BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of: The Application of Vectren Energy Delivery of Ohio, Inc., for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Services and Related Matters.	Case No. 07-1080-GA-AIR
In the Matter of: The Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan for a Distribution Replacement Rider to Recover the Costs of a Program for the Accelerated Replacement of Cast Iron Mains and Bare Steel Mains and Service Lines, a Sales Reconciliation Rider to Collect Difference Between Actual and Approved Revenues, and Inclusion in Operating Expense of the Costs of Certain Reliability Programs.	Case No. 07-1081-GA-ALT

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PROCEEDINGS

VOLUME II

before Mr. Gregory Price, Attorney Examiner, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-F, 9:00 a.m. on Wednesday, August 20, 2008.

APPEARANCES:

McNees, Wallace & Nurick
By Mr. Samuel C. Randazzo
Ms. Gretchen J. Hummel
Ms. Lisa G. McAlister
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and

Vectren Energy Delivery of Ohio, Inc.
By Mr. Larry Friedeman
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On behalf of the Company.

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By Mr. John W. Bentine
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On behalf of Interstate Gas Supply.

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On behalf of Ohio Environmental Council.

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On behalf of Ohio Partners for Affordable Energy.

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By Ms. Maureen R. Grady
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On behalf of the Residential Consumers of the State of Ohio.

Nancy Rogers, Ohio Attorney General
Duane W. Luckey, Senior Deputy Attorney General
Public Utilities Section
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On behalf of the Staff of the Public Utilities Commission.

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Wednesday Morning Session,
August 20, 2008.

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ATTORNEY EXAMINER: Let's go on the record. Good morning. The Public Utilities Commission has set for hearing at this time and this place Case No. 07-1080-GA-AIR, et al., 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.

My name is Gregory Price. I am the Attorney Examiner assigned to preside over this hearing. This is our second day of hearing in this proceeding; therefore, I would like to start by taking abbreviated appearances just so we have a record of who all is in the hearing room at this time starting with the company.

MS. HUMMEL: Thank you, your Honor. On behalf of Vectren Energy Delivery of Ohio, McNees, Wallace & Nurick, by Sam C. Randazzo, Gretchen J. Hummel, Joseph M. Clark, 21 East State Street, Columbus, Ohio 43215, and Lawrence K. Friedeman, vice president and deputy general counsel of Vectren

Corporation, at the same address I mentioned yesterday.

ATTORNEY EXAMINER: Thank you.

OCC.

MR. SERIO: Thank you, your Honor. On behalf of the residential utility consumers of Vectren Energy, Janine L. Migden-Ostrander, Consumers' Counsel, by Maureen Grady, Joseph P. Serio, and Michael Idzkowski.

ATTORNEY EXAMINER: Thank you.

Staff.

MR. MARGARD: Your Honor, present this morning is Werner L. Margard on behalf of the Commission Staff.

ATTORNEY EXAMINER: Thank you. Any other preliminary matters for the Bench before we begin?

MS. HUMMEL: Just one matter. Yesterday, your Honor, we picked up the wrong date for some of the exhibits that we entered yesterday, and I just wanted to clarify for the record that the direct testimony of the company witnesses as enumerated yesterday all was filed on December 4, 2007, rather than the date we mentioned yesterday.

ATTORNEY EXAMINER: Thank you. Okay. I

believe that's all we have. Let's start with our first witness.

MS. HUMMEL: Thank you, your Honor. The company calls Scott A. Albertson. Excuse me, that's Scott E. Albertson.

(Witness sworn.)

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

THE WITNESS: Scott Albertson, One Vectren Square, Evansville, Indiana.

ATTORNEY EXAMINER: Ms. Hummel.

MS. HUMMEL: Yes.

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SCOTT E. ALBERTSON

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Albertson, for the record, would you state by whom you are employed and in what capacity.

A. I am employed by Vectren Utility Holdings, Inc., the holding company of Vectren Energy Delivery of Ohio, as director of regulatory affairs.

Q. Thank you. Yesterday we marked two

exhibits, Exhibit 11 -- Company Exhibit 11 and Company Exhibit 11a. Do you have copies of those exhibits in front of you?

A. No, I do not. I have my own testimony. I wasn't aware they were marked as Exhibit 11 and 11a.

Q. Yesterday we marked a document that was entitled Direct Testimony of Scott E. Albertson as Company Exhibit 11, and we had marked a document entitled Supplemental Testimony of Scott E. Albertson as Company Exhibit 11a. Do you have those in front of you?

A. I do.

Q. And were those exhibits prepared by you or under your supervision?

A. They were.

Q. And do you have any changes or corrections that you would like to make to Company Exhibits 11 or 11a?

A. Yes, I do.

Q. And what are those?

A. In Exhibit 11 under SEA Exhibit 1 on page 10, these are the illustrative filings scheduled for the DRR mechanism. I have changes to lines 19, 20, and 21. The amount in Column B on line 19 should be -- the one that's by the $1,514,738 should be 2,855,571. In Column C the approximate percentage on line 19 should be 44.77 percent. On line 20 in Column B the services line should read 3,522,833, and in Column C should read 55.23 percent. Finally on line 21, Column B, the total should be 6,378,404.

I would like to mention these changes have no impact on the illustrative calculations we have done or any of the impacts we have projected for the DRR.

ATTORNEY EXAMINER: Could I have the -- I didn't get it, the B column, line 20 -- number again.

THE WITNESS: 3,522,833.

Q. Staff counsel has asked me to ask you to run through the numbers one more time for his information.

A. Certainly. Line 19, Column B, 2,855,571; line 19, Column C, 44.77 percent; line 20, Column B, 3,522,833; line 20, Column C, 55.23 percent; line 21, Column B, 6,378,404.

I also have an addition I would like to make to pages 7 and 9 of SEA Exhibit 1. This would be a footnote to the entire page, and the footnote is the same on both pages. The footnote is the amounts in Column C will increase over time as the DRR revenue requirement grows.

Q. And does that conclude the changes or corrections or additions that you have to Exhibits 11 and 11a?

A. Yes, it does.

Q. If you were asked these same -- with those corrections and changes, if you were asked the same questions contained in Company Exhibits 11 and 11a today, would your answers be the same?

A. Yes.

MS. HUMMEL: Thank you, Mr. Albertson.

Your Honor, I move for the admission of Company Exhibits 11 and 11a, and I offer Mr. Albertson for cross-examination.

ATTORNEY EXAMINER: Thank you. We will defer admission of Exhibits 11 and 11a until after cross-examination.

Consumers' Counsel.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Mr. Albertson, if you could give me the footnote again, please.

A. Amounts in Column C will increase over time as the DRR revenue requirement grows.

Q. And that same footnote applies to all of page 9 also?

A. That is correct.

Q. All right. Good morning.

A. Good morning.

Q. Let me see if I can get these two out of the way first, and then we will go back to the other parts of your testimony.

A. Okay.

Q. The footnote you added, could you explain to me the intent or the meaning of that footnote?

A. Sure. The intent of the schedule in the DRR filing is to show how we expect to recover the DRR revenue requirement given the fact there is a mismatch between the deferral period, which is a calendar period, and the recovery period, September through August. And what we are trying to do is determine how we will allocate those costs so we can determine variances for future filings.

Factually, the numbers illustrated here are simply indicative of the numbers that would be included in the first filing, and so the revenue requirement as illustrated here is just too small for what would be the second filing as illustrated on page 7 and the third filing as illustrated on page 9. Because we have not estimated any variances in the calculations none of these changes have any impact on our projected costs for our bill impacts.

Q. So, for example, if year two was double the spending of year one, the approved recovery would be roughly double what you have listed here?

A. Roughly speaking, yes.

Q. At this point what is your anticipated understanding of what the spending in year two would be compared to year one?

A. The way we have estimated our costs, and I believe this is consistent with Mr. Francis, $16.9 million per year, is the intention to try to levelize the spending.

Q. So to the extent that your intent was to have the spending levelized, you don't anticipate that Column C would increase significantly; is that correct?

A. Well, actually the revenue requirement will be doubled because we will have two years of investment in year two, three years in year three, and so on.

Q. All right. So that's what I was getting at.

A. Yes.

Q. Page 7 of Exhibit SEA Exhibit 1 because it would be two years would be double, and then page 9 would be year three so it would be triple that?

A. Thereabouts. And the fact we have got depreciations and other things to deal with, yes, in round numbers, that's correct.

Q. Okay. I believe the other correction you made was on page 10.

A. Yes.

Q. And you modified some of the numbers there for mains and services. Can you explain the reason for those changes?

A. The fact of the matter is from our 20-year revenue requirement model, when we filed the testimony, we simply pulled the wrong number off the model, and the numbers I -- the corrected numbers I provided this morning are, in fact, our estimated revenue requirements for that second year.

Q. Okay. And then in year three they would be similar to this or they would change based on --

A. They are going to be closer to 9 million 5.

Q. So each year then --

A. Total.

Q. -- again, would increase approximately $3 million?

ATTORNEY EXAMINER: Similar to what you explained about pages 7 and 9?

THE WITNESS: That's right.

ATTORNEY EXAMINER: Okay. Thank you.

Q. Okay. If I understand it correctly, the purpose of your testimony is to support the revenue requirement mechanism for the alt reg portion of the filing, correct?

A. That's correct.

Q. And you have been involved in the capital budgeting process in the past, correct, with Vectren?

A. Yes, in prior positions of responsibility, yes.

Q. And under the current mechanisms to the extent the company has had to repair leaks, place pipeline, the company has budgeted for that under the normal budgeting process, correct?

A. I believe the company still does that, yes.

Q. And that budget would be adjusted from year to year based on the need as arose based on how much pipe you determined that you needed to repair or replace in any given year, correct?

A. In part, yes.

Q. So it's safe to say that if in a year you discovered there was a large portion of pipe that would need to be replaced in the following year, the company would take steps in its budgeting process to allow for that for the next year, correct?

A. That would certainly be a consideration in the proposed budget and then that would have to be compared against other capital requirements of the company, but yes.

Q. And would you agree with me when the company does its budgeting, that the intent is to make sure that the budget is sufficient to maintain a safe and reliable distribution system?

A. Yes, whether that's through a capital investment or an O&M expense, yes.

Q. And to the extent that money is needed to be spent, whether it's O&M or capital, in order to keep the system safe and reliable through the budgeting process, the company would adjust dollars accordingly to make sure that there was sufficient dollars available to do whatever was necessary, correct?

A. The company would do that in the budget process and throughout the year as conditions of the system changed, sure.

Q. Now, to the best of your understanding, Vectren's system was safe and reliable yesterday, correct?

A. I guess. I don't know that it wasn't safe and reliable yesterday. I have no reason to believe that it wasn't.

Q. And you would agree with me there is no reason to believe it's not safe and reliable today?

A. That would be the same answer.

Q. And do you have any reason to believe the system won't be safe and reliable tomorrow?

A. I have every reason to believe we are doing everything we can reasonably do at this time to make sure it's safe and reliable.

Q. And the company has planned budgets out, I believe, four or five years into the future, correct?

A. Typically we look at a five-year horizon.

Q. And the budgets you have planned for the five-year horizon are sufficient in your opinion to permit the company to continue to maintain the company in a safe and reliable manner, correct?

A. Yes, with a caveat that might not be the most efficient way to invest our dollars in our system from a safety and reliability perspective.

Q. And to the extent that the budget is out for five years, that budget, does that budget contemplate repair and replacement of pipeline similar to what you have done in the past, or is that based on the proposed replacement program that the company has proposed in this proceeding?

A. Are you asking me if the specific five-year budget at this time contemplates this kind of a program?

Q. Yes.

A. I don't know personally.

Q. And who would know that?

A. Mr. Francis would probably know.
Q. Mr. Francis, okay. Now, on page 4 of your testimony you indicate: "Absent this mechanism, the Company cannot feasibly engage in this heightened level of investment and financially withstand the regulatory lag." Do you see that reference?
A. Uh-huh.
Q. So your testimony is that without this recovery mechanism that you propose, the rider, the company could not spend the dollars that would be necessary to engage in the type of program that you have proposed, correct?
A. That is correct.
Q. Absent the rider mechanism though, the company would do whatever is necessary to make sure that the system remained safe and reliable, correct?
A. Sure.
Q. And to the extent that it required the company to spend $l6 million a year for a four- or five-year period to do pipeline repair and replacement without the rider, the company would make whatever necessary adjustments it had to in order to spend those dollars to keep the system safe and reliable, correct?

A. We would do whatever is necessary to keep the system safe and reliable. I'm not certain we would spend $16.9 million a year in capital to do that. My sense of that is we would mix some capital spend with some probably less desirable repairs of very old infrastructure and try to keep the system Band-aided together for lack of a better term.

Q. But even if it was Band-aided, it would be in your opinion at that point still safe and reliable.

A. We would certainly -- we always make the system safe to the extent we know there is an issue that needs to be addressed.

Q. Now, you have indicated the company would make annual filings. If you know, in the course of that annual filing, would parties be able to challenge the underlying reasonableness of the program?

A. I don't know that my direct testimony indicates that, but I don't think we have any objection to that.

Q. To the best of your knowledge as contemplated in how the company proposed it, did the proposal include that underlying reasonableness of the program would be reviewed, or was that something that you really hadn't nailed down one way or the other?

A. Well, we did contemplate the fact that the Commission would have an opportunity to review the reasonableness of the program and offer comment as to next steps we might be planning to take.

Q. Let's separate two distinct pieces. There is the reasonableness of the plan itself and the reasonableness of the actual spending that occurs.

A. Okay.

Q. You understand those are two different things?

A. I think I'm with you.

Q. Okay. And if we look at reasonableness of what actually would be spent, it would be more an analysis of making sure that the dollars that were claimed to be spent were actually spent on the projects that were actually designated for that spending, correct?

A. Well, are we talking about the planning horizon or the historical period? I am not sure I follow your question.

Q. If you are looking back at the historical period, you would generally want to look to make sure that the dollars that were claimed to have been spent were actually spent, that they were spent on the items that were indicated, and that they were spent in a reasonable manner, correct?

A. Yes. And our intent was to include that kind of information in our annual filings.

Q. Now, if I wanted to look at the reasonableness of doing the program itself in each of those annual filings, you see the distinction there?

