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 III

before Mr. Gregory Price, Attorney Examiner, at the Public Utilities Commission of Ohio, 180 East Broad Street, Room 11-F, 10:00 a.m. on Friday, August 22, 2008.

APPEARANCES:

McNees, Wallace & Nurick
By Mr. Samuel C. Randazzo
Ms. Gretchen J. Hummel
Ms. Lisa G. McAlister
Mr. Joseph M. Clark
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215

and

Vectren Energy Delivery of Ohio, Inc.
By Mr. Larry Friedeman
One Vectren Square
Evansville, Indiana 47708

On behalf of the Company.

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

On behalf of Interstate Gas Supply.

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

On behalf of Honda of America Manufacturing.

Mr. Nolan Moser
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43212

On behalf of Ohio Environmental Council.

APPEARANCES (Continued):

Mr. David C. Rinebolt
231 East Lima Street
P.O. Box 1793
Findlay, Ohio 45839-1793

and

Ms. Colleen Mooney
1431 Mulford Road
Columbus, Ohio 43215

On behalf of Ohio Partners for Affordable Energy.

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

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
By Mr. Werner L. Margard III
and Ms. Anne L. Hammerstein
180 East Broad Street, 9th Floor
Columbus, Ohio 43215-3793

On behalf of the Staff of the Public Utilities Commission.

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Friday Morning Session,
August 22, 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, 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.

My name is Gregory Price. I am the Attorney Examiner assigned to preside over the hearing today. Let's begin by taking abbreviated appearances by the parties so we know who is in the room today. The company.

MS. HUMMEL: Thank you. Sam C. Randazzo, Gretchen J. Hummel, and Joseph M. Clark, and Lawrence K. Friedeman on behalf of the company.

ATTORNEY EXAMINER: Thank you.

Mr. Airey.

MR. AIREY: Thank you, your Honor. Jonathan Airey from Vorys, and I think I will be joined by Greg Russell at some point on behalf of

Honda of America.

ATTORNEY EXAMINER: Thank you.

Consumers' Counsel.

MS. GRADY: Yes. Maureen R. Grady and Joseph P. Serio on behalf of the residential customers of VEDO.

ATTORNEY EXAMINER: Thank you.

Mr. Margard.

MR. MARGARD: Werner L. Margard, Assistant Attorney General, on behalf of the Commission staff.

ATTORNEY EXAMINER: Thank you.

Are there any preliminary matters for the Bench? Let's go ahead and take our first witness.

MS. HUMMEL: Thank you, your Honor. The company calls Kerry A. Heid to the stand.

(Witness sworn.)

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

THE WITNESS: My name is Kerry A. Heid. My business address is 3212 Brookfield Drive, Newburgh, Indiana.

ATTORNEY EXAMINER: Thank you.

Ms. Hummel, please proceed.

MS. HUMMEL: Thank you, your Honor.

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KERRY A. HEID

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

DIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Heid, would you explain for the record, please, in what capacity and for what purpose were you employed for this proceeding.

A. I was employed by the company to prepare a cost of service study for this proceeding and to prepare a rate design based upon the recommendations of Mr. Ulrey and Mr. Overcast.

Q. Thank you. Do you have in front of you copies of what have been marked as Company Exhibits 7 and 7a in this proceeding?

A. I do.

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

A. Yes. Exhibit 7 is the direct testimony that I prepared in this proceeding relating to the cost of service study that was filed with the application. Exhibit 7a is the supplemental testimony that I filed in this proceeding.

Q. 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 7 or 7a?

A. Yes, I do.

Q. And what are --

A. On Exhibit 7, page 4, line 4, Ms. Hardwick's name was misspelled. It should be H-A-R-D-W-I-C-K. And again on page -- on line 6, the same correction. And those are all of the corrections.

Q. Thank you. With those corrections if you were asked the same questions contained in Company Exhibits 7 and 7a today, would your answers be the same?

A. Yes, they would.

MS. HUMMEL: Thank you, Mr. Heid.

I move for the admission of Company Exhibits 7 and 7a, and I offer Mr. Heid for cross-examination, your Honor.

ATTORNEY EXAMINER: Thank you. We will

defer ruling on the admission until after the cross-examination.

Mr. Airey, any questions on cross-examination?

MR. AIREY: No questions.

ATTORNEY EXAMINER: Consumers' Counsel.

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION

By Mr. Serio:

Q. Good morning, Mr. Heid.

A. Good morning.

Q. I have a few questions for you. Page 12 of your direct testimony, line 16, you talk about other factors that mitigate against moving completely to cost of service rates. Do you see that reference?

A. Yes, I do.

Q. I believe you discussed those other factors with Ms. Grady at your deposition. Do you recall that?

A. I do.

Q. And is it correct that rate shock is the factor that you -- that you considered as the other factors?

A. That is certainly the primary factor.

Q. And when you refer to rate shock, what do you mean by rate shock?

A. Well, rate shock, there really is no definition for that. You know it when you see it. The idea is that you want to move the rates toward cost-based rates to the extent feasible, but at the same time you want to not have any particular customer class have an overly large increase as a result.

Q. And do you recall in your discussion with Ms. Grady that you identified roughly a 10 percent figure as kind of a point where you thought it was a goal to try to keep any increase below 10 percent?

