.

14           ATTORNEY EXAMINER: You may.

15      Q. All right. Mr. Goocher, Vectren had, and  
16 you testified in your deposition I think on page 38,  
17 you said, "Vectren had no restrictions placed on the  
18 use of the cash that came from the equity forward  
19 agreement," correct?

20       A.   Yes.

21       Q.   Vectren or any of its subsidiaries could

22 use the proceeds for anything, correct?

23       A.   As far as I can recall, there were no

24 restrictions that would have limited what we could

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1 have done with the proceeds, I think that's correct,

2 at Vectron Corporation.

3 Q. So that's correct.

4 A. Yes.

5 Q. Yes. The equity forward agreement, I

6 think you touched on this, allowed Vectren a two-year

7 window of opportunity, that was the term you used on

8 page 32 in your deposition, to collect the proceeds

9 of the stock sale, correct?

10 A. Yes.

11 Q. And further under this agreement Vectren

12 could have waited -- they could have waited the full

13 two years until February, 2009, to settle the equity

14 forward agreement, correct?

15 A. Yes.

16 Q. Now, were there other debt issuances

17 during the test period in this case? There were,

18 weren't there?

19 A. During the test period?

20 Q. For other entities within the

21 consolidated company.

22 A. And the test period ended?

23 Q. June, 2008.

24 A. Through -- yeah, since I filed my

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1 testimony, there were some additional debt issues  
2 that took place between the time I filed my testimony  
3 early December of 2007 and June, 2008.

4 Q. So between -- for the record between  
5 2007, December, and June, 2008, there were other debt  
6 issuances?

7 A. Yes.

8 Q. For instance, in 2007, December of 2007,  
9 Southern Indiana Gas issued a \$17 million tax exempt  
10 debt to support pollution control expenditures?

11 A. That is correct.

12 Q. And at the VUHI level in March, 2008, you  
13 issued \$125 million of additional long-term debt,  
14 correct?

15 A. Yes.

16 Q. And neither of these debt issuances were  
17 included in your cost of debt calculation, were they?

18 A. They did not exist at the time we  
19 provided the calculation of cost of debt, that is

20 correct.

21 Q. That is correct. Was that your answer?

22 A. Yes.

23 Q. And the reason you didn't include these

24 debt issuances was that that was not outstanding as

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1 of the date certain, August 31, 2007, correct?

2 A. That is correct.

3 Q. Now, date certain was the criterion you

4 selected to determine whether or not the debt

5 issuance should be included in the cost of capital,

6 correct?

7 A. That was the -- my understanding that was

8 the date that the capital structure for debt costs

9 was ordinarily determined under the standard filing

10 requirements and so we included it as a --

11 Q. Just to be clear, the capital structure

12 recommended in this case is adjusted to account for

13 this equity forward agreement, correct?

14 A. That's right. The shares had been

15 committed, they had been issued, they were priced,

16 the number was there, the new investors already had

17 shares in their hands, just instead of us handing a

18 new certificate, an affiliate of one of the firms we

19 developed with JP Morgan borrowed the shares from

20 existing shareholders and used those to fill the  
21 needs of 4.6 million shares, so it was known and a  
22 measurable change had already been committed so it  
23 was just a matter of the time frame in the window we  
24 actually delivered the shares.

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1 MR. IDZKOWSKI: One moment, please.

2 If I may, could I have the court reporter  
3 read back Mr. Goocher's answer to that my question,  
4 my last question and that answer to that last  
5 question.

6 (Record read.)

7 MR. IDZKOWSKI: Thank you. Your Honor, I  
8 would move to strike Mr. Goocher's answer after the  
9 words "that's correct" as nonresponsive.

10 MS. HUMMEL: I think it was completely  
11 responsive to the line of questioning and the spirit  
12 of the questioning and the precise question that was  
13 asked.

14 ATTORNEY EXAMINER: Motion is denied.

15 MR. IDZKOWSKI: Thank you. We have no  
16 further questions at this time. Thank you.

17 ATTORNEY EXAMINER: Thank you.

18 MR. IDZKOWSKI: Thank you, Mr. Goocher.

19 ATTORNEY EXAMINER: Mr. Margard.

20 MR. MARGARD: I don't have anything,

21 thank you, your Honor.

22 ATTORNEY EXAMINER: Redirect.

23 MS. HUMMEL: No, thank you, your Honor,

24 and I move again for the admission of Exhibits 3 and

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1 3a, please.

2 ATTORNEY EXAMINER: Any objection to  
3 admission of Exhibits 3 and 3a?

4 MR. IDZKOWSKI: No objection, your Honor.

5 ATTORNEY EXAMINER: Thank you. Those  
6 exhibits will be admitted.

7 (EXHIBITS ADMITTED INTO EVIDENCE.)

8 ATTORNEY EXAMINER: Let's go off the  
9 record.

10 (Discussion off the record.)

11 ATTORNEY EXAMINER: We have no further  
12 witnesses today, and this hearing will commence again  
13 at 9 o'clock tomorrow, August 20. Thank you.

14 (The hearing adjourned at 11:10 a.m.)

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CERTIFICATE

I do hereby certify that the foregoing is  
a true and correct transcript of the proceedings  
taken by me in this matter on Tuesday, August 19,  
2008, and carefully compared with my original  
stenographic notes.

---

Karen Sue Gibson, Registered  
Merit Reporter.

(KSG-4957)

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