A. Yes.

Q. That could be also done and that would be -- would that be separate from the type of review that you would do looking at the historical spending?

A. Well, I guess in part we would anticipate that that kind of review in the macro sense is occurring in this case. Beyond that I think that the actual spend, the actual performance, actual mileage replaced, for example, and the kind of efficiencies we are deriving from the program would be an input to that planning process. We view it that way, and we would certainly expect the Commission and others to consider our historical experience as they consider our future plans.

Q. It's my understanding that one of the reasons the company wants to do this replacement program is in order to eliminate or cut down on the leak rate that you have with bare steel and cast iron pipe; is that correct?

A. That is my understanding from Mr. Francis's testimony.

Q. So to the extent the leak rate changed from year to year, that would be one of the factors that would be contemplated in these annual reviews?

A. Well, in a relative sense I think we would expect the leak rate to begin to change the instant we replaced the first leaking system so, yes.

Q. And it would be your assumption that as you replace leaking systems, the leak rate should decrease.

A. Yes. That by the way is the objective.

Q. I understand.

A. Okay.

Q. The objective would also be to reduce the number of leaks that occur on a going-forward basis, correct?

A. Leaks and the problems associated with --

with leak response, leak repair, yes.

Q. So you would expect to see the number of leaks that occur -- new leaks would -- as the program goes forward, that the amount of leaks would be decreased, the new leaks that are found?

A. The larger the percentage of our system that is cathodically protected or plastic, the more on a relative sense the leak rate is going to decrease, yes.

Q. So to the extent that you've reduced the leak rate historically and you can reduce the leak rate that's going to occur in the future, those are the two big objectives of the replacement program?

A. Those are two primary objectives. There are other ancillary objectives and benefits I think Mr. Francis mentions.

Q. Now, on page 4 of your testimony you also indicate that the costs of the natural gas riser investigation, the 05-463-GA-COI proceeding -- are you familiar with that proceeding?

A. Yes.

Q. And what is your level of understanding of that proceeding or your involvement?

A. My involvement has been minimal, more periphery, but I do understand the Commission was concerned about riser performance and instructed Ohio operators to conduct this investigation, I believe -- well, sure, it goes back to 2005. I believe our investigation is complete or very near complete at this time.

Q. Now, the costs that you are asking to include in the rider for the riser investigation are just the costs of the investigation itself, correct?

A. Actually, in our direct case we didn't ask to include the riser investigation costs in the rider.

Q. Okay. So where does the company propose to go recover the investigation costs?

A. We had proposed to include those in base rates amortized over a period of I believe three years, but I would have to have Ms. Hardwick check me on that.

Q. And to the extent that the company included the riser investigation costs, did the company discount the investigation costs to take into account that there would have had to have been a certain level of investigation that you do of the system regardless of whether the Commission ordered the riser review as part of the 05-463 proceeding?

MS. HUMMEL: If you know.

A. I am not sure I understand the question. Can you rephrase it, please?

Q. Sure. Is it your understanding that the Commission does require that the company is required by I think it's the United States Department of Transportation safety guidelines to inspect parts of its system on a regular basis?

A. Yes.

Q. And to the extent that part of the system has to be inspected or reviewed on a periodic basis, do you know if any of the service lines or risers are also included in part of the periodic reviews that the company has to do?

A. Let me answer the question this way and hopefully I will get to your question. I don't know whether the deferred costs we have for riser investigation are incremental to ongoing O&M or not. My understanding was that the Commission asked operators to do a proactive investigation, and I don't recall whether they said if you have already done some work in the previous X weeks, months, you can use that as the best part of the process. I don't know.

ATTORNEY EXAMINER: Do you know who might know that?

THE WITNESS: Mr. Francis might know that.

MR. SERIO: Thank you.

Q. Okay. Now, on page 7 of your testimony you talk about the expected annual maintenance expenses that would be reduced as a result of the program, and you identify a figure of $1.277 million per year. Do you see that?

A. Yes. That was provided by Mr. Francis.

Q. And it's my understanding that would be the savings you anticipated at the end of the program, so currently as proposed that would be after year 20 you would expect to see O&M costs reduced by $1.277 million?

A. That is my understanding. Mr. Francis would need to confirm that.

Q. And do you know if that's in present dollars or if that would be the reduction 20 years from now?

A. I believe it's in 2007 dollars. Again, Mr. Francis could confirm that.

MR. SERIO: Give me just a second, your Honor. I need to write this down.

ATTORNEY EXAMINER: Take your time.

Q. Now, the company has proposed that as part of the rider you would credit the savings on O&M to the costs, correct?

A. Yes.

Q. Now, if the actual savings were greater than the 1.277 that you've estimated here, can I assume that the credit would be the actual and not what was estimated?

A. As you can see from my testimony, we've proposed a formulaic approach to crediting the maintenance costs to the extent that the actual maintenance savings are identifiable. I think we could be willing to look at that certainly but, again, Mr. Francis would have to help us understand whether and to the extent those are identifiable in a -- in a more precise way than what we proposed here.

Q. Now, if you are aware, did the company do a cost/benefit analysis to determine if spending the dollars as proposed in the replacement program was the most efficient use of dollars versus more of a balance between O&M repair and some replacement on a going-forward basis?

A. I don't -- I am not aware of one.

Q. If one would have been done, would you have been aware of it?

A. I think so.

Q. So to the extent that you weren't -- you are not aware of one, it's safe to assume one was not done?

A. It's safe to assume that. You might want to ask another witness.

Q. And would that be Mr. Francis again?

A. Yes, sir.

Q. To the extent that one may not have been done, since you are not aware of it, can you give me any explanation as to why there wouldn't have been?

MS. HUMMEL: Oh, I object.

ATTORNEY EXAMINER: Grounds?

MS. HUMMEL: Speculative.

MR. SERIO: I'll attack it differently, your Honor.

ATTORNEY EXAMINER: Thank you.

Q. Mr. Albertson, when you do budgeting and you allocate dollars for capital projects, does the company look at cost/benefit to determine if the spending is a good use of the company's dollars?

A. In most cases, yes.

Q. And are cost/benefit analysis part of that analysis that you do?

A. At some level I believe that's true. I'm a little more removed from that process than I might have been at one time.

Q. And would you agree with me that the replacement program that the company is proposing is probably the largest capital project that Vectren has ever undertaken?

A. If you consider the program one distinct project, I would probably have to agree, sure.

Q. And with that being the case, can you give me any reason as to why the cost/benefit study was not done before the company proposed this program of this magnitude?

MS. HUMMEL: I object.

ATTORNEY EXAMINER: Overruled.

A. The considerations that we discussed, Mr. Serio, when we decided to propose this included, I believe, a lot of factors. Number one, the industry seems to be recognizing that much like other utilities the infrastructure is aging. We can only count on it lasting, and certainly customers, safely, reliably, efficiently for so long. I think Mr. Francis could tell you some of these systems have been in the ground for near 100 years, if not longer. We have seen the leak rates on the bare steel and cast iron system at much higher levels than on the other parts of the system, the protected system and the plastic system.

Lots of benefits can be derived from this kind of program that may not fall out of the cost/benefit analysis. Mr. Francis mentioned unaccountable gas. I am not sure we can quantify there will be less unaccounted for gas. There will be less interruption to the lives of our customers in that we can plan to disrupt their service, let them know when we are going to do that, and upgrade the facilities serving them in a proactive way such that they cannot worry about us coming back to their facilities, their location to deal with that later.

You know, I think he enumerated a number of reasons why we think this program makes sense, much like others in the industry have done that may not well -- excuse me -- may well have not played out in a cost/benefit analysis that would have suggested this is the answer. I don't know that you can sell this program on a cost/benefit basis.

Q. So then is it your understanding -- so would it be -- was your response that because a lot of the benefits are not quantifiable, you wouldn't have relied necessarily on a cost/benefit analysis?

A. We would not have relied solely on a cost/benefit analysis.

Q. And to the extent you wouldn't have relied on it solely, wouldn't it still have made sense to the extent that you generally do cost/benefit analyses to also do one in this instance?

A. I think our expectation may have been that from a pure cost/benefit perspective, this would not -- this would not pay out.

Q. If someone made the decision not to order cost/benefit analysis, do you know who that would have been?

A. No, I don't.

Q. You didn't make such a decision.

A. No, sir.

Q. Now, you indicate on page 7 of your

testimony that projected in the first year of the program, 35 miles of cast iron and bare steel mains would be replaced. Do you see that?

A. That's an illustration based on that levelized spend, yes.

Q. That's what you are contemplating?

A. Yes.

Q. Do you know how much bare steel/cast iron pipe the company replaced last year?

A. Offhand, I don't.

Q. That's not a specific area of your expertise, correct?

A. It's not in my testimony, no.

Q. Could you turn to SEA Exhibit 1, page 1 of 14.

A. I have that.

Q. The bottom of the page under the Rate Schedule there is Schedule 310 and 315 and 320 and 325, I believe, all indicate that charge per month is 69 cents. Do you see that? Am I correct that accounts 310 and 315 would include all residential customers?

A. Yes.

Q. And when you are estimating for

transportation customers, those customers pay the same proposed rider for the replacement program, correct?

A. Yes.

Q. And you are estimating here that in year one it would be 69 cents?

A. Based on the inputs to this illustration, yes.

Q. Now, you indicated previously with costs year two would roughly double the year one. Does that mean in year two this charge would be roughly double the 69 cents?

A. If I could call your attention to SEA Exhibit 3, page 1 of 1, the second line illustrates the residential billing impacts based on these assumptions that we have included in this model, and those are on an annual basis, so divide those numbers by 12 you would get the monthly number, but you can see they are growing by about $8.70 per year, at least in the early years.

Q. So year one on SEA Exhibit 3, page 1 of 1, the 8.71, that's what you anticipate for year one as an annual charge to each residential customer.

A. Yeah. The only distinction I would make as illustrated on SEA Exhibit 3 we have included the impact of gross receipts and excise tax, but yes.

Q. If I took 8.71 and divided by 12, would you accept, subject to check, it is 72.58 cents?

A. 73 cents sounds right.

Q. So the difference between the 73 and the 69 that's listed on page 1 of 14 of SEA Exhibit 1 is for the gross receipts tax.

A. That's right. SEA-1 was to illustrate what the filings would look like. GRET wouldn't have been in there.

Q. Okay. Now, to the extent the mechanism is put in place and it's reviewed on an annual basis, is it your understanding the Commission would have the option of discontinuing that charge as a result of its review at any one of those annual filings?

A. I believe the Commission certainly has that flexibility, sure.

Q. Now, on SEA Exhibit 4, page 1 of 1, you list a number of companies there in various states that have accelerated infrastructure replacement programs. Is it your understanding that that's the list of every -- of natural gas companies that have this type of program?

A. Those are the ones we are aware of.

Q. And to determine that, you did some kind of review or had someone in the company do some kind of review, correct?

A. That's correct.

Q. So you don't have any reason to believe that there is scores of replacement programs out there with natural gas companies that are not listed here?

A. No.

Q. Possibly you might have missed one or two?

A. And possibly there could be some that would have been added to the list since we filed this, sure.

Q. So to the extent I look at the numbers stated here, I think there is approximately 18 states, that means the majority, 32 states in the union, they haven't had to engage in this type of program in order to maintain their natural gas systems, correct?

A. You could conclude that from this schedule.

Q. Mr. Albertson, you are not an attorney, are you?

A. No.

Q. Would you look at your supplemental testimony, please.

A. Okay.

Q. Page 2.

A. Okay.

Q. Your answer to the question at the top of the page says: "Please explain objection 20." To the extent that you're citing Section 4909.15 of the Revised Code, what's your understanding of what 4909.15 of the Revised Code requires?

A. My understanding is that if the company is proposing some alternative rate treatment, if that's the right term, we have to make certain commitments to customers to the extent that alternative rate treatment differs from the kind of rate treatment that the company would be subject to or would receive in a typical regulatory proceeding.

Q. Do you know if Section 4909.15 of the Revised Code contemplates -- strike that.

Do you know what single issue ratemaking is?

A. I'm familiar with the term.

Q. What's your understanding of the term "single issue ratemaking"?

A. If a company were to ask the Commission for an adjustment in its rates and charges specific to a small component of its business without regard to any other components of the business, that might be considered single issue -- a proposal for single issue ratemaking.

Q. To the extent the company is proposing these annual reviews under the replacement program, those reviews would be focused on the single issue of the pipeline replacement program and wouldn't -- you are not contemplating that it would look at any other cost expense or revenue items; is that correct?

A. I am not. As I think I mentioned earlier, the company believes that the program in its entirety is up for consideration in this proceeding, and so that would not, in my mind -- I am not an attorney -- constitute single issue ratemaking.

Q. In this proceeding.

A. Or in any annual proceeding.

Q. In the current proceeding rate of return is at issue, correct?

A. Yes, I believe.

Q. Do you know if rate of return would be at issue in any of the individual annual reviews the Commission would do?

A. Our proposal did not include rate of return review in the annual filings.

Q. And do you know if Section 4909.15 of the Revised Code contemplates single issue ratemaking?

A. I'm afraid I don't.

MR. SERIO: Your Honor, I would move to strike the question and answer beginning on line 7, ending on line 23 of page 2. Mr. Albertson is not an attorney and he hasn't indicated he's got an understanding of what 4909.15 contemplates. It's my understanding that 4909.15 doesn't talk about alternative regulation, but 4929 is the section of the code that contemplates alternative regulation. And I know that we allow expert witnesses to discuss sections of the code when they have a working familiarity, but I don't think Mr. Albertson's demonstrated that.

ATTORNEY EXAMINER: Ms. Hummel.

MS. HUMMEL: Thank you, your Honor. First of all, the entire statement in Mr. Albertson's testimony is prefaced by "I have been informed by counsel," and, second of all, if you do indicate -- or do entertain Mr. Serio's motion to strike, then you most certainly will have to strike all of the cross-examination that he -- that he conducted of Mr. Albertson on this very issue, and I guess I should add, third of all, I am not sure the motion to strike goes to the actual subject matter of the sentence itself.

ATTORNEY EXAMINER: We are going to give Mr. Albertson some leeway, and so the motion to strike will be overruled -- denied.