A. It was our goal to try to keep the residential increase below 10 percent.

Q. So for purposes of this proceeding, the 10 percent would be a reasonable facsimile for what you consider rate shock?

A. No, I wouldn't necessarily say that. That was certainly the goal. You can't really draw a line in the sand and say anything below that number is not rate shock and anything above that number is rate shock.

Q. Now, I take it you are familiar with the concept of a straight fixed variable or SFV rate design?

A. Yes.

Q. And is it your understanding that a straight fixed variable rate design is one where a majority or all of the costs are collected through a fixed customer charge rather than a volumetric customer charge?

A. That's my understanding.

Q. And the company currently has a $7 customer charge; is that correct?

A. Yes.

Q. And is it your understanding that the company is proposing to increase that to 16.75 in Stage 1 during the winter periods?

A. During the winter periods and $10 in the summer period.

Q. And then do you know what the proposal is to increase the customer charge in the second stage of the proceeding?

A. In Stage 2 it would be $22 in the winter and still $10 in the summer.

Q. In looking at the increases from $7 to the two-part rate in Stage 1 and the two-part rate in Stage 2, did you apply any kind of similar analysis to it to determine if the increase was such that it might cause rate shock for consumers?

A. That would probably be a question better addressed to Mr. Ulrey. He is the policy witness, if you will, talking about the phase in of the rates. I will say that we did look at -- at the bill impacts. I am not aware that there was any particular line in the sand, so to speak, any particular number above which we characterized that as rate shock and below it wasn't rate shock. We simply looked at what made sense to phase rate -- fixed variable rate design in over a period of five to seven years so that the impacts would be manageable for the customers.

ATTORNEY EXAMINER: Mr. Serio, if I can interrupt.

MR. SERIO: Sure.

ATTORNEY EXAMINER: You have now twice said you didn't draw a line in the sand to say above is rate shock, below is not rate shock. Can you tell me what factors you would consider in determining whether rate shock is an issue or not in any given case?

THE WITNESS: Well, as I said in my deposition, rate shock --

ATTORNEY EXAMINER: I am not privileged to that.

THE WITNESS: I'm sorry. Rate shock is that you know it when you see it. There really is no specific number where we can say X percent would be -- above X percent would be rate shock and below X percent would not be rate shock. You really just look at all of the factors and then --

ATTORNEY EXAMINER: Which factors would you look at?

THE WITNESS: Well, the bill impacts, we do look at the tables of bill impacts, Schedule E-5, to see what the bill impacts would be at varying levels of consumption. We also look for the larger volume customers at their individual bill impacts and determine what their annual bill impacts would be.

ATTORNEY EXAMINER: Do you also look at offsets, areas where the bill might be going down or where there is other issues involved?

THE WITNESS: I am not sure what you mean by offsets. We look at the total effective bill including all of the applicable riders.

ATTORNEY EXAMINER: Okay. That's what I meant.

THE WITNESS: Okay.

ATTORNEY EXAMINER: Thank you.

THE WITNESS: You're welcome.

ATTORNEY EXAMINER: Thank, Mr. Serio.

MR. SERIO: You're welcome, your Honor.

Q. (By Mr. Serio) When you were looking at the impact of the fixed rate variable rate design on consumers, am I correct for the consumer using average usage the increase in the fixed portion of the customer charge on an annual basis would offset the decrease to the volumetric portion?

A. Yes, that should be true.

Q. Now, if we take a low usage customer in comparison to an average usage customer, am I correct that the low usage customer would see an overall increase to their bill?

A. Yes. The low usage customer would see an overall increase to their bill because as a low use customer paying a volumetric rate, historically they have been paying below their cost of service.

Q. And, conversely, for a high usage customer they would see an overall decrease to their bill?

A. That is correct because, again, under volumetric rates they have been paying above their cost of service.

Q. Now, when you did your analysis to see if there was more than a 10 percent hit to the customer, did you look at low usage customers versus average usage customers and high usage customers, or did you just look at the residential class as a whole?

A. The 10 percent guideline was really used for revenue distribution to determine what the subsidy reduction should be which would pertain to the increase to the customer class. We did look at the varying levels of consumption as far as bill impacts on Schedule E-5 when we were analyzing how aggressively to move toward straight fixed variable in the various stages.

Q. And when you looked at them, did you determine what the percentage increases were to low usage versus high usage customers?

A. Yes. The tables on E-5 do show the percentage increases for various intervals of usage throughout the relevant range of usage. And that would go all the way from zero Ccf up to their maximum potential level of usage.

Q. Now, on page 5 of your direct testimony, you indicate that, as described in Mr. Ulrey's testimony, the company's proposing a gradual transition to the SFV rate design, and I understand you are attributing that to Mr. Ulrey, but is that also your understanding, that this is a -- that the change is intended to be a gradual transition?

A. Yes.

Q. Now, to the extent that it's intended to be gradual, it's your understanding it's intended to be gradual because there's two steps in this proceeding and then the complete move to eliminating the volumetric customer charge would then occur in the next proceeding, correct?

A. Yes. And in the next proceeding it's my understanding there would also be a two-stage move so we would be looking at moving toward complete straight fixed variable over the course of two rate cases or four stages.

Q. Is it your opinion that moving from a $7 customer charge to 16.75 in the winter is a gradual move in Stage 1 of this proceeding for the fixed customer charge?

A. I think so. You have to keep in mind that the increase in the service charge or the customer charge is offset by a reduction in the volumetric charge so the customer is not going to see the complete difference between the $7 present customer charge and the $16 proposed customer charge.

Q. Now, the proposal is 16.75 in the winter months and 10 in the summer months, correct?

A. Correct.

Q. And in the summer months a customer that -- generally customer usage is very low in the summertime, correct?

A. Correct.

Q. So an increase from 7 to 10 is going to be a lot more apparent to a customer because there is not going to be the volumes during the summer that would offset the increase to the fixed portion of the bill, correct?

A. Correct. It would be at the $3 increase in the customer charge offset by some smaller amount volumetric change.

Q. And it's your belief that even in those summer months that the move from 7 to 10 is what you would consider a gradual increase?

A. Yes, I think so.

Q. In determining how to make the move in a gradual increase, did you give any consideration to whether the customer charge should be increased in smaller increments over a longer period of time, for example, go from $7 to $8 in year one to $9 in year two to $10 in year three and so on instead of making one jump in one stage?

A. That would be a question I would really address to Mr. Ulrey. He is the policy witness that is discussing the phase in of those customer charges.

Q. So but you didn't give any consideration to that or have any discussions regarding that?

A. Mr. Ulrey and I worked together on that. He was the policy witness, so to speak, and I reflected that in the proposed rate design.

Q. So you never suggested that to him as an alternative to what the company had proposed?

A. No.

Q. And did you -- did it ever occur to you to do it in that manner and you just decided not to raise it with him, or is that something that just never occurred to you?

A. Well, it never occurred to me. I thought that the four-stage increase over a period of five to seven years sounded reasonable.

MR. SERIO: Based on the clarification I got this morning, your Honor, that's all I have for Mr. Heid. Thank you.

ATTORNEY EXAMINER: Thank you. Redirect?

MR. RANDAZZO: Staff.

ATTORNEY EXAMINER: I'm sorry. Mr. Margard, questions?

MR. MARGARD: Thank you, your Honor. No questions.

ATTORNEY EXAMINER: Thank you. Redirect? Mr. Airey already passed.

MS. HUMMEL: I'm sorry.

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REDIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Heid, with regard to the E-5 schedules you referenced in response to Mr. Serio's questions, am I correct that the bill impact shown there assumes that the full amount of the increase requested by the company is approved by the Commision?

A. Yes, that is correct.

MS. HUMMEL: Thank you, Mr. Heid. I have nothing further, your Honor.

ATTORNEY EXAMINER: Recross?

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

ATTORNEY EXAMINER: Mr. Airey?

MR. AIREY: No.

ATTORNEY EXAMINER: Staff?

MR. MARGARD: Thank you.

ATTORNEY EXAMINER: Thank you. You are excused.

MS. HUMMEL: And I renew my motion for admission of Company Exhibits 7 and 7a.

ATTORNEY EXAMINER: Any objection to the admission of Company Exhibits 7 and 7a?

MR. SERIO: No objection, your Honor.

ATTORNEY EXAMINER: Hearing none, those exhibits will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

ATTORNEY EXAMINER: Let's go off the record for one minute, please.

(Discussion off the record.)

ATTORNEY EXAMINER: Let's go back on the record. Ms. Hummel, next witness.

MS. HUMMEL: Thank you, your Honor. The

company calls Jerrold L. Ulrey.

(Witness sworn.)

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

THE WITNESS: My name is Jerrold L. Ulrey. My business address is One Vectren Square, Evansville, Indiana.

ATTORNEY EXAMINER: Ms. Hummel, please proceed.

MS. HUMMEL: Thank you, your Honor.

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JERROLD L. ULREY

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

DIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Ulrey, good morning.

A. Good morning.

Q. Mr. Ulrey, by whom are you employed and in what capacity?

A. I am employed by Vectren Utility Holdings, Inc., as vice president of regulatory affairs and fuels.

Q. And do you have in front of you copies of what have been marked as Company Exhibits 9 and 9a?

A. I do.

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

A. Exhibit 9 is my prepared direct testimony and exhibits in this proceeding. Exhibit 9a is my supplemental testimony and exhibits.

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

A. They were.

Q. Do you have any changes or corrections that you would like to make to Company Exhibits 9 or 9a?

A. I do not.

Q. And if you were asked the same questions that are contained in Exhibits 9 and 9a today, would your answers be the same?

A. Yes, they would.

MS. HUMMEL: Thank you, Mr. Ulrey.

I move for admission of Company Exhibits 9 and 9a, and I offer Mr. Ulrey for cross-examination, your Honor.

ATTORNEY EXAMINER: Thank you. In keeping with our practice in this proceeding, we will defer admission until after cross-examination.

Ms. Grady, cross.

MS. GRADY: Your Honor, prior to going into cross, would you entertain a motion to strike portions of Mr. Ulrey's testimony?

ATTORNEY EXAMINER: Certainly.

MS. GRADY: Your Honor, in order to do that, I would ask to voir dire Mr. Ulrey.

ATTORNEY EXAMINER: Please proceed.

MS. GRADY: Thank you.