MR. SERIO: Thank you, your Honor.

Q. Now, on page 3 of your supplemental testimony on line 12, underlined it says "Supplemental SEA-Exhibit," and it said "3," and there is -- there is a strike through it and a "1," that is a correction, and do you mean Exhibit 1 there, correct?

A. Let me double-check that one more time.

Yes.

Q. Okay. Now, at the bottom of that page you talk about an increase to the DRR applicable to residential and general service customers and says to $1.20. Do you see that?

A. I see the reference to $1.20.

Q. Now, the difference between the 69 cents that you talked about for the pipeline program which then grows to 73 when you put in the excise tax and the $1.20, is that a result of the riser costs?

A. That's a result -- and in response to the Staff Report's recommendation to replace prone-to-fail risers over some period of time in the case of $1.20, it's consistent with the staff's recommendation of three years.

Q. So that 47 cents difference would be for a three-year period and would be -- that 47-cent piece would be for the riser replacement?

A. That is the incremental impact in those three years, that's true.

Q. Are you the company expert on riser replacements?

A. No.

Q. No. So if I had questions about the type of work that's going to go on with the riser replacements, you wouldn't have any familiarity with that?

A. I would not be the best witness to ask those questions.

Q. The estimated cost of the riser replacement is 33.5 million. If I had questions about the components that made up that 33.5 million, is that your area of expertise?
A. No.
Q. And who would that be?
A. Mr. Francis.
MR. SERIO: That's all I have, your Honor.
Thank you, Mr. Albertson.
ATTORNEY EXAMINER: Thank you.
Staff?
MR. MARGARD: I have no questions.
ATTORNEY EXAMINER: Redirect?
MS. HUMMEL: May I have a moment, your Honor, please?
ATTORNEY EXAMINER: You may.
MS. HUMMEL: Thank you. I have no redirect, your Honor. Thank you.
Thank you, Mr. Albertson.
ATTORNEY EXAMINER: Thank you.
I have no questions of Mr. Albertson. You're excused.
THE WITNESS: Thank you.

ATTORNEY EXAMINER: Ms. Hummel, do you want to renew your motion to admit 11 and 11A?
MS. HUMMEL: I'm sorry, your Honor. I was distracted.
ATTORNEY EXAMINER: Would you like --
MS. HUMMEL: I renew my motion to admit Company Exhibits 11 and 11A.
ATTORNEY EXAMINER: Any objection?
Hearing none the exhibits will be admitted.
(EXHIBITS ADMITTED INTO EVIDENCE.)
ATTORNEY EXAMINER: Mr. Serio, do you have a time estimate for your cross-examination of the next witness?
MR. SERIO: Gretchen, Mr. Francis is next?
MS. HUMMEL: Yes. Do you want to take a minute?
MR. SERIO: He is going to be a little more expansive.
ATTORNEY EXAMINER: Okay. Let's take a 10-minute break so we don't have to interrupt your cross-examination. So I will be back at 10:05.
(Recess taken.)

ATTORNEY EXAMINER: Let's go back on the record.

MS. HUMMEL: The company calls James M. Francis.

(Witness sworn.)

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

THE WITNESS: James M. Francis, One Vectren Square, Evansville, Indiana.

MS. HUMMEL: Thank you, your Honor.

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JAMES M. FRANCIS

being first duly sworn, as prescribed by law, was examined and testified as follows:

DIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Francis, good morning.

A. Good morning.

Q. Would you state for the record, please, by whom you are employed and in what capacity.

A. I am employed by Vectren Utility Holdings, the parent company of Vectren Energy Delivery of Ohio. I am director of engineering and asset management.

Q. And if you wouldn't mind, speak up just a little bit. We have got some noise in the background here.

A. Sure.

Q. Mr. Francis, do you have copies of what have been marked as Company Exhibits 10 and 10a?

A. Yes, I do.

Q. And would you briefly describe for the record what those exhibits are, please.

A. I have my prepared direct testimony and exhibits as well as my supplemental testimony and exhibits.

Q. The former being Company Exhibit 10 and the latter being Company Exhibit 10a?

A. Yes.

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

A. Yes, they were.

Q. Do you have any changes or corrections that you would like to make to Company Exhibits 10 or 10a?

A. Yes. In Exhibit 10, which is my prepared direct testimony, on page 26, line 23, where I reference Schedule C-13.13, line 7, it should be

Schedule C-13.12, line 7.
Q. Mr. Francis, I believe you misspoke. I think that you meant to say Schedule C-3.13 --
A. Yes.
Q. -- should be Schedule C-3.12, correct?
A. Correct.
Q. Okay. Thank you. And do you have any other additions or corrections to --
A. No.
Q. -- your testimony? And if you were asked the questions contained in Company Exhibits 10 and 10a today, would your answers be the same?
A. Yes.
MS. HUMMEL: Thank you, Mr. Francis. I move for the admission of Company Exhibits -- for the admission of Company Exhibits 10 and 10a, and I offer Mr. Francis for cross-examination, your Honor.
ATTORNEY EXAMINER: Mr. Serio.
MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:
Q. Good morning, Mr. Francis.
A. Good morning.

Q. As I understand it, your current position as director of technical services you are involved with -- that requires you to have a good understanding of the Vectren distribution system, correct?

A. Correct.

Q. And you are the witness supporting the company proposal to the extent that your area of expertise is the reason that you need to have the replacement program.

A. Yes.

Q. And you have been in your current position since 2004?

A. Correct.

Q. And prior to that your employment was with Vectren's predecessor, Dayton Power & Light, correct?

A. Correct.

Q. So you have been familiar with the workings of the Vectren system for a period of time now, correct?

A. Correct.

Q. And you were in the hearing room this morning during the cross-examination of

Mr. Albertson?

A. Yes.

Q. And there were a number of areas that I asked him questions about that he indicated you might be in a better position to answer?

A. Yes.

Q. I thought we would go through those first to get them out of the way. One of the questions I had asked Mr. Albertson was whether the current budget proposals that go out five years, do those include the dollars for the proposed replacement program, or do the current five-year projected budgets include dollars similar to how the company has done its budgeting prior to the replacement program?

A. The current five-year budget forecast includes the dollars associated that were defined in the program, $16.9 million a year.

Q. Now, regarding the gas riser investigation costs, do you know if the costs that are listed in the proceeding are incremental to the investigative costs that the company would have had to have done anyways?

A. The $33.5 million which were identified as the replacement costs are incremental to the investigation.

Q. Okay. But there's a separate part of the cost that is just the investigation itself. You are familiar with those costs?

A. Yes.

Q. And the investigation costs themselves for the riser program, are those incremental to routine investigation -- investigations that the company would do?

A. Yes.

Q. They are. And I had asked Mr. Albertson about the $1.277 million in O&M expense that were projected to be saved at the end of the program. Do you recall that?

A. Yes.

Q. And he indicated that the 1.277 was in 2007 dollars.

A. It is an average over a four-year period. My testimony, my exhibit, it's JMF Exhibit 8, identifies that as an average over the period from 2003 to 2006. Essentially it would represent 2007, 2006 time period.

Q. I'm sorry. Were you done?

A. Yeah.

Q. So the number that you have contemplated there doesn't take into account any inflationary effects to the extent that the number 20 years from now is going to be impacted by inflation and other factors?

A. No.

Q. Now, to the extent that the actual savings experienced were greater than the dollars that the company is estimating today, would the company credit the greater -- the actual amount, or would the credit still be the amount that was estimated?

A. My assumption is that we would try to identify the actual amount. The challenge to that is, as you see from my exhibit, there's a lot of variability from one year to the next, so it won't always be a fixed amount, but generally speaking the amount identified was to try to estimate approximately what we think it would be. However, our intention or hope would be we would identify more specifically what amount we could save.

Q. So to the extent actual savings are greater, it would be your intent to actually apply the greater savings as a credit?

A. I believe so.

Q. Now, in determining the 1.277 million, what base did you use to calculate that projected savings?

A. The projected savings was based on actual operating experience and dollars that we spent doing specifically leak repair related with work or maintenance activities associated with that that are impacted by degrading of the facilities.

Q. What time period did you use?

A. 2003 through 2006.

Q. So it's an average of that four-year period?

A. That is correct.

Q. And the reason that you picked that four-year period was what?

A. Well, first, I had a good subset of data for that period, so I had appropriate leak information. I had financial accounting information. And I wanted to make sure that I had enough of a subset in the years of time where I could get a reasonable approximation of what the estimated savings may be.

Q. The 2003 to 2006 period that you used does not include the test year, correct?

A. Correct.

Q. Would there be any reason not to include the test year data in order to include more recent data in that baseline?

A. There wouldn't be other than the time when I prepared my testimony, it was mid-year in 2007.

Q. So the only reason you couldn't include the more current data you didn't have this available at the time?

A. That's correct.

Q. I asked Mr. Albertson about cost/benefit studies. You are familiar with cost/benefit studies?

A. Yes.

Q. Did you at all have any input into why there was no cost/benefit study done -- scratch that.

To the best of your knowledge, was there a cost/benefit study done regarding the replacement program versus the program where you would continue to use a combination of O&M and some capital spending to repair, replace pipeline?

A. Yes. Pretty clearly in the testimony I identify what costs in the program are going to be in total as well as the sav -- cost savings that will occur -- benefit from this. In addition in my testimony I don't specifically identify a number, but I discuss about the capitalization as a part of my investigation.

What I did is I looked at all of the project types, the sizes of the different types we have done over the last three or four years, say, historically similar cast iron replacement type projects. I looked at projects that we may have done that were 100-foot. I looked at projects we have done that are 3 or 4 thousand feet, and from that analysis I was able to identify that by doing larger projects, I am able to get better utilization of my capital dollars.

Q. So then would you consider your testimony the cost/benefit analysis?

A. Essentially.

Q. So the company didn't do any cost/benefit analysis prior to proposing the program?

A. That would be correct.

Q. In your involvement as technical director, you've been involved in other capital projects with the company?

A. Yes.

Q. And before you engage in those other capital projects, have you generally done a cost/benefit study?

A. Sometimes, you know, not always, and probably in a good majority of the cases the projects that are driven that we do -- are not specifically driven by a cost/benefit.

Q. Have you been involved in any other projects the magnitude of the pipeline replacement program?

A. Of the individual projects, certainly the magnitude of $337 million, no.

Q. And would it -- would you agree with me that generally a cost/benefit analysis is more necessary the larger a project?

A. You know, it depends. I think in a case like this, and I lay out numerous benefits in my testimony, you know, certainly we recognize the fact that there are some financial benefits to it, but, you know, generally speaking there's numerous other benefits that are really driving us to pursue a program of this magnitude.

Q. You were in the room when Mr. Albertson indicated to the best of his knowledge the distribution system was safe and reliable yesterday.
A. That's correct.
Q. Do you recall that?
A. That's correct.
Q. Do you have any reason to disagree with that?
A. I do not.
Q. In fact, it would be your opinion the system was safe and reliable yesterday.
A. That's correct.
Q. And to the best of your knowledge, the system is safe and reliable today.
A. Yes.
Q. And to the best of your knowledge, the system is going to be safe and reliable tomorrow.
A. Yes.
Q. And it is your understanding that the company in the past has done whatever was necessary from a capital budget and spending perspective in order to do -- whether it's O&M or capital projects, to keep the system safe and reliable, correct?
A. Yes.

Q. Now, on page 5 of your direct testimony you indicate that the company in the past has had a replacement rate of about 9 miles of bare steel and 1-1/2 miles of cast iron annually?

A. Yes.

Q. And that references JMF-1, your attachment?

A. Yes.

Q. And that's for going back to the year 2000, correct?

A. Correct.

Q. And to the best of your knowledge, is that reflective of actually what Dayton Power & Light was doing prior to the year 2000?

A. Well, certainly I don't know that I can speak to exactly what those numbers are. I obviously did not have that information. I didn't use that. I don't really know -- I am not sure really how to answer that question. Certainly when we came over in 2000, the number you see here reflects the 590 miles of bare steel, 18.6 miles of cast iron of what was active at the Dayton Power & Light at the time.

Q. So if I look at the second column where it says "Bare Steel," I subtract the 578 from 590 to

tell me how much was replaced in 2001?
A. Correct.
Q. And I do the same thing going down for bare steel or cast iron?
A. That's correct.
Q. Now, you are involved -- you have been involved in the decision that was -- that led to how much bare steel or cast iron was replaced each year since 2000, correct?
A. Not always, no. I mean, you know -- I should say not directly. Bare steel or cast iron sometimes get replaced as part of a public improvement project. Those things are obviously out of my control. They happen. We encounter those from time to time.
Q. To the extent the company is actually doing the project themselves though, you would have been involved in those, correct, those decisions?
A. You know, we have an engineering staff that is more directly involved in identifying what projects they are going to consider to pursue and that's certainly part of the capital budget process which is under my control.
Q. Now, you indicated in the past the

decision hasn't necessarily just been yours but a group of individuals?

A. Yes.

Q. On a going forward basis though, the decision to get involved in the pipeline replacement program, is that a decision you made?

A. Certainly the promotion of a program of this nature, yes. When it gets down to specifically which piece of pipe I am going to replace as a part of the program, I will have a staff of engineers that will be responsible for that.

Q. Okay. Now, I think you identified that the replacement rate has been about 1.5 percent in the past?

A. Correct.

Q. And it's been your understanding that that replacement rate of 1-1/2 percent was sufficient to maintain the system in a safe and reliable manner, correct?

A. It was certainly -- because of the fact we couple that replacement with our ongoing maintenance activities, yes.

Q. And then you indicate here that the four-year industry average is 3.7 percent as reported

to the Department of Transportation. And that's the United States Department of Transportation, correct?
A. Correct.
Q. And that's the information that's on your JMF Exhibit 2?
A. That is correct.
Q. And do you know, is that all distribution companies?
A. That is.
Q. So that would include other Ohio distribution companies as well, correct?
A. Yes, it would.
Q. And then where you have Ohio utility averages, is that a subset of data you got from the Department of Transportation?
A. Yes.
Q. So that would have been all the Ohio local distribution companies?
A. That's correct.
Q. And then the Vectren Ohio averages, that's just specific to Vectren Ohio, correct?
A. That's right.
Q. And it indicates here that the four-year industry average has been 3.7 percent, which means

that the VEDO has been replacing cast iron and bare steel less than half the rate that other distribution companies have been doing across the country, correct?