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VOIR DIRE EXAMINATION

By Ms. Grady:

Q. Mr. Ulrey, you are seeking approval in this case for an increase in rates for residential customers; is that correct?

A. That is correct.

Q. And the residential customers that we are speaking of are rate 310, which is sales, and rate 320, which is trans -- I'm sorry, rate 310 and 315, correct, for residentials --

A. Correct.

Q. -- sales and transportation?

A. That is correct.

Q. Now, under your proposal you have a Stage 1 and Stage 2 proposal, right?

A. Yes.

Q. And in Stage 1 you propose to increase the current $7 customer charge to residentials to 16.75 during the winter and 10 during the summer.

A. That is correct.

Q. And with that you have an increased customer charge and a decreased volumetric rate, correct?

A. Ms. Grady, are you talking -- compared to what?

Q. Compared to current levels.

A. We certainly have an increased customer charge in our proposal and our application. I am not positive about the volumetric charge being a decrease. I will need to look in my revenue proof to determine that.

There is a very slight reduction in the volumetric charge under our Stage 1 proposal compared to current rates, less than 1 percent.

Q. Thank you. Would that be for 310 and 315 as well?

A. That is correct.

Q. And the Stage 1 rates that you propose, they will remain in effect through what period of time?

A. Our proposal was that those rates would be in effect from the effective date of rates in this proceeding until they were replaced by Stage 2 rates on November 1, 2010.

Q. Now you have also set --

ATTORNEY EXAMINER: Ms. Grady.

MS. GRADY: I am getting there, your Honor. I am trying to set the stage.

ATTORNEY EXAMINER: I am having trouble distinguishing this from cross-examination.

MS. GRADY: Yes. I am getting right to that point, your Honor. I appreciate your patience.

ATTORNEY EXAMINER: Thank you.

Q. You have also sought approval in this case of rate 310 and 320 called Stage 2, correct?

A. That is correct.

Q. And Stage 2 you propose the increase in the customer charge to $22 in your winter month and $10 with decreased volumetric rates, correct?

A. That is correct.

Q. Stage 2 goes into effect as of 2010, was that your testimony?

A. Yes.

Q. Mr. Ulrey, you are ultimately responsible, are you not, for the regulatory notices in this case, one of those regulatory notices being the newspaper publication contained in Schedule S-3?

A. That is correct.

Q. And that newspaper notice is one you are ultimately responsible for; is that correct?

A. Yes.

Q. Now, Mr. Ulrey, the newspaper publication did not contain notice of the Stage 2 rate proposal for a rate 310 or 320; is that correct?

A. That is correct, the legal notice that was ultimately published after review by the Commission did not include the Stage 2 rates inadvertently.

Q. Now, Mr. Ulrey, you are also responsible for the regulatory notices in this case that are made to the municipalities, are you not?

MS. HUMMEL: I object.

ATTORNEY EXAMINER: Grounds?

MS. HUMMEL: It's irrelevant. That notice requirement that Ms. Grady is referring to has no bearing to the docket in this case. That prefiling notice requirement is peculiar to municipalities and there is no requirement anywhere that that prefiling notice be filed with this Commission or submitted to this Commission.

ATTORNEY EXAMINER: Ms. Grady.

MS. GRADY: Your Honor, I am not suggesting that. I am suggesting it is -- it is a requirement under the Code 4909.43(b), and I am asking the witness if they have complied with that.

MS. HUMMEL: Your Honor, Ms. Grady does not represent the municipalities. She has no standing to object to that notice.

MS. GRADY: We filed OCC objections 66 through -- 64 through 67 to cover these areas.

MS. HUMMEL: That has nothing to do with whether or not she has standing to raise this issue.

ATTORNEY EXAMINER: You can argue standing on brief. Overruled.

A. In a general sense being VP of regulatory affairs I am also responsible for the notice filing as well, yes.

Q. Okay. The notice to the municipalities, if you know, Mr. Ulrey, contained a lower rate for

Stage 2 for both schedules 310 and 315 that are contained in your rate application; is that correct, if you know?

A. Could you say that again, Ms. Grady, please.

Q. The notice to municipalities contained a lower rate for your Stage 2 rate proposal for schedules 310 and 315 than contained in your rate application?

A. Well, the Stage 2 rates shifted fixed cost recovery -- I see. You are comparing Stage 2 rates in both.

Q. Yes.

A. I'm not sure I know.

MS. GRADY: Your Honor, based upon Mr. Ulrey's answers, OCC would move to strike the testimony of Mr. Ulrey and all related exhibits to the extent the testimony and exhibits refer to a Stage 2 rate proposal for residential customers in classes 310 and 315 as the company failed to comply with the statutory notice requirements of 4909.42(b) and 4909.18(e) and 4909.19.

ATTORNEY EXAMINER: Overruled. Thank you.

MS. GRADY: Thank you, your Honor.

ATTORNEY EXAMINER: I'm sorry, your motion is denied, not overruled. I spoke imprecisely.

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CROSS-EXAMINATION

By Ms. Grady:

Q. Good morning, Mr. Ulrey.

A. Good morning.

MR. RANDAZZO: Your Honor, might we go off the record just a second?

ATTORNEY EXAMINER: Certainly.

(Discussion off the record.)

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

Q. (By Ms. Grady) Good morning, Mr. Ulrey.

A. Good morning.

Q. Can you go to page 5 of your direct testimony, if you would, and I am going to direct your attention to lines 25 through 28.

A. I'm there.

Q. Now, there, Mr. Ulrey, you make the statement that straight fixed variable allows the utility the opportunity to recover costs approved for recovery and removes the disincentives for the utility to engage or support energy efficiency efforts. Do you see that reference?