A. That's right.

Q. And in your opinion the fact that you were doing less than half the replacement rate of the other companies was still sufficient to keep the system safe and reliable, correct?

A. Yes. And I also think that that 3.7 percent rate is really reflective of other companies taking on similar programs such as we see down at Duke Energy.

ATTORNEY EXAMINER: Good morning, Mr. Rinebolt.

MR. RINEBOLT: Good morning.

Q. And did you do any kind of analysis to determine how your replacement rate compared to other companies that are not involved in programs like the Duke Energy program?

A. No. I didn't really have specific access to that or I guess -- yeah, let me rephrase. I could have done that, but given the time I was more interested in how we compared relative to industry averages.

Q. And to the extent that you indicate that other companies have engaged in programs, that would be the list of companies that was attached to Mr. Albertson's testimony, correct?

A. Certainly some of them, yes.

Q. Are you aware of any other programs in addition to the ones listed in Mr. Albertson's testimony?

A. I am aware that Louisville Gas & Electric is currently doing a similar bare steel/cast iron replacement program.

Q. When you got the information on your JMF Exhibit 2 on industry averages, do you know how many distribution companies were included in the Department of Transportation data?

A. Oh, I don't have a specific number. The way the data comes it just has a list and it's many hundred.

Q. Many hundred, because we are talking about all 50 states, correct?

A. That's correct.

Q. So your understanding would be that there's in excess of 2 or 3 hundred distribution companies in that data?

A. Yes.

Q. So wouldn't you agree with me if there is one or two additional companies that are doing programs like that, that their numbers over the course of 2 or 3 hundred distribution companies aren't going to have a large relative impact on the overall percentage, correct?

A. Yes. I am not sure that it would change tremendously, but I don't really know how it would tell that specifically.

Q. In looking at the Ohio averages, you are aware that all four of the large distribution companies in Ohio currently have or have had rate cases pending before the PUCO?

A. I'm at least aware of two of them.

Q. Which two are those?

A. I believe Duke and Dominion.

Q. And Duke you are referring to Duke Energy of Ohio?

A. Duke Energy of Ohio, yes.

Q. They just completed a rate case that includes replacement, correct?

A. Yes.

Q. And Dominion East Ohio is currently in a proceeding at the Commission, correct?

A. I believe so. I don't know the status of it.

Q. And you know that Dominion proposed a replacement program also, correct?

A. Yes, I have seen that.

Q. To the extent Dominion proposed a program, did you review any of the Dominion filings that the company made regarding why they thought a replacement program was appropriate?

A. No.

Q. Did you have any conversations with anybody at Dominion regarding that?

A. No.

Q. And did you review the Duke program at all --

A. Yes.

Q. -- prior? And did you talk to anybody at Duke about their program?

A. Yes.

Q. Who did you talk to at Duke?

A. Dan Schuler, Dennis Westenberg, three or four other people that I cannot remember their names.

Q. Generally what was their areas of expertise?

A. They were either on the engineering side or the operational side. It was prior to us making a determination as to how we may proceed and go forward. We were interested to know kind of what the nature of their programs were, some of the learnings that they have had, how they structured it, you know, from an engineering and operations prospective.

Q. Is it safe to say they are your peers?

A. Yes.

Q. Then at the top of page 6 you indicate that national industry average of bare steel is 4.3 percent across the country compared to 16 percent for Ohio and 10.3 percent for VEDO?

A. Yes.

Q. And, again, that's based on the Department of Transportation data?

A. That's correct.

Q. Now, at the bottom of page 7 of your testimony, going over to the top of page 8, you talk about repaired leak information, and you -- you indicate new leaks found each year contribute to the number of leaks repaired or managed as active, open leaks. It says here: "Throughout 2006, VEDO identified 898 new leaks, 539 of which are estimated to be on bare steel main or service lines." I guess I don't understand the word "estimated" there. You know that they were bare steel and service or you don't?

A. Well, until you actually dig up a leak and make a repair, you can't absolutely confirm that it is on bare steel or cast iron, so over that time period we knew -- we identified 898 and through our experience what we have seen historically how much is gone, that's how that number was arrived at.

Q. Okay. Now, it says in your testimony at the end of 2006 you had 1,723 active, open leaks. Do you know how many active, open leaks you had at the beginning of 2006?

A. I don't have that information. I could certainly get that information, but I don't have it.

Q. So if you wanted to look at what the company accomplished in 2006, you'd have to know the starting number. You would add the 898 new leaks, subtract how many leaks were taken care of, and then you would have a number at the end of the year to compare to the prior year.

A. That's correct.

Q. Anywhere in any of your testimony is there that kind of analysis that goes back four or five years and shows what the leaks were at the end of a year, how many leaks were added, how many leaks were repaired, how many leaks you had at the end of the year?

A. I didn't lay that out anywhere in my testimony. I certainly looked at that information. I had that available to me as I was preparing this.

MR. SERIO: Just a second, your Honor.

Q. And would you agree with me if you looked at that data, if the number of leaks decreased over time, it would indicate that the company was able to manage the leaks that were occurring to the extent that you are reducing the number means you are actually staying ahead of the new leaks, correct?

A. I don't think that's an accurate statement. And the reason for that is it really depends on where we go with our leak surveys. For example, the requirement to do a leak survey on a bare steel/cast iron system is every three years. So depending on where I am in that cycle, I may find more or less leaks in a given year.

Q. But because this is a three-year cycle, those numbers are going to average out over a period of time, correct?

A. Sure. But from -- you can't make that conclusion from one year -- looking at one year to the next, you may be short over a period of time.

Q. It would really be necessary to look at that data over a longer period of time.

A. Yes.

Q. Looking at one year doesn't really give you any kind of accurate picture, does it?

A. Well, what it does tell me, I am carrying that active backlog and that active backlog has been carried for some time. That active backlog may adjust 100 up or 100 down, but it continues to be an active backlog. It's merely a reflection of the fact that we do have active leaks that are being managed.

Q. And to the extent they are being managed, that means you are still able to provide safe and reliable service.

A. Sure, absolutely.

Q. Now, at the top of page 9 you indicate there was a recent American Gas Foundation study on the integrity of natural gas distribution systems, and it says 17 of 23 companies surveyed, so if I understand it right, only 23 local distribution companies were surveyed?

A. That's correct.

Q. That's out of the many hundreds of distribution companies in the country.

A. That is correct.

Q. Do you know how those 23 companies were selected?

A. I do not.

Q. So you don't know if it was a scientific survey or if they actually went to 23 companies that already have systems in place?

A. My understanding of how they chose the 23 was they wanted a set of companies that sort of represented the gamut of the industry so you might have a small operator, a medium-sized operator, large operator, but I don't know the specific companies that were selected.

Q. So you don't know how many of the 23 -- you don't know the percentage of the 23 that have programs in place compared to the percentage of companies that have programs in place over all distribution companies, correct?

A. No.

Q. Now, in your testimony you indicate that you proposed a 20-year replacement program rather than a shorter one, and you gave some reasons for it. Is there any reason you didn't propose a longer program that might have spread the costs over a greater period and made it a little more affordable for customers on a going forward basis?

A. Well, essentially we are already conducting a longer program, and unfortunately it's 70 years. Why we chose 20 as opposed to 25, you know, we looked at the magnitude of the program, how many miles we think would be replaced, which cities we were going to be going to, and obviously we looked at our Ohio and Indiana territory in total, and it was a good starting point for us. It was something we felt like we could manage fairly effectively.

Q. So the company could do a replacement program and maintain a safe and reliable system, and you could do it on a program anywhere from a 20- to 70-year length.

A. Sure.

Q. The only difference is you're affecting how much actual pipe you replace per year.

A. That's correct.

Q. And Mr. Albertson indicated earlier this morning the $16.9 million a year was too heavy of a hit on the capital budget to do it without a rider in place. Do you recall that?

A. Yes.

Q. Do you have an estimate how much the company could do under its capital budgeting process without a rider?

A. I don't have that estimate.

Q. Did the company do any kind of analysis like that to determine what the program would be if you didn't get a rider?

A. I don't know.

Q. Do you know who might know that?

A. I don't know.

Q. And do you know what the current amount of spending in the capital budget is on an annual basis?

A. It's approximately -- in Ohio it's approximately 12, 14 million dollars a year.

Q. So you are doing 12 to 14 a year without the rider, and you are proposing 16.9 going forward with the rider.

A. No.
Q. No, okay.
A. 16.9 plus the 12.
Q. Okay.
A. Around 30.
Q. Okay. Let me rephrase my initial question. Do you know how much is in the current capital budget for bare steel and cast iron pipeline replacement?
A. Well, historically we have been anywhere from 750,000 to a couple million, so in the last couple of years it's been 2 million, 2-1/2 million.
Q. Okay. So the difference between 2 million and 16.9, somewhere in there is the point where --
A. Yes.
Q. -- the company couldn't continue to do it on a regular capital budgeting but believes they need to have a rider.
A. Correct.
Q. And you don't know if the company did any analysis to determine where that point between 2 and 16.9 million is?
A. No.

Q. Now, on page 10 of your testimony you indicate the expected program cost is $337.55 million.

A. Yes.

Q. And that, again, that's in 2007 dollars? I'm sorry, the four-year average dollars 2003 to 2006.

A. It's in the 2007 dollars.

Q. Oh, it is in the 2007 dollars. So there is no factor for inflation or anything like that, correct?

A. Correct.

Q. Do you know what kind of inflation factor the company has experienced in the last three to five years?

A. I don't.

Q. Are you familiar with the concept of return on and return of investment?

A. Generally.

Q. Do you know if the $337.5 includes a return on and of the investment?

A. What I know is that that's the estimated capital costs, which would include materials, labor, overhead. All of that, I am assuming it is in there.

Q. So it is -- your assumption is that return on and of is included in that.

A. Yes.

Q. You are not familiar with what percentage -- what number would have been used to determine that return on and of, correct?

A. No.

Q. Do you know who might know that information?

A. I would assume that Susan Hardwick.

Q. Susan, thank you. Now, I see here that you have indicated historic costs per mile main replacement was $45 a foot?

A. Yes.

Q. And that's based on the 10-1/2 miles of bare steel and wrought iron pipe that you have replaced over the last 7, 8-year period, correct?

A. Projects of similar nature, yes.

Q. And you are anticipating on a going forward basis that that $45 a foot is an estimate of what it would cost you going forward?

A. At least for some period of time, yes.

Q. Now, I see here you indicate it's possible that the cost might be less than these estimates.

A. Yes.

Q. And I assume if they are less than the estimates, then the cost that would flow through to customers would reflect they were lower than the estimates.

A. One of two things would occur. One, we would achieve our replace mileage at a less cost in which case your scenario would hold true. Or the total cost of the program or the total time period of program would actually be less than the 20-year period in which case, yes, the same holds true.

Q. Okay. I hate to ask it this way, is it equally possible the costs would be greater than those estimates?

A. I suppose it's always possible.

Q. The company hasn't proposed that there be any kind of cap, that if there is costs above $45 a foot, they not recover those?

A. No.

Q. So to the extent that the costs might go up, the company would contemplate that any rider would reflect the additional costs whether it's on a per month basis or by extending the program?

A. I would assume it would reflect what our investment would be.

Q. You indicated that you based your estimate on similar type of projects in the past.

A. Yes.

Q. In the past when you've engaged in these type of projects and you have done an additional estimate of the cost of the project up front, after the actual cost comes in, have you gone back and looked at the estimate versus the actual cost to determine how accurate your initial estimate was?

A. Yes, we do that.

Q. And what's your track record on projects like that?

A. Most projects you end up within a 10 to 15 percent swing one way or the other, but I have no idea on those.

Q. And when you talk about these other projects, generally what's the length of time of those other projects?

A. Most of these projects are either a week to three months, four months in nature.

Q. Less than a year.

A. Yes.

Q. Would you agree with me that the longer the term of the project, the greater the possibility that the estimate is not going to reflect the actual costs?
A. No, I don't think I would agree with that. I think the -- you know, we have enough experience information about the way the estimates are put together that, you know, we feel fairly confident obviously that we know what it's going to cost us approximately to replace this.
Q. So other than inflation you feel that your estimate of 337.5 million is a pretty good estimate?
A. Yes.
Q. Now, you identified Stone & Webster as someone that performed a study for you?
A. Yes.
Q. And that's a study that's attached to your testimony?
A. Yes.
Q. And that's actually your JMF Exhibit 7?
A. Yes.
Q. Now, if I ask you questions about why Stone & Webster did certain things, are you in a

position to be able to explain to me why they did what they did?

A. I may be able to.

Q. Do you know when you guys retained Stone & Webster?

A. It was in April, I believe, of 2006.

Q. And do you know when the decision was made internally to go forward with the proposal to have a replacement program?

A. Yes. It was originally presented to senior executive staff in March of 2006.

Q. So you hired Stone & Webster to do their review after you had made the decision internally to go forward with the program?

A. Yes, to pursue consideration of the program, yes.

Q. Now, do you know if Stone & Webster has done similar types or were used for other companies?

A. Yes, they have. They did a study for Duke Energy of Ohio.

Q. And did they end up recommending that Duke Energy go forward with the program?

A. I would assume so since they have.

Q. Do you know if Stone & Webster has ever done a review of a distribution company and not recommended that they go forward with the replacement program?

A. I have no idea.

Q. Do you know how many reviews of distribution companies Stone & Webster has done?

A. No, I do not.

Q. Do you know why Stone & Webster didn't include any peer data comparing Vectren with other distribution companies, whether in Ohio or across the country?

A. Specifically, no.

Q. Do you know why Stone & Webster chose to include the various tables and charges that they did include, for example, on table 1 on page 10 of 14?

A. I'm sorry. Page 10?

Q. Page 10 of Exhibit 7.

A. Well, I would assume what they are trying to understand there is what the replacement was or the percent of the system is obviously the conclusion here.

Q. Do you know if Stone & Webster looked at the leak data we discussed previously to determine what the trend might be of leaks over years?

A. Yeah. One of the inputs into their study obviously was we had to provide them with our history.

Q. Do you know if they included that leak history on an annual basis in their report?

A. Well, like on page 11, the top, table 2 has obviously leak counts as well as really from pages 8, 9, 10 of their study, that's information that's all based on --

MS. HUMMEL: Could you speak up a little bit --

A. Information --

MS. HUMMEL: -- Mr. Francis. Thank you.

Q. If I look at table 2 on page 7 -- I'm sorry, on page 11, for year 2000 it says 192 under mains, do you know what that means, that 192?

A. I am assuming what that means is there were 192 leaks repaired on all main types and services that were caused by corrosion materials, welds, or other.

MS. HUMMEL: Could you speak up just a little more, Mr. Francis, please.

THE WITNESS: Sorry. Get some water.

ATTORNEY EXAMINER: He is your witness.

THE WITNESS: White noise back there.

Q. So then the next column under "Services," it's your assumption that's how many leaks were actually repaired?

A. Yes.

Q. So then I get a total of how many leaks were repaired under the total column.

A. That's correct.

Q. But do you know if anywhere in the Stone & Webster study I can get how many leaks there were at the beginning of the year, how many were identified during that year, how many were repaired that year so I can get a cumulative number at the end of the year?

A. Well, you don't -- I mean, if you had the 2000 -- if you had the number of active leaks in 2000, prior to that point you could have that, but obviously that's not presented, as far as I know.

Q. Do you know why they didn't present that information?

A. I don't.

MS. HUMMEL: Could we go off the record for a minute, your Honor?

ATTORNEY EXAMINER: Yes.

(Discussion off the record.)

ATTORNEY EXAMINER: Back on the record.

MR. SERIO: Your Honor, I move to strike Exhibit JMF Exhibit 7. It's hearsay. Most of his understanding -- a lot of the questions I have asked he's assuming. He doesn't know, and I don't think it's appropriate for a study or a report like this to come into the record without the person that did the study here to answer questions about it. For example, Staff Report doesn't come into this case without the staff taking the stand and authenticating and answering questions about it in a GCR case. The MP audit -- the financial audit doesn't come into the case without the auditor. You know, the Eagle Consulting report can't come into the case without Eagle Consulting here.

It seems to me having the Stone & Webster report without Stone & Webster on the stand to answer questions, it's complete hearsay and it's against the Ohio Rules of Evidence, Rule 802, the hearsay rule, and to the best of my knowledge, I don't see anything under the exceptions that would -- that would cover the Stone & Webster report.

ATTORNEY EXAMINER: Ms. Hummel.

MS. HUMMEL: Thank you, your Honor. The witness has testified this was a study that was contracted for by the company, that this -- these were the results of the study for which the company paid, and these are the results on which he bases his recommendation and his testimony and the company's proposal in this proceeding, this to a certain extent, and I believe it can come into evidence for that purpose.

MR. SERIO: Your Honor, what's lacking though is why did Stone & Webster choose to present the data that they did and not other data. You know, I don't know how many of these Stone & Webster has done. I don't know if they have ever recommended a company doesn't go forward. I think those would all be pertinent to look at the end result and to value what -- what -- to determine what value the report would have as far as evidence in this proceeding.

It's attached to testimony so it would come in as evidence, and right now, it's not authenticated because he doesn't have firsthand knowledge about why they did what they did and why the conclusions are listed the way they are. Unless the company told Stone & Webster this is what we want you to do, he can't have personal knowledge about what Stone & Webster did, why they did it, and how they did it.

MS. HUMMEL: May I, your Honor?

ATTORNEY EXAMINER: Yes.

MS. HUMMEL: It seems to me that all of the comments that Mr. Serio just made go not to the admissibility of the document but to its credibility and that's a question for the -- for the finder of fact, so I believe that the motion needs to be denied.

ATTORNEY EXAMINER: Mr. Francis, what was your role in -- did you supervise the study? Did you have any role in directing Stone & Webster's activities in the study?

THE WITNESS: We prepared a scope document. That was something that we sent out to a couple of different vendors to try to get --

ATTORNEY EXAMINER: Well, when you say "we."

THE WITNESS: "We" is myself and a few people that I had working on the program with me, and certainly we defined what we were expecting our vendors to do, Stone & Webster in this particular

case.
MR. SERIO: We don't know if there was daily contact, if they reviewed drafts. I mean --
ATTORNEY EXAMINER: Ask him.
MR. SERIO: But these are all reasons a Staff Report can't come into the record --
ATTORNEY EXAMINER: I understand.
MR. SERIO: -- without a staff witness.
Q. (By Mr. Serio) Mr. Francis, did you have daily contact with Stone & Webster?
A. Daily, no.
Q. Did you -- did you review drafts of this report before they issued a final report?
A. Yes.
Q. And were there changes from the draft report to the final report?
A. Yeah, a couple of minor things.
Q. So there wasn't any major changes?
A. No.
Q. Did you direct Stone & Webster not to include any data in this report?
A. No.
Q. So to the extent they didn't include data, do you know why they didn't include it?

A. I don't.

Q. To the extent that they did include data, do you know why they included that particular data?

A. Perhaps not in format but we certainly -- the scope of work, I guess, that we laid out there indicated what our expectations were, which would include that we would have expected them to look at our data.

Q. Did you provide Stone & Webster with additional data that's not in the report itself?

A. No.

Q. Do you know where Stone & Webster got all this data?

A. Okay. I provided them certainly with the data that helped them develop their tables so, for example, we had provided them with our leak history in order for them to generate the tables -- the data that's in their tables.

Q. Do you know where they might have gotten data other than from you?

A. No.

MR. SERIO: Your Honor, he can't tell me where they may have gotten data. I can't ask him questions about it.

ATTORNEY EXAMINER: I understand.

Ms. Hummel, do you have a hearsay exception that you believe this fits underneath, or are you simply arguing that this typically comes in in the Commission practice and people generally get the opportunity to argue the weight of the evidence?

MS. HUMMEL: Well, moreover, your Honor, this was --

ATTORNEY EXAMINER: Do you have a hearsay exception that you are relying upon?

MS. HUMMEL: Not off the top of my head, your Honor, no. May I say something more?

ATTORNEY EXAMINER: Sure, one last thing.

MS. HUMMEL: This information was subject to staff audit as a part of this proceeding. The information was available for months for -- to be the subject of discovery of which OCC took great advantage of in this proceeding, and, again, this is a study that was contracted for by the company which forms the basis -- which contributes to the basis of the company's proposal in this instance, and for that purpose it should come into evidence.

And, again, the credibility of the underlying information is up to the finder of fact.

We don't have a jury here, and we are not trying to impress a jury so there's -- there's no need to behave and rule as if we are. Thank you, your Honor.

ATTORNEY EXAMINER: I am going to defer ruling on this until after lunch.

MR. SERIO: I'm sorry, I didn't hear the end of it.

ATTORNEY EXAMINER: I am going to defer ruling until after lunch. I want to think about this.

MR. SERIO: Thank you, your Honor.

Q. (By Mr. Serio) On page 12 of your testimony you talk about benefits to service reliability and safety, and you say that they are clear. Is there any way to quantify reliability or safety benefits?

A. Certainly when you consider a reduction in leak, to quantify it it would really be reflective of that as we reduce leaks, obviously that improves safety to the public.

Q. Have you projected how much leak reduction will result as a part of your replacement program? Have you quantified that leak reduction in any way?

A. Well, yeah, I believe we do. I mean, if you look at the exhibits, I specifically talk about -- or I specifically show the number of leak repairs that are done, and also I previously -- as we discussed, there's 1,700 active leaks. Now, I can't say that I've projected how many more new leaks are going to come between now and the time the very last piece of main has been replaced. That information I can't do.

Q. So you didn't do any kind of projection that said we anticipate that this piece of pipe will have this kind of leak occurrence into the future and by replacing we will avoid all these leaks?

A. Well, I mean, I certainly presented that there's an average leak rate that we see in steel mains/cast iron mains. Specific to a particular piece of main, no.

Q. You said no at the end?

A. Specific to a particular piece of main, I didn't take, you know, the main on Main Street from this block to that block to say this is what it would be, but historically we've proven and shown that the leak rates associated to bare steel/cast iron main continue in a fairly consistent manner.

Q. So have you quantified based on historic experience what percentage of leaks you think will be eliminated as a result of the bare steel replacement program?

A. Well, yeah. If you look at historically -- which page was that? Well, for example, on page 8 we say "as shown above."

Q. Page 8, is that in your testimony?

A. Of my testimony, yes. Shown above about 60 percent of all leaks are occurring on about 14 percent of VEDO's system, and that 14 percent is representative of the bare steel/cast iron system, so that 60 percent really comes from our historical information. We replace that 14 percent, 60 percent of our leakage over that.

Q. Okay. So you are saying on an annual basis, 60 percent of the leaks will go down?

A. No, no. Over -- once the entire amount is replaced, certainly if I replace some next year, there's still, you know, 1/20 -- or 19/20 of the system here.

Q. You say here 60 percent of all leaks occur on that 14 percent of the system.

A. Right.

Q. So if I take that 60 percent and multiply it by the number of all leaks, I will get the number that occur on bare steel?
A. Approximately.
Q. What's the X the number of all leaks I would apply that 60 percent to?
A. On an annual basis it's the number of leaks that we repair.
Q. And is there anything in your testimony that shows me that number over a number of years?
A. Yes. JMF Exhibit 3 shows -- this is purely main leaks, shows that over 2003, 2004 through 2006, you can see the number of leaks that are repaired based on those particular leak causes, corrosion, material welds, natural forces, other. We also in the -- on page 7, I indicate that all -- we add service leaks to that we would increase our leak rate to .86. So you see there is a significant amount of leaks that are created on the service as well as the mains, the combination thereof.
Q. Okay. Were you done with your answer?
A. Yes.
Q. Let's look at JMF Exhibit 3.
A. Okay.

Q. Main leaks repaired, it lists bare steel and then cast iron, so if I add those together, the 164 absent 37 for 2003, that would be approximately 201 leaks that occurred on bare steel and cast iron that under the replacement program you would eliminate going forward?

A. On the mains, yes.

Q. So if I -- to get the total number, I would add 2003 through 2006, that's how many leaks would have been eliminated on a going-forward basis?

A. Well, if you assume we continue to replace main at the rate we are replacing it, then we will continue to likely have a similar repair rate that we would otherwise -- you know, it's going to vary obviously, but let's just assume for a minute it was 200. I would expect in 2007, we approximately repaired 200 bare steel/cast iron main leaks, approximately 2008 the same, 2009 the same, similar.

Q. If you continue to replace pipe at the level you are doing now, is there a point in time where you anticipate that the leaks that you need to repair increase significantly because the system is aging?

A. Significantly, I don't think. I mean, I would expect to see that the performance of the bare steel/cast iron mains would be similar to what they are today. We may -- may see them rise obviously because they would continue to age, but I don't have information that tells me that it would definitively.

Q. So if the Commission were to say you should just continue with the replacement program you have in place by making approximately 200 repairs per year going forward, the company could continue to provide a safe and reliable system, correct?

A. We could continue to provide a safe and reliable system, yes.

Q. And the cost to do that would be similar to the cost that's embedded in cost today in O&M and capital expenses, correct?

A. Correct.

Q. Now, on page 12 of your testimony you also indicate you expect the program to contribute to a lower level of lost and unaccounted for gas?

A. Yes.

Q. Do you know what the current level of lost and unaccounted for gas is?

A. No, I don't.

Q. Do you know if that has been stable,

increasing, or decreasing over the last few years?

A. I don't have that information.

Q. To the extent that the level of lost and unaccounted for gas has not increased, would that indicate that the company is doing a good job of repairing and replacing leaks in order to minimize lost and unaccounted for gas?

A. I'm not sure. I am sure there are a number of factors that are involved in generating that number and the leak is just a piece of it.

Q. So then to the extent that the lost and unaccounted for rate decreased, if the program was in place, it might have occurred for reasons other than the fact that you are replacing mains, correct?

A. Well, you -- intuitively you know you have a leak and repair it. There is no more so you should have -- you would have less lost and unaccounted for as impacted by leakage.

Q. Okay.

A. How that impacts the total number, I don't know.

Q. Okay. Now, on page 13 of your testimony you say that: "The Program presents a tremendous opportunity for improved capital utilization." And then it says: "By increasing the average size of the projects, VEDO will improve its average installed costs per foot of main."

Now, I believe earlier you testified that you've estimated the cost per foot going forward at $45 based on your historical experience, correct?

A. Correct.

Q. Now, to the extent that you say here you will improve its installed costs per foot, have you estimated what the improved average installed costs per foot would be?

A. I haven't done a specific estimate of that. I will tell you that I've looked at some of the projects, and we haven't done that many that are of significantly larger size than the size of the program we are proposing here, you know, our average cost per foot is in the mid $30 range.

Q. So to the extent you indicated previously that costs could go down, the fact that you are seeing the costs in those larger projects go from 45 to 35 dollars, was part of your reasoning as to why you think going forward the cost of the project could be less than what you have estimated?

A. Yes.

Q. So that reduction from 45 to 35, that's about a 20 percent reduction.
A. Approximately.
Q. So if I applied that to the $337 million, it's conceivable that the cost of the project could drop by as much as 20 to 25 percent?
A. Now, that's only the main portion of it. The main portion of the cost is approximately half --
Q. Okay.
A. -- of the total so that may be 10 to 12 percent possibly.
Q. So 10 to 12 percent of the overall project, you are talking anywhere from 33 to 65 million dollars.
A. Sure.
Q. Now, you also indicate on page 13 that larger projects would enable the company to install smaller diameter mains which are less costly. Did you do any quantification of that?
A. Yes. We have -- that's just common information that we have in our estimating systems.
Q. And is there anywhere in your testimony where you've identified the savings from being able to do this, installing smaller diameter mains rather

than larger?

A. No.

Q. So determining what size pipe you would use would be part of determining the most cost effective pipe for replacement, correct?

A. Yes.

Q. And it's your understanding that the company has done some analysis; you just don't have a complete number for that, correct?

A. Whenever we would embark on our replacement projects, we run a system analysis that would tell us how much of each size mains, and our intent is to try to elevate pressure, which is to at least suggest that you can put smaller diameter mains on the system.