A. I do.

Q. Now, you would agree with me, Mr. Ulrey, that that statement would also apply to decoupling, correct?

A. By decoupling are you referring to a decoupling rider as opposed to the decoupling that's embodied in straight fixed variable?

Q. Yes, the decoupling rider as proposed by the company.

A. Yes. A decoupling rider achieves the same objective as would straight fixed variable to decouple sales volumes from fixed cost recovery and thereby remove the disincentive to offer energy efficiency programs.

Q. And you also have a statement in your testimony there, Mr. Ulrey, that the decoupling -- let me strike that.

You also have a statement, Mr. Ulrey, that the straight fixed variable allows you, or allows the utility, a fair opportunity to recover the costs approved for recovery. Do you see that reference?

A. Yes.

Q. Would you agree with me also that decoupling allows the utility the opportunity to recover costs approved?

MS. HUMMEL: Your Honor, just for clarification, when you refer to "decoupling," are you referring to a rider mechanism as opposed to straight fixed variable?

MS. GRADY: I understand.

Q. The company's proposal for decoupling in this case.

MS. GRADY: Thank you, Ms. Hummel.

A. The decoupling rider would also provide the company a fair opportunity to recover the costs approved for recovery ultimately in this proceeding.

Q. Now, the company's proposal, Mr. Ulrey, is that we have straight fixed variable or a move to straight fixed variable and along with that move to straight fixed variable we have decoupling in the interim until the company reaches full straight fixed variable; is that correct?

MS. HUMMEL: Again, are we talking about the distinction between a decoupling rider and the decoupling that is embodied in straight fixed variable?

MS. GRADY: Talking about the decoupling rider proposed by the company.

MS. HUMMEL: Thank you.

A. That is the company's proposal, to gradually move toward full straight fixed variable rate design, and in the interim implement full decoupling in our proposed SRR-B until such time as full straight fixed variable is achieved and the volumetric rate is eliminated.

Q. And the full straight fixed variable is achieved when there is no volumetric component left in the rate design?

A. That's correct. There would be no volumetric charge left on the distribution rate design.

Q. Now, with the way you have structured your proposal with the straight fixed variable and the decoupling rider working together, would you agree, Mr. Ulrey, that that would allow the utility even more of an opportunity to recover the costs that were approved by the Commision?

MS. HUMMEL: Objection, your Honor.

ATTORNEY EXAMINER: Grounds?

MS. HUMMEL: More than what?

ATTORNEY EXAMINER: Pardon me?

MS. HUMMEL: More than what? I object, I guess, to the form of the question.

MS. GRADY: Well, your Honor --

ATTORNEY EXAMINER: Can you restate the question, please.

Q. Mr. Ulrey, you talk about on lines 26 that straight fixed variable rate design -- and there you are talking about straight fixed variable alone, I take it -- "allows the utility a fair opportunity to recover the costs." Do you see that reference page 5, lines 24 through 26?

A. Yes, I do.

Q. My question is if you have straight fixed variable along with the decoupling rider that you have in this case, does that allow the company even more of an opportunity to recover the costs approved for recovery?

A. The gradual movement to full straight fixed variable involves stages where the volumetric charge is nonzero. There is still fixed costs being recovered on a volumetric basis. Those -- those dollars are the dollars that are at risk that the decoupling rider is intended to ensure recovery of. You get the exact same result though as the combination of partial straight fixed variable in the decoupling rider if you have full straight fixed variable. You simply recover the fixed cost of proof of recovery in the last rate case, no more, no less under either of those approaches so there's not more recovered if you use an interim decoupling rider.

Q. If you had your straight fixed variable -- let me put it this way, your approach in this case is not to go flash cut to straight fixed variable, correct?

A. We have proposed just partial movement, not complete movement, to full straight fixed variable.

Q. So under your partial movement to straight fixed variable, that will allow you an opportunity to recover costs approved for recovery; is that right? Is that one of the reasons why you have that proposal in this case?

A. The partial movement to straight fixed variable does not ensure a fair opportunity without the addition of the decoupling rider in the interim.

Full straight fix variable on the other hand would.

Q. Now, under the company's approach on a going-forward basis, it has a straight fixed variable plus your SRR-B, your decoupling rider, and the decoupling rider allows the company protection from the risk of weather; is that correct?

A. Our proposed decoupling rider in this proceeding, the SRR-B, does provide -- or eliminate the risk of weather -- abnormal weather impacts to bills for both customers and the company.

Q. And the SRR-B is different than the SRR-A you have in place because it does have this weather tracking ability; is that correct?

A. That's correct. The current decoupling that Vectren currently has uses a weather normalized actual base revenues to compare to the last rate case so abnormal weather impacts are -- continue to impact customer bills and company's collection. The SRR-B, our proposal would eliminate that unnecessary variation by using actual base revenues to compare to the last rate case base revenues.

Q. Now, on further down on page 5, lines 28 through 29, you have got the statement that SFV eliminates the linkage between recovery and sales

volume. Do you see that?
A. I do.
Q. And, again, I am going to ask you, Mr. Ulrey, if that statement also applies to the decoupling rider SRR-B that you have proposed? Does that decoupling rider eliminate the linkage between base rate recovery and sales volume?
A. It would.
Q. Now, let's move along -- well, we are still on the same page. Page 5 you are talking about the average use per customer there, and you are saying at this -- and I am looking at lines 31 and -- 30 through 33. You are saying that it's important to have straight fixed variable because there is steadily decreasing average use per customer. Do you see that reference?
A. I see the sentence that says: "This is particularly important in light of steadily decreasing average use per customer."
Q. Yes. Now, there you are talking about residential customer class; is that correct?
A. In this case it applies to the residential customer class.
Q. And on the following lines you indicate

that the average use per customer has decreased from 931 Ccf per year to 815 Ccf per year. Do you see that reference?

A. I do.

Q. And then 931 Ccf usage per year, that was a partially projected usage from the rate case in 2004?

A. The company's proposal in the 2004 rate case included a partially projected test year. I am not positive exactly how the 931 Ccf was derived.

Q. If you know, would the test year have been 12 months ending 12-31-2004, if you know?

A. That's my recollection.

Q. And it would also be your understanding that the 931 Ccf figure is a weather -- is a weather normalized average use per customer figure?

A. That would be my assumption. That's how we typically do our rate cases.

Q. And the 815 Ccf that you are comparing it to in this case, is that also weather normalized average use per customer?

A. I believe so, yes.

Q. And that 815 Ccf average use per customer, does that represent a projection, if you know?

A. Again, it would have involved a projected test year. I know there are pro forma adjustments made to that so it -- including weather normalization.

Q. And the weather normalization proposal that you have in this case is to use a 10-year normalization period versus a 30-year normalization period, if you know?

A. I do and that's correct.

Q. Mr. Ulrey, under your decoupling proposal that is the SRR-B, what happens when new customers are added above and beyond the customer count that creates the average use per customer?

A. The SRR-B, the decoupling rider, calculates each month the difference between the actual base revenues received from customers for such month and the base revenues attributed that month in the last rate case. To the extent there is a difference in customer accounts from the rate case levels, then that difference, be it positive or negative, is a sign the average cost per customer for the residential class in this case from the last rate case and is added or subtracted to the cost to be recovered under the decoupling rider.

Q. And if customers are added above and beyond the -- above and beyond the customer count included in a rate case, that would allow the company to earn a return on the new customers added?

A. That would allow the company to retain revenues from new customers to help offset the cost to attach those new customers, including main extensions, service stub, and in the future service line extension, the meter, the meter risers. It's not fully compensatory. The company isn't able to recover all of that investment requirement based on the embedded costs of service so it -- so it does help recover costs. It doesn't generate any net income, however.

Q. Mr. Ulrey, do you recall being deposed by the Office of Consumers' Counsel on August 6, 2008?

A. I do.

Q. And do you have a copy of your deposition in front of you?

A. No, I do not.

Q. Mr. Ulrey, I am going to hand you a copy of the deposition transcript and I am going to direct your attention to lines 16 through 22 of that transcript and I am going to ask you to follow along when I read it. And my question is am I reading it correctly. Question line 16: "So it really goes back to whether you believe the company is being given an opportunity to earn its authorized return from the prior rate case."

Answer: "An opportunity to earn the base revenues from the prior case plus, as our decoupling mechanism works, a return on new customers added after that point in time."

Did I read that correctly?

A. Yes, you did.

MS. GRADY: Thank you. For the record that's page 19 of the transcript.

ATTORNEY EXAMINER: Thank you.

Q. Now, Mr. Ulrey, would you agree with me that the SRR-B is a symmetrical regulatory mechanism?

A. It is in the sense that to the extent the difference between the current month's base revenue recovery plus customer additions and the base rate case -- base rate recovery is either positive or negative, that difference is either passed back to customers or recovered by the company, so the mechanism works both ways. If the company's actual base rate recoveries exceed what it would be otherwise authorized to recover, then those dollars would be passed back to customers.

Q. Now, Mr. Ulrey, under the SRR-B, the full decoupling rider, you would -- the company would essentially be guaranteed a base level of use per customer; is that correct, and the base would be what is approved in this rate proceeding?

A. What's actually being tracked is the fixed costs for a customer irrespective of their usages, so the decoupling rider effectively recovers the average cost in this case per residential customer that was approved by recovery in the last rate case just like, by the way, straight fixed variable would do if it was full straight fixed variable. They are exactly equivalent in that regard.

Q. And perhaps you confused me and maybe I misheard or maybe you misspoke. You said it recovers the revenue approved in the last rate case. Are you talking about the revenue level approved in this case rate for SRR-B?

A. Yes. Decoupling -- in this case the SRR-B would recover the base revenues approved in this rate case.

Q. Thank you.

A. You're welcome.

Q. And now under your proposal the SRR-B would replace the SRR-A, and you state that on page 8, line 18. Do you see that?

A. Yes.

Q. And, Mr. Ulrey, when would it replace the SRR-A?

A. The SRR-B would be effective upon the effective date of rates in this proceeding after a Commission order approving it.

Q. And when you say "effective," you are talking about a zero SRR-B rider?

A. Yes, that's correct. It would be a zero rider initially but the mechanism would -- the rate decoupling rider would be effective as of that date and deferrals would start as of that date.

Q. And under your proposal under the SRR-B the deferrals would run for approximately a year, and after that year period of time the zero SRR rate would be changed to reflect the variations produced under that decoupling rider?