Q. On page 14 of your testimony you have a question that says: "Will the additional capital invested under the Program produce additional revenue?" And your answer is that, no, it won't. I guess I am not sure I understand that. You're familiar with ratemaking in Ohio?

A. Somewhat.

Q. Elementary the amount of investment in the ground gets multiplied by a rate of return, correct, to get a revenue requirement?

A. Right.

Q. The more that you have in the ground multiplied by the same rate of return is going to produce a larger revenue requirement, right?

A. Yeah. And perhaps the question would have been better asked if it will generate additional sales.

Q. Okay.

A. You're Customer A, and you use X. Just by me replacing the main has no impact on how you choose to use your gas.

Q. So if you -- to be more accurate here, you would say with the additional capital investment program would produce additional sales?

A. Yes. That's a more accurate statement.

Q. On page 16 of your testimony the answer at the top of the page, you indicate: "Over time VEDO would expect to see its unaccounted for gas percentage improve, but," you say, "the impact is difficult to quantify." First, over what period of time? How long do you think it would take before you see any impact?

A. I don't know. I mean, you would have to, I would assume, substantially reduce the number of leakage and quantifying "substantially," it's hard for me to say whether that's 25 percent through the program or 50 percent through the program. I don't know.

Q. Okay. On the same page --

ATTORNEY EXAMINER: Mr. Francis, you need to keep trying to --

THE WITNESS: Sorry, sorry.

ATTORNEY EXAMINER: -- raise your voice.

Q. On the same page, line 18, there you indicate that under the program, "VEDO will be able to better coordinate its replacement strategy." Does the company currently coordinate its strategy with communities?

A. Yes. But when you're planning out for a significant period of time, it's a little bit easier for us to go to, say, a community like Dayton and say here is what we are going to do in year five, where today we may be tend to take more of a shorter term focus on it.

Q. Prior to doing the replacement program, you budget for a five-year period, correct?

A. Correct.

Q. In that five-year budget, couldn't you go to a community and say our five-year plan is we are going to replace approximately 55 miles of pipe over that period of time, and this is what we are proposing to replace?
A. Except that today there's a substantial portion of what we end up replacing which is more reactive. We get active leakage, therefore, we have got to go do something, and those are the things that are not planned.
Q. Do you know what the percentage of the replacements that you do right now are reactive versus proactive?
A. I actually looked at that number last night. I don't know exact percentages, but it's a higher number of unplanned projects that fall into this category of total projects as opposed to higher might be more than 50 percent.
Q. How about miles of pipe, if you do 10-1/2 miles a year, what percentage of the -- of those miles would be reactive versus proactive?
A. It's a smaller amount because typically in the reactive mode we are replacing, you know, intersections, blocks, 50 to 500 feet of sections of

main.

Q. So you will agree with me currently the majority of mileage that you replace is more proactive than reactive?

A. Mileage, yes, I would agree.

Q. Now, on line 22 there you indicate: "VEDO will place its facilities in locations that will eliminate these disturbances" that you talk about?

A. As much as practical.

Q. Do you do that today?

A. Yes.

Q. On page 19 of your testimony the answer at the top of the page, line 8, you indicate: "One potential mitigation measure could well be an accelerated bare steel and cast iron replacement program." Were you referring there to the program the company proposed, the 20-year program?

A. Yes. That would be a similar program, yes.

Q. That's not what you were referring to here?

A. What I am suggesting here is when distribution integrity management comes out, they will -- one of the requirements will be obviously we have to look at our system, understand the risks, and what is the risk mitigation measure. In this particular case a replacement program is a potential risk mitigation program.

Q. Okay. And when you say one potential mitigation, that's not the only one, correct?

A. That's correct.

Q. In fact, there could be any number of potential mitigation measures that would take into account anything from what you are doing today to a 20-year program?

A. We could do more leak surveys. We could do more leak repair work. It's a temporary basis. There are a number of things that could be done.

Q. To the best of your knowledge, the DIMP doesn't -- you don't anticipate that that's going to specify what a company would have to do, correct?

A. Correct.

Q. Now, you talk about -- in your next question and answer on page 19, you talk about avoided costs related to the DIMP that add benefits to the program. Did you do any kind of quantification of the avoided costs that you are

talking about there?
A. No, because obviously we had not gone through the process of analyzing the system. The rule is not out yet, so it was more of a reflection of what I believe.
Q. And do you know when the rule is going to come out?
A. It is currently in the comment period with the comment period ending on September 23. That may get adjusted. Either by the end of the year or spring, middle of the year of 2009.
Q. Now, later in your testimony you talk about the service riser and inventory investigation project. And you indicate that VEDO has approximately 217,000 risers in its system?
A. Yes.
Q. And do you know how many of those risers are type A risers?
A. We have inventoried 77,890.
Q. So the breakdown of risers you have inventoried would be on JMF Exhibit 9?
A. Yes. And this was at a specific point in time.
Q. This says September of 2007. We can

assume that's the point in time?
A. Yes.
Q. Now, the risers that the company is talking about replacing are the Design-A risers only, correct?
A. Correct.
Q. And that's because those are the risers that were identified under the investigation as being more likely to leak, but they don't necessarily leak?
A. That is correct.
Q. There's three different brands here. There's the Normac, the Perfection without Adaptor, and the Rob Roy. Do you see those?
A. Yes.
Q. Were those three risers on the company-approved riser list that -- that qualified plumbers would use when they were retained by a homeowner to install a riser in the past?
A. They were certainly a part of our approved material list. Now, when the operator qualification rules came out, I am not sure that they still were -- if these have been installed over the last 30 years.
Q. Do you know when the Design-A risers were

first put on the company-approved services list --
approved materials list?
A. You know, I don't know specifically, but they have been in service, many of them, for 25 years or longer.
Q. Do you know when the -- has the company taken those three risers off its approved material list?
A. Yes.
Q. Do you know when the company did that?
A. Not the exact date but it was several years ago.
Q. Would that be a date that would coincide with the investigation?
A. No. I think it was prior to that.
Q. And why did the company take the Design-A risers off its approved material list prior to the investigation?
A. Well, we actually had some experience in Indiana where we had installed specifically the Normac risers, just a small subset. We saw a few failures and decided we didn't want to use those risers any longer.
Q. When you say "we," you mean the company

did those installations?

A. The company, yes.

Q. So the company in Indiana did the installations themselves, and is it your understanding that those installations were done properly according to manufacturer's specifications?

A. I would have to assume so.

Q. And to the extent that they were installed pursuant --

ATTORNEY EXAMINER: I'm sorry, I was -- I am not sure that I understand what you just said. The company in Indiana did the installations?

THE WITNESS: Yes.

ATTORNEY EXAMINER: The company itself did the installation, thank you.

Q. And the company did the installations in Indiana because in Indiana the company currently owns service lines, correct?

A. That is correct.

Q. Versus in Ohio where they don't own service lines, correct?

A. Correct.

MR. SERIO: If that helps.

ATTORNEY EXAMINER: All clear to me now.

Q. And to the extent it's your understanding that the Design-A risers were installed properly by company personnel yet they failed, did the company identify what caused the risers to fail?

A. I'm sure that we looked at that, but I don't know that I have that -- I don't have that information.

Q. When the company put the Design-A risers on its approved material list, do you know what process the company went through to determine that they were a good product to have on the approved material list?

A. I don't. That was well before my time.

Q. When the company in Indiana was using Design-A risers, do you know why the company there decided that the Design-A risers were a product that was worth using?

MS. HUMMEL: Your Honor, I've tried not to do this, but I have to object. I honestly don't see the relevance of this line of questioning to this proceeding.

ATTORNEY EXAMINER: Mr. Serio.

MR. SERIO: Well, your Honor, the relevance is to the extent that the company had firsthand knowledge that these risers when installed properly still failed, then there is a question of why the company hasn't gone after the manufacturer of these risers to recover the costs instead of automatically assuming that there should be an additional 40 or 50 million dollars included in this proceeding rolled into the rider for recovery of the costs of those risers that are going to be replaced on a going-forward basis. So I think it's very pertinent and reasonable because if consumers are going to be asked to pick up the bill, they should know that the company has done everything it could do to make sure that whoever caused the problem in the first place has paid their share of the problem. Otherwise, all the consumer has done is relied on either the company to put the riser on the approved materials list or install it themselves, you hire a qualified plumber to install it.

The witness has indicated that when the company installed them, they were done properly yet they still failed. Well, that would beg the question of why they failed, and if they failed because there is a manufacturing defect, then why are consumers now -- the ratepayer being asked to pay that cost instead of the manufacturer.

ATTORNEY EXAMINER: Mr. Serio -- Mr. Serio, isn't it the case it was the consumer or their representative that selected the riser and then simply checked to make sure it was on the approved list? Remember, these are customer-owned service lines as you just pointed out. It wasn't the company that said you must use Normac. It was the consumers that picked the individual riser, and the company said, yes, they may.

MR. SERIO: Absolutely, your Honor. But to the extent the company puts it on an approved material list, the consumer is relying on the company's expertise to only put materials on the list that are -- that are sound --

ATTORNEY EXAMINER: You are assuming facts not in evidence, Mr. Serio.

MR. SERIO: We can determine that, your Honor.

ATTORNEY EXAMINER: You don't have a consumer here to determine that. You said the consumer is relying upon the company. You have no consumer here to testify that they relied upon the company.

MR. SERIO: Your Honor, there are local public hearings coming up, and I would propose that at those local public hearings I could ask that question of any consumer that comes. What I need to do now is establish what the company did or didn't know so that when I have consumers testifying at the local public hearing, I can elicit those other facts. I should have the opportunity to do that, your Honor.

ATTORNEY EXAMINER: I believe that the prudency of the riser failure system -- rider -- riser replacement program is at issue in this, so I do see the relevance of your questioning. But I think I have a lot of other questions about where you are ultimately going to go with this, but for this particular witness at this particular time, the objection is overruled.

Q. Why does the company put materials on an approved material list?

MS. HUMMEL: Your Honor, may I?

ATTORNEY EXAMINER: You may.

MS. HUMMEL: Again, I apologize. We haven't established that there was any approved materials list prepared or distributed by this company for the installation of any of the risers in its system. We don't know because this company didn't own the system prior to the year 2000. So I continue to -- I have a continuing objection to this line of questioning as respects Vectren Energy Delivery of Ohio.

ATTORNEY EXAMINER: I think that's an important clarification. You can confine your questioning to what Vectren did and did not do, not to what DP&L did or didn't do.

MR. SERIO: Thank you for the clarification, your Honor. Does that mean when Vectren purchased Dayton Power & Light, they didn't purchase all the assets, liabilities, and everything else that comes with the company?

ATTORNEY EXAMINER: Off the top of my head, I cannot give you the precise terms of what Vectren did or did not purchase in terms of liabilities. They certainly purchased all the assets in the company.

MR. SERIO: They purchased assets. To the extent the assets might cause a problem, they can't turn around and say, well, Dayton installed that pipe. I didn't. That's not my problem.

MS. HUMMEL: Again, your Honor, Dayton

Power & Light didn't install any risers in its system either.

MR. SERIO: No, but Dayton put --

ATTORNEY EXAMINER: Again, I think I made my ruling. You should ask the witness what Vectren did or did not do.

Q. (By Mr. Serio) When Vectren purchased DP&L, did Vectren immediately take Design-A risers off its material list?

MS. HUMMEL: Assumes facts not in evidence.

A. I don't know.

ATTORNEY EXAMINER: You can answer the question. You have to answer the question though.

THE WITNESS: I don't know.

ATTORNEY EXAMINER: Thank you.

Q. You don't know at what point in time then that Vectren removed Design-A risers from the approved materials list, do you?

A. I don't know.

Q. You know that they have been removed -- Design-A risers have been removed from an approved material list today, correct?

A. I know that the Normac specifically has.

Q. Do you know if the Perfection without Adaptor is currently on the company's approved material list?

A. I don't know.

Q. Do you know if the Rob Roy Design-A risers are currently on the company's approved materials list?

A. I don't know.

Q. Is there another witness in the case that might have more specific knowledge as to that?

A. I don't believe so.

Q. To the extent that the Perfection without Adaptor Design-A riser has not -- if it has not been removed from the approved materials list, would that mean that the company believes that the Perfection without Adaptor Design-A riser is a riser that is safe and reliable for use?

A. I would say with --

MS. HUMMEL: Your Honor, may I?

ATTORNEY EXAMINER: You may.

MS. HUMMEL: I object to the relevance of that question. I believe the Commission -- Public Utilities Commission of Ohio has already ascertained what it believes are prone-to-fail risers in the state of Ohio, and it has spoken as to what it expects companies to do with respect to those risers. I don't believe what Mr. Francis believes with respect to what the company has been asked to do by the Commission is relevant.

ATTORNEY EXAMINER: Can I have the question back again, please.

(Record read.)

ATTORNEY EXAMINER: Sustained.

MS. HUMMEL: Thank you, your Honor.

MR. SERIO: Your Honor, so should I assume then if the Commission told the company to remove them from the list, that they have been done that way? I am just trying to ascertain from the witness if they haven't removed it, why they haven't.

ATTORNEY EXAMINER: I think he testified he doesn't know they haven't removed it. Let me seek clarification from the witness. Do you know if the company has removed Perfection without Adaptor from the list of approved materials?

THE WITNESS: I don't know.

ATTORNEY EXAMINER: That's all the further we can go. You can't ask him to answer why they may or may not have done something if he doesn't know the underlying question of whether they have done it.

MR. SERIO: Thank you, your Honor.

Q. (By Mr. Serio) On page 24 of your testimony you identify a cost of $1.3 million. You say that's the cost of the project through the end of September.

A. Yes.

Q. That's the survey project itself, correct?

A. It's the inventory, yes.

Q. The inventory, and it's your understanding those inventory costs are incremental to any inventory that the company would have been required to do anyway, correct?

A. Correct.

Q. And then the 1.83 million is the total costs that you expect, total incremental costs, at the end of the project, correct?

A. That was the estimate.

Q. On page 25 of your testimony you indicate that of the 124,755 risers inventoried to date, 30 percent are type A risers and 56 percent are steel risers. To the extent you say steel risers, if I go back to JMF Exhibit 9, that would be the ones where under classification it specifically says steel, correct?