A. Approximately a year depending on the effective date of rates. We actually propose that it be effective November 1 of each year.

Q. So under your proposal a customer may see an overlap of charges associated with SRR-A and the SRR-B being sought from customers at the same time?

A. In this proceeding we have asked for an initial rate for the SRR-A, the existing deferral, and decoupling rider mechanism. We have asked to recover those deferrals over a one-year period which would also end approximately November 1 of next year. So to the extent that timing is correct, there would be a very small, if any, overlap of the recoveries of the SRR-A for the prior deferrals and the recoveries of the SRR-B for deferrals since the effective date of rates in this proceeding.

Q. And when you talk about the recovery of deferrals, you are talking about the collection of costs from customers?

A. It would be when a nonzero SRR-A and B are implemented to recover the fixed costs that had not been recovered the previous year.

Q. And in terms of the SRR-A what's your current estimate of the dollars to be collected from ratepayers once that mechanism is implemented?

A. The initial rate reflected the estimate in our application of the deferral balances as of September 30, 2008. And the estimate at that time was that the deferrals would be $5.4 million for the residential class and approximately $290,000 for the general service class.

Q. Now, when you say that estimate as of September 30, 2008, was 5.4 million, what portion -- what months of that are estimate versus actual, if you know?

A. We filed our application in November, so without knowing for sure, I would say approximately half of it was estimated or a little less.

Q. At what point are you going to know the exact amount of decoupling revenues to be collected from residential ratepayers under your SRR-A?

A. We know the exact amount for most of the months during the two-year deferral period right now because they have already been brought -- we are only a month and a half away from September 30, so after the billing for the September month is complete, it would be into October perhaps -- it would be in October.

Q. And you have also asked, have you not, Mr. Ulrey, for a accounting authority to continue those deferrals until rates are approved in this proceeding, correct?

A. We have asked to extend the accounting authority for those deferrals under the existing decoupling rider that we currently have until our new rates are effective, and we would also continue to fund with shareholder money the energy efficiency programs that were agreed to as part of that decoupling mechanism.

Q. Now, the energy efficiency programs that were agreed to, that was a $1.1 million low income weatherization program in exchange for the collection of $5 million in decoupling revenues from residential customers?

A. The program agreed to was $2 million over two years.

Q. I'm sorry.

A. And, of course, the decoupling deficiencies and deferrals were unknown at the time.

Q. So when you entered into that agreement in that case for the $2.2 million weatherization program, you didn't know what the cost of that program would be in decoupling revenues associated with the residential customers?

ATTORNEY EXAMINER: Ms. Grady, I don't think -- I think you misspoke as to the scope of the program. I believe you said $2.2 million. I don't believe that was what the witness had testified.

MS. GRADY: I'm sorry.

A. I think we need to keep in mind that it's not an additional cost to the customers. Decoupling revenues do not add costs beyond what was authorized by the Commission as fixed cost recovery in Vectren's previous rate case, so it's an efficiency that's being passed on to customers a year later, but it is not additional cost.

Q. Let me take your answer bit by bit there. In the last rate case, in the 2004 rate case, there was no decoupling mechanism approved by the Commision; is that correct?

ATTORNEY EXAMINER: One second here. You need to explain to me the relevance to your questioning to this proceeding because you are going close to relitigating 05-1444-GA-UNC, so I would like you to explain to me why this is relevant to this proceeding and to what the company proposed in this case.

MS. GRADY: Well, your Honor, we have an objection filed in this case along those lines that objects to the SRR-A revenues and the collection of revenues as well as the extension of the deferrals.

ATTORNEY EXAMINER: Ms. Hummel?

MS. HUMMEL: Your Honor, that -- that issue to which Ms. Grady has said OCC has objected was litigated in the case you referred to and has been decided by the Commission and is currently pending on rehearing. It's irrelevant, you are correct, your Honor.

ATTORNEY EXAMINER: Thank you.

MS. HUMMEL: Not surprising, it's irrelevant to this proceeding.

MS. GRADY: Your Honor, I might add there is no finality to that order. Right now, an entry on rehearing was granted, and we are now 12 months down the road with no final decision.

ATTORNEY EXAMINER: That still doesn't mean this is the proper forum for those discussions. That case is the proper forum for those discussions, not this case.

MS. GRADY: Well, I think our objection would argue otherwise. Our objection to the staff report which did not -- no motion to strike was ever pursued on that, I might add.

ATTORNEY EXAMINER: Well, you are going to move off of this topic because you are relitigating 05-1444.

MS. GRADY: Can I have his answer reread?

ATTORNEY EXAMINER: Sure. Please reread the answer.

(Record read.)

ATTORNEY EXAMINER: On my motion I am going to strike the question and the answer on the grounds of relevance.

MS. GRADY: Thank you, your Honor.

ATTORNEY EXAMINER: You're welcome.

Q. (By Ms. Grady) Is this the first time you have had a decoupling proposal approved, Mr. Ulrey? Let me strike that.

Is this the first time in the context of a rate case you have had a decoupling proposal on the table?

A. In the state of Ohio, yes.

Q. Do you know, Mr. Ulrey, what the cost to residential ratepayers will be if you are successful in obtaining the extended deferral in this case?

A. Yes.

ATTORNEY EXAMINER: Ms. Grady, which extended deferral are you referring to?

MS. GRADY: Your Honor, the deferral we have been discussing, the application to continue to defer decoupling revenues beyond September 30, 2008.

ATTORNEY EXAMINER: Okay. Now, you have to explain to me the relevance in this proceeding to an application they made in Case No. 08 --

MS. HUMMEL: 632.

ATTORNEY EXAMINER: 08-632.

MS. GRADY: Your Honor, unless I am vastly mistaken, they are going to ask those deferrals be included in this rate application for an increase, but certainly I can ask the witness that. Perhaps I am mistaken.

Q. Mr. Ulrey, are you in your -- in your application or in your -- the present proposal -- the present application that you have before the Commission, is it your intention to seek recovery of deferrals beyond September 30, 2008, if you receive approval in this case?

A. Approval of?

Q. Of deferral, you had asked -- in a

separate case you have asked for extending the deferral period for gravitating decoupling riders to the rate effective date in this case. Is it your intention that -- or your proposal that if you receive approval for that deferral, that the SRR-B that you will be implementing will recover from residential ratepayers those additional deferrals if approved?

A. Our application did ask for the accounting authority to continue deferrals. It did make the statement that we would on a pro rata basis continue the shareholder funding of energy efficiency programs. I don't know that -- and our intent is to have those deferrals for later recovery. I don't know that the application suggested which of the SRR-A or SRR-B would recover those, but it would be our intention to recover those deferrals at some point in the future.

Q. And the SRR mechanism then would in this case, either SRR-A or SRR-B, would attempt to recover any extended deferrals beyond September 30, 2008, if the Commission approves that extension?

A. Either of those decoupling riders would be available to recover those, and we would be happy with it being done in either one.

Q. Did we -- I'm sorry, I can't recall. Did you indicate, Mr. Ulrey, if you know the extent of how much the deferrals you would project those deferrals would be if they were collected in this case from ratepayers through the SRR-A or SRR-B?

ATTORNEY EXAMINER: I'm sorry. You didn't answer it, but, again, I am not sure of the relevance of that question. He said they would be happy with A or B. He didn't say they had made a proposal. There might be a none of the above proposal, that the deferrals you are talking about are not part of this case.

MS. GRADY: That's great, your Honor. If that's the understanding, I'm all -- I'm on board with that.

MS. HUMMEL: I believe, your Honor, that we made the request in that application that that application for deferrals and recovery be considered in the context of resolving this case.

ATTORNEY EXAMINER: Oh, I'm sorry. Okay.

MS. HUMMEL: In the interest of fair play.

ATTORNEY EXAMINER: I appreciate the --

MS. HUMMEL: Which is why I have not been objecting, your Honor. I see you looking at me all the time.

ATTORNEY EXAMINER: Okay. That's my mistake. I'm sorry, Ms. Grady, I guess Mr. Ulrey should answer the question.

MS. GRADY: That's all right.

A. The amount of deficiencies that would occur during the extension period depends upon the length of the extension period. I think we've looked at several months. I think we've looked at October and November and December. I did not myself, but I think I've heard the number. Unfortunately, I don't recall it. It's over a million dollars.

ATTORNEY EXAMINER: Do you have a sense of what proportion is November -- October, which portion would be November, and which proportion would be December?

THE WITNESS: And this is by recollection, and I doubt they are exact, but my recollection was $800,000 in October, $400,000 in November, and actually I guess it was maybe a million dollars in December, but I'm not positive. That would be closer to 2 million.

Q. (By Mr. Grady) That's what my math was telling me. So that would be on top of the $5 million projected figure at this point in time?

A. Yes. And that total represents the fixed costs under recovery that the company has incurred for this two-year plus time period or would expect to incur.

Q. Now, Mr. Ulrey, the SRR-A deferral period -- or the SRR-A recovery period in this case that you're suggesting that -- let me strike that.

The SRR-A will recover the deferrals over a year period of time; is that correct, under your proposal?

A. Under our proposal the deferrals estimated through September 30 would be recovered over a 12-month period, yes.

Q. Is it your understanding that that one-year period was established in the context of 05-1444?

A. I do not believe so.

Q. Now, the SRR-A as well as SRR-B are allocated to -- to the customers in each class; is that correct?

A. The decoupling rider calculates

deficiencies on a rate class basis, and the deficiencies for each rate class is recovered from that rate class.

Q. Now, Mr. Ulrey, in the proposal you have before the Commission you have tied the funding of demand-side management to approval of your proposed SSR-B; isn't that correct?

A. I made the statement that the decoupling rider on an interim basis should be a prerequisite to the approval of the energy efficiency programs. The company is seeking alignment with its customers. Its existing decoupling mechanism helps achieve that. We've upped the ante by suggesting a larger commitment of dollars to energy efficiency in this proceeding, and it just simply seems unfair if the company is in all the way that it wouldn't have the ability to recover its authorized base rate revenues.

Q. And when you say the company is in all the way, are you referring to the company's DSM proposal, the 2.9 million incremental funding for the DSM program?

A. Yes. And the fact that the company, Vectren, is adopting a conservation corporate strategy with the intent of everything we do focused on driving down customer usage to reduce their bills. And we do that because we have the alignment that's offered by decoupling. If we don't have decoupling, it's hard to go all out if you know every time you succeed in reducing the customer's bill, you hurt yourself financially, so even if subconsciously, you know it has to have an effect on your efforts.

Q. I have