A. That is correct.

Q. So Design-B would not be a steel riser, correct?

A. Correct.

Q. Now, VEDO's identified 120 riser leaks it says during the inventory. Now, were those Design-A or steel risers that leaked?

A. They were on steel.

Q. So the leaks that you found were not on the risers that the Commission identified as prone to leak, correct?

A. That is correct.

Q. And then it says here to date you have removed 196 risers, it says 34 were Design-A, so I assume that the remainder, the 162 others, were something other than Design-A?

A. That's right.

Q. And if 120 were Design-A, then I have 196 less 34 less 120, whatever remains has got to then be --

A. Design-B.

Q. Design-B, okay. Could you turn to JMF Exhibit 4, please. If I look at that under "Leak Rates," the first one of your charts there, it says "Corrosion Leaks/Mile," and then it says "BS." What's the BS mean?
A. Bare steel.
Q. Bare steel. So in 2003, there were 2.39 leaks per mile.
A. Yes.
Q. And then it goes up to 2.62 in 2004, increasing in 2005, and decreasing in 2006.
A. Correct.
Q. Can you explain what might have caused that decrease in 2006?
A. I really have no idea.
Q. And do you know what the 2007 data might show?
A. I don't.
Q. Under the next one it's "Corr plus" -- I don't even want to try it. Can you tell me what those are?
A. Yes. It's corrosion plus material defects plus natural forces plus other.
Q. So those would be leaks that were caused

by something other than the type of things that the replacement program is designed to fix?

A. No. Actually those are the leaks of the type that the program is designed to fix.

Q. The second line?

A. Yeah. There's a series of defined leak types. The ones that were not included obviously were third-party damage things that are out of control, have really no relevance to the condition of a system.

Q. What's the difference between corrosion leaks per mile BS and the second line?

A. Well, the corrosion -- really the second line includes the material leaks, the natural forces, and other leaks, plus it includes the cast iron main and the multiplier -- or the denominator. It was really intended to just kind of show a trend and give some representation of how the grades were through the industry.

Q. Okay.

ATTORNEY EXAMINER: Is the first set a subset of the second set?

THE WITNESS: The first set is included in the second set.

ATTORNEY EXAMINER: Thank you.

MR. SERIO: Thank you. That was my next question.

THE WITNESS: Sorry, I didn't get that.

Q. And then the "Total Leaks" would be leakage for everything including third-party damage?

A. Yeah, all leak types and all main types.

Q. Okay. Then you have the "Ohio Utility Averages," and then finally the "Vectren Ohio Averages." So if I look at the "Vectren Ohio Averages" only, and I look at the 2003 rate of 3.07, I notice that they have been continually decreasing. And can you explain to me what you've been doing or why it's been continually decreasing?

A. I can't specifically explain that. What I would say is this is obviously not a perfect piece of information. What I was attempting to do because bare steel is heavily impacted by corrosion, that just assumes all corrosion leaks are associated with bare steel. There is corrosion leaks associated with coated steel as well, and it was really just, again, a point of comparison just so you can see that there is a heavy amount of corrosion in some of the other types that are relative to the total leaks here.

Q. Could you turn to your JMF Exhibit 6, please. And just so I understand here, the total distribution mains projected cost is 169.4 million.

A. Yes.

Q. And that breaks down to 8 point -- roughly 8.5 million a year.

A. Yes.

Q. And the total services is 169 million -- roughly 169 million, also about 8.4 million a year, so it's about 50/50?

A. Correct.

Q. And, again, when you say present dollars, there's no impact there for inflation or anything like that, correct?

A. Correct.

Q. And your distribution mains are based on the $45 a foot, your historic number, and not the $35 that you've experienced on some of the larger projects, correct?

A. That's correct.

Q. Now, if you could turn to JMF Exhibit 8. It says here "Meter Orders." Does this mean leaks on meters?

A. No. What that is is we get a call from a customer, you know, some other reason, one of our service specialists may go out on a call, and we categorize those so somebody may have called in an outside gas leak. We would have sent somebody out there. It's purely a count of that order type.

Q. And this is just how many of these -- each item occur each year, correct?

A. Correct.

Q. And then the "Maintenance Expenses," can you tell me, is that the cost associated with people going out to do the stuff under meter orders?

A. Yes, because we don't track it on a specific meter order basis. What I did I just simply said here is the total number of meter orders and here is how much expense is associated with that just to come up with an estimate.

Q. Under "Service Leak Maintenance Expenses," it says "Service Leak Repair Actuals," that first line there.

A. Yes.

Q. Under 2003, '4, and '5, it's zero, and then there is a number for 2006. Can you explain to me how there could be nothing listed on service leak repairs for three consecutive years?

A. I can only assume the leak repairs that were done in those years were replacements and, therefore, they were capital.

Q. So the same answer would apply to "Service O&M Expenses Attributable to BS/CI"?

A. Yes.

Q. For those three years?

A. That's just the ratio between the multiplier of the service actual repairs and center service repairs, cast iron leak rates.

MR. SERIO: Your Honor, I am at a stopping point. I didn't know if there was indication that there would need to be some discussion before noon if this was the place to do it.

MS. HUMMEL: How much longer do you have, Joe?

MR. SERIO: I have some on this document I figure before we get into it.

MR. RANDAZZO: How much longer?

MR. SERIO: I'm sorry?

MR. RANDAZZO: How much longer?

MR. SERIO: Maybe another hour.

ATTORNEY EXAMINER: Let's go off the

record.

(Discussion off the record.)

ATTORNEY EXAMINER: At this time we are going to take a break from the cross-examination of Mr. Albertson -- Mr. Francis, I'm sorry. It's been a long morning. But I believe Mr. Randazzo had some additional arguments to make with respect to the pending motion to strike.

MR. RANDAZZO: Yes, your Honor. Just with regard to the hearsay objection that was raised by the Office of Consumers' Counsel, as your Honor knows, the hearsay rule is primarily designed to guard against the potential for an inability on the part of a witness to inquire about the veracity or credibility of a statement that's made to a trier of fact. This agency is necessarily an agency that possesses unique skills. It contains a staff, but most importantly, the reason the hearsay rule does not generally have much application in proceedings before the Commission is particularly in this circumstance where the company is filing something well in advance of the hearing, there is an opportunity for every party in the case to take a look at the filing, whether it's a report by Stone &

Webster or the direct testimony, standard filing schedules and subject that information to their own due diligence and inquiry.

There is almost no risk of a report that is referenced in testimony or exhibits that have been prefiled with the Commission creating an opportunity where anybody does not have a chance to verify the credibility and accuracy. So the hearsay rule in general has limited application.

But in this circumstance what the Stone & Webster report does on the face of it is indicate that the company hired an independent expert consulting firm to take a look at the need for replacement program, and the company retained that outside expert to do that. The report verifies that that was done, so even if there is a concern about the truth of the matters asserted in the report, it should come into the record as information indicating the company obtained independent outside experts --

ATTORNEY EXAMINER: You are essentially arguing the hearsay rule does not apply because this was not offered for the truth of the matter asserted?

MR. RANDAZZO: Yeah. Even if you were to take the view that the information in the report has no value for the truth contained therein, it should be admitted into evidence as an indication that the company did due diligence by retaining an outside expert to independently examine the need for a replacement program, so I think the hearsay rule in this circumstance has limited application.

Under the federal rules there is a residual exemption that says where a party has had an opportunity to review and verify information as a result of having it well in advance of the hearing really should apply the hearsay rule in any event, and I think that's the spirit that they ought to maintain here, but notwithstanding that --

ATTORNEY EXAMINER: I would like to hear Mr. Serio's response to the argument it is not offered for the truth of the matter asserted.

MR. SERIO: Well, your Honor, I guess if it's not offered for the truth of the matter, the company is indicating -- it is still an indication of the company's due diligence. Not knowing whether Stone & Webster has ever made a recommendation not to do this, I don't know how independent Stone & Webster's analysis was, so to give the company credit for due diligence when they hired someone that might give them an automatic result, I don't think that that --

ATTORNEY EXAMINER: You can argue -- that's a question for how much weight the Commission should put on this, not a question for whether or not the evidence should come in.

MR. SERIO: I guess the other response I would have is the staff does a Staff Report, and the staff has to authenticate it on the stand.

ATTORNEY EXAMINER: Right. But that's -- again, if you look at the witness's testimony, look at the questions and answers here, he is not relying upon the underlying information. He is saying we retained an outside expert. The outside expert recommended X. With one minor exception there is no actual numbers or any data pulled from that report that he has used in his actual testimony, and if he had just done the opposite, if he hadn't attached the report, you would have been saying how can I cross-examine him because he hasn't attached the report. I can't see it.

Just like you are going down the path with the cost/benefit analysis, your argument is going to be they didn't perform a cost/benefit analysis. If I strike this, your argument is going to be he can't point to an independent review of whether or not this was done.

MR. SERIO: Well, your Honor, the last time I checked, the company has the fundamental burden --

ATTORNEY EXAMINER: I understand.

MR. SERIO: -- of proving its case.

ATTORNEY EXAMINER: I understand. That's an issue of weight of evidence.

MR. SERIO: Yes, I understand. All I am saying, looking at these individual components, you know, if they -- if they have an independent study that I can't ask questions about, how does it go to meeting that burden of proving his case? If there is no cost/benefit study, I can't -- I can't argue the negative. I have to rely on the fact they didn't meet the burden of proof, and to the extent it is allowed into the record, it goes to that burden of proof where I don't believe it should.

ATTORNEY EXAMINER: I agree with Mr. Randazzo. I don't think the report was offered for the truth of the matter asserted, and your motion to strike is denied.

MR. SERIO: Thank you, your Honor.

MR. RANDAZZO: Thank you, your Honor.

ATTORNEY EXAMINER: And with that I believe we are going to go off the record.

(Discussion off the record.)

(At 11:50 a.m., a lunch recess was taken until 1:00 p.m.)

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Wednesday Afternoon Session,
August 20, 2008.

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ATTORNEY EXAMINER: Mr. Serio, please proceed.

MR. SERIO: Thank you, your Honor.

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JAMES M. FRANCIS

being previously duly sworn, as prescribed by law, was examined and testified further as follows:

CROSS-EXAMINATION (Continued)

By Mr. Serio:

Q. Good afternoon, Mr. Francis.
A. Good afternoon.
Q. I have got some questions that are similar to questions that you were asked in a deposition about risk analysis and models, whether you had done any of those. Did you prepare any risk models or analysis for VEDO's distribution system?
A. No.
Q. If I asked you the same question for the portion of the distribution system that was served by bare steel and cast iron, would your answer be the same?

A. Yes.

MS. HUMMEL: Could you speak up.

THE WITNESS: Yes.

Q. Did you review any risk models or analysis for VEDO's distribution system that were prepared by somebody else?

A. No.

Q. When I ask you the questions, I am going to ask you with relation to VEDO or VUHI, so my question is did you prepare any analysis of the VEDO or VUHI distribution system that included information about pipe material?

A. No.

Q. Did you prepare any analysis of the VEDO/VUHI distribution system that included information about other things, like pipe diameter, soil temperature, or soil moisture content?

A. No.

Q. Did you prepare any analysis of the VEDO/VUHI distribution system that would have included information about previous breaks?

A. And that would be included in our leak information.

Q. Did you prepare any analysis of the

distribution the VEDO/VUHI distribution system that would have included information about age of pipe?
A. Yes.
Q. If I asked you if you prepared any analysis of the VEDO/VUHI distribution system that included information about soil, resistivity, or soil conductivity, would your response be the same?
A. Yes.
Q. That you did not?
A. I did not.
Q. Did you prepare any analysis of the VEDO/VUHI distribution system that included information about soil pH content?
A. No.
Q. Did you prepare any analysis of the VEDO or VUHI distribution system that would have included information about joint types?
A. Yes. That recognized in my testimony we specifically have information on leaks.
Q. Did you prepare any analysis of the VEDO or VUHI distribution system that included information about pipeline pressure?
A. No.
Q. Did you prepare any analysis of the VEDO

or VUHI distribution system that looked at information regarding tree locations or vehicle traffic?

A. No.

Q. Now, would your answers all be the same if I had asked you those questions with regard to looking at any analyses prepared by third parties?

A. Yes.

Q. Did you prepare any activities of the VEDO/VUHI distribution system that included information about damage caused by the activities of third parties?

A. We included damages caused by third parties.

Q. Did you do any analysis of the VEDO/VUHI distribution system that would have looked at information about the depth of the pipeline or type of cover over the pipeline?

A. No.

Q. In your analysis of the distribution system did you look at any information related to the right-of-way accessibility?

A. No.

Q. In your analysis did you look at any

level of excavation or other earthmoving activities nearby?

A. No.

Q. And did your analysis look at information regarding the presence of other buried utility facilities?

A. No.

Q. Did you develop a corrosion index or a corrosion rate in analyzing the VEDO/VUHI distribution system?

A. No, but the leak rate is indicative in some cases of corrosion rate.

Q. And in your analysis of the VEDO/VUHI distribution system, did you look at data concerning the quality of the pipe that was installed?

A. No.

Q. Did you conduct any analysis of the VEDO or VUHI distribution system that included data concerning the quality of the O&M activities over a period of time?

A. No.

Q. I think that's it for the deposition.

ATTORNEY EXAMINER: Mr. Serio, just so the record is clear, when you use the term "VUHI distribution system," can you specify what that term meant?

MR. SERIO: Vectren Utility Holdings Company.

ATTORNEY EXAMINER: But that's a holding company. When you said the distribution system, you are talking about VEDO and it's affiliated utilities in Indiana?

MR. SERIO: No. The questions were all with reference to the pipeline in Ohio. It was with regard to the pipe in Ohio, but we also asked whether anybody else -- whether he had looked at anything that might have come from the holding company regarding those, and it was my understanding that he had not.

ATTORNEY EXAMINER: Okay. I think I understand.

MR. SERIO: Your Honor, I guess the other reason we asked about VUHI was that I believe that the witness indicated that when the company was making its determination as to whether to go forward or not, they looked at Vectren of Ohio and they looked at what was going on in the Indiana plant, so we asked the questions regarding VUHI in that regard.

ATTORNEY EXAMINER: Okay. I understand. Thank you.

MR. SERIO: Thank you, your Honor. Can I approach the witness, your Honor?

ATTORNEY EXAMINER: You may.

Q. (By Mr. Serio) Mr. Francis, I have handed you a multiple page document that says Vectren on the cover. It says "Bare Steel & Cast Iron Replacement Program," and it's dated March 20, 2006, as updated March 30, 2006. Are you familiar with this document?

A. Yes, I am.

Q. So if I have questions about it, you are the person I should ask those questions to?

A. Yes.

Q. Now, can you tell me briefly why Vectren produced this document?

A. We were considering pursuing this bare steel/cast iron replacement program, and I used this document to make a presentation to our executive staff.

Q. And this would have been a PowerPoint presentation that you made?

A. Yes.

Q. And if you go to page 2 of the

document --

ATTORNEY EXAMINER: Mr. Serio, are you going to mark this?

MR. SERIO: Oh, yes, I'm sorry, your Honor. For purposes of identification I would like to mark it as OCC Exhibit No. 1.

ATTORNEY EXAMINER: Thank you.

(EXHIBIT MARKED FOR IDENTIFICATION.)

MR. SERIO: Thank you, your Honor.

Q. If you could turn to page 2 of OCC Exhibit 1, I see there that one of your objectives was to reduce the cast iron and bare steel replacements from approximately 78 years to a 10- to 25-year period depending on regulatory and effectiveness strategies. Am I correct in assuming that your objective would have been met if you did it in a period as little as 10 years or as long as 25?

A. Yes.

Q. Now, on page 3 of OCC Exhibit 1, you indicate a "High Level Project Plan, a Business Case." Can you explain what you mean by a "business case"?

A. It was identifying what our costs, the O&M savings potentially, the other benefits, such as safety benefits or capital utilization benefits as defined in my testimony.

Q. Now, when you say "business case," is that a formal presentation or a formal study that you do?

A. Well, the results of that, I am saying a business case is essentially what was produced for my testimony, and the exhibits are really, you know, a large part of that. We identify what the costs of the programs are so the specific aspects of that, some of the specific areas where we have identified savings, then obviously exploring some of the other opportunities and benefits we could achieve from the program.

Q. So other than your testimony in the attached exhibits, you didn't do anything else that would constitute this business case that hasn't been filed, correct?

A. Correct.

Q. On page 5 of OCC Exhibit 1, there's a breakdown there between 10, 15, 20, and 25 years for "Capital Requirements."

A. Yes.

Q. And that's simply dividing it, the total, 337 million, over the various years that are indicated there, correct?

A. This particular chart is company-wide.

Q. Okay.

A. And it is dividing essentially the columns. It says Replacement Cost by those 10, 15, 20, 25 years.

Q. The 607 million, by company-wide you mean it includes the Indiana operations?

A. That is correct.

Q. So if I wanted to do this for the Ohio company, I would substitute -- I guess why don't we just look at page 6. Maybe that -- the middle of the three, that's VEDO specific.

A. Yes.

Q. So that just shows the breakdown between distribution mains and services and then breaks those capital costs based on those different years?

A. That's correct.

Q. And it's just a simple division.

A. Yes.

Q. Now, on page 7 of OCC Exhibit 3 -- I'm sorry -- OCC Exhibit 1 in the middle column there, it says VEDO, and that's Vectren of Ohio. There is a total O&M saving there of $1.9 million, and that's a different number than the number that's in your testimony. Can you explain to me the difference between the 1.9 and the number in your testimony?

A. Sure. We made some original assumptions that were fairly round as to what maybe some of the operating savings may be, and obviously you know as part of the outcome of this exercise we really needed to go back through and validate what some of those are to get more specific about the data. Obviously, you see some of the numbers are somewhat rounded, so we've -- once we completed that exercise, that's how you get the difference.

Q. Now, is there anywhere in your testimony that breaks down the number that you have versus the 1.9 so we can identify which areas you've been able to refine it more?

A. Exhibit JMF-8 -- JMF Exhibit 8 is the more detailed breakdown of where we currently identified the O&M savings component.

Q. Okay. So if I look at your JMF Exhibit 8 and I go to "Total Meter Orders," the second line, "Meter Order Management Actuals," is that number comparable to the meter orders on line 1 of page 7 on

OCC Exhibit 1, or how do I sync them up?

A. For example, if you just look at the JMF Exhibit 8, in the top table in the last column where it says average orders applicable to bare steel/cast iron, which is the last row in that table, says 3,044 is the average. Originally at that time we assumed 5,700. That's really the comparison.

Q. Okay. So it's the numbers column where things are different.

A. Yes. Obviously too also you know when you get more specific about annual savings, the actual average cost per order there, the average cost per asset condition, some of that detail was not present as of yet when this original presentation was made.

Q. If you could turn to page 5 of OCC Exhibit 1, in the top column you have -- I think it's the third or fourth column -- there $50 a foot replacement cost.

A. Yes.

Q. Now, how does that relate to the $45 that you have in your testimony?

A. It's essentially the same reference point. Once we got more specific about the project types, we refined that and identified the main replacement cost was $45 a foot as opposed to the $50 that was presented here.

Q. And then there's the impact of the other projects you referenced this morning where you said that $35 has been something that you have been experiencing, correct?

A. Correct.

Q. Now, on page 9 of OCC Exhibit 1, you indicate there that for the two different Indiana operations and Vectren of Ohio there is different average and maximum prices. Now, the average would be what a customer would experience throughout the full 20-year program?

A. You know, I don't remember exactly what that meant. At this point I can't recall.

Q. So because in year one you were projecting 69 cents per customer, and then obviously in year two it's going to increase significantly so I guess --

A. It may reflect that that's the case. If you assume 69 cents every year, for example, approximately 20 years it's in the 9 to 10 dollar range. That may be what the point is there.

Q. And then the maximum there, can you explain to me what that maximum might reflect?
A. Boy, I have to assume that it may be at the 20-year period, but I don't know that for a fact. I can't recall.
Q. So you think it just may reflect that would have been the highest the charge would be at the end of the program?
A. That may be.
ATTORNEY EXAMINER: And the average is the average over the 20 years?
THE WITNESS: Yeah, that may be.
Q. If you can clarify that at some point, that would be helpful.
A. Sure.
Q. On page 8 of this it's titled "Impact to Customers," and then it is "Margin Average Annual Increase Over Year is zero - 20 years." What do you mean by "Average Annual Increase Over Year Zero"?
A. You know, I am not sure I am actually the best person to answer this question.
Q. Can you identify who might be?
A. Mr. Albertson.
Q. Now, when this was presented to your

management, is this something you presented or that Mr. Albertson presented?

A. Well, I made the presentation, but I actually specifically worked with Mr. Albertson on this aspect of it.

Q. Do you know what the word "Margin" reflects?

A. Margin is the amount of money I guess we would earn.

Q. Revenue requirement, or is that actual --

A. No. That's the -- the revenue requirement obviously reflects the expenses and everything else. It's the difference between all of that and -- it's essentially what we are going to earn from our revenue.

Q. So the average annual increase over year zero is going to be 24 percent margin of earnings?

MS. HUMMEL: If you know.

A. I don't know.

ATTORNEY EXAMINER: Ms. Hummel, that's not really a proper objection.

MS. HUMMEL: I beg your pardon, your Honor.

ATTORNEY EXAMINER: That's okay.

Q. Then to the extent it indicates "Maximum Annual Increase," the 41 percent for Ohio, you don't know what that's 41 percent over, do you?
A. I don't know.
Q. On the "Bill Impact: Average Annual Increase Over Year Zero," for Ohio it's 6 percent. Is that a bill impact of customer charge, a bill impact of total bill including gas costs? Do you know?
A. I don't know.
Q. On page 10 it's titled "Impact to Rate Base." Does that mean how much the program would increase rate base?
A. I would assume it would be what the program would change or increase the rate base.
Q. So after year five, you are estimating for Ohio the rate base would be increased 88.3 million?
MS. HUMMEL: I object, your Honor.
ATTORNEY EXAMINER: Grounds?
MS. HUMMEL: The witness just indicated he assumed, and Mr. Serio is asking him a -- what is the concrete effect of an assumption that he has made when he hasn't indicated that he really knows what

the answer to the previous question was.

ATTORNEY EXAMINER: He can answer if he knows.

A. I'm not certain, but I assume that that's what it would be.

Q. So then if I looked at year 10, that's just a cumulative effect over 10 years?

A. I would assume.

Q. Do you know if that takes into effect depreciation and savings that would be credited against?

A. I would assume it would certainly reflect the depreciation. I can't say for the savings.

Q. Then the last column or -- yeah, the last column where it says "Rate Case," do you know what that stands for, what it means?

A. No. I can't say for certain.

Q. Now, you have indicated that this study when it was done the numbers were a little bit rougher versus the refinement you have done now. To the extent that the numbers have been somewhat refined today, would you expect the magnitude of the numbers that appear in this document to change significantly?

A. Well, certainly if you look back at page 6, for example, in the OCC document, you know relatively speaking we identify a 20-year program, which is the same as what we proposed in this case, and if you look at the combined total -- total costs, you know, it's roughly $21 million. Obviously in the case total was approximately $17 million so it -- you know, it's less than what was identified here, so I would assume those numbers would be less today.

Q. To a similar percentage as the difference between what the program is today and what's reflected --

A. I would assume so.

Q. -- on page 11, under "Strategic Issues" --

MS. HUMMEL: Page 11 of the company exhibit -- or OCC Exhibit 1?

MR. SERIO: OCC Exhibit 1.

MS. HUMMEL: Thank you.

Q. It says: "Inclusion of which O&M savings?" Can you explain to me what you mean by "which O&M savings"?

A. Certainly. Back on page 7, we identify potential reductions, you know, so certainly until we really get into understanding what all those may be, we have to determine whether or not they can or cannot be included or should or should not be included.

Q. And to the extent that you can quantify them, it would be your position that they should be included?

A. Absolutely.

Q. The only reason not to include them you can't quantify it?

A. That's correct.

Q. Now, if you look at page 15, this is the "O&M Savings Summary" for VEDO, and starting with the upper left box, "VEDO O&M savings per year," it looked to me like for the first two years the savings were level and then they increased for a while, and then it looks in year five there is a decrease to year six. Can you explain what could cause O&M savings to decrease at a point in time?

A. You know, I am sure there were some assumptions made on when some of these may occur. For example, that decrease that may be occurring in year five might be representative of when some additional leak surveys have to occur which may have impacted that. It may just be timing of when some of the maintenance activities were going to happen.

Q. Okay. So if I look at the lower right-hand, the "25 Year Program," that gives me the longest picture, the same decrease occurs it looks like year 6 and then again about year 11, but then I don't see it anymore after that. Do you have any explanation as to what would cause it to occur twice but not on a regular basis?

A. Not without really going back and looking at the detail behind these.

Q. Now, one of the scenarios that you identified in this PowerPoint presentation was the 25-year program. Can you explain why the company didn't propose the 25-year program instead of the 20?

A. Well, once again, we talked about previously about looking at the length of the program in the context of what we could possibly achieve, you know, from a management perspective company-wide, and 20 years was just a period or an amount we looked at the amount of workload that we were comfortable with.

Q. So the company determined that the work that would be required to do the project in 20 years reached a level that the company was comfortable with?

A. Yes.

Q. So it's safe to assume that would be the level of work that the company was comfortable with on -- that's the fastest basis that the company would be comfortable with it?

A. Well, yeah. You know, I think it's -- we would be fairly challenged to get it done over a shorter period of time.

Q. But the company wouldn't have any difficulties dealing with the project if it was extended over a longer period of time?

A. Well, we certainly could do that, yes.

ATTORNEY EXAMINER: Was it your intent to accomplish the project as quickly as the company could reasonably do so?

THE WITNESS: That would be the hope, yes, but recognizing some of the challenges that we would have resourcing and everything else, we felt like 20 years was the appropriate time period.

MR. SERIO: Thank you, your Honor.

Thank you, Mr. Francis. That's all I have.

ATTORNEY EXAMINER: Mr. Rinebolt.

MR. RINEBOLT: No questions.

ATTORNEY EXAMINER: Mr. Margard.

MR. MARGARD: No, thank you, your Honor.

ATTORNEY EXAMINER: Redirect.

MS. HUMMEL: Very briefly, your Honor.

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REDIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Francis, Mr. Serio asked you two or three questions about the $33.7 million total program costs. Do you recall those?

A. Yes.

Q. And he asked you a question about whether that number included a return on and of --

A. Yes.

Q. -- the asset investment, and I believe you said you assumed it did. Over the lunch break did you have occasion to review that number and refresh your memory on whether or not a return on the asset investment is included in that number?

A. Yes, I did, and return on is not included in that number.

MS. HUMMEL: Thank you, Mr. Francis.

I have no further redirect, your Honor.

ATTORNEY EXAMINER: Recross?

MR. SERIO: Nothing, your Honor. Thank you.

ATTORNEY EXAMINER: Mr. Rinebolt.

MR. RINEBOLT: No, thank you, your Honor.

ATTORNEY EXAMINER: Mr. Margard.

MR. MARGARD: No, thank you, your Honor.

ATTORNEY EXAMINER: We have a pending motion for admission of Company Exhibit 10 and 10a. Any objection to the admission at this time?

MR. SERIO: No, your Honor.

MR. MARGARD: No, your Honor.

MS. HUMMEL: Thank you, your Honor.

ATTORNEY EXAMINER: Exhibits will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

MR. SERIO: I would move the admission OCC Exhibit 1.

ATTORNEY EXAMINER: Objections?

MS. HUMMEL: No objection, your Honor.

MR. MARGARD: No, thank you, your Honor.

ATTORNEY EXAMINER: Hearing none, OCC Exhibit 1 will be admitted.

(EXHIBIT ADMITTED INTO EVIDENCE.)

MR. SERIO: Thank you, your Honor.

ATTORNEY EXAMINER: That's our final witness for today. We will reconvene on Friday, August 22, at 10 a.m. Thank you all.

(The hearing adjourned at 1:55 p.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 Wednesday, August 20, 2008, and carefully compared with my original stenographic notes.

____
Karen Sue Gibson, Registered
Merit Reporter.

(KSG-4958)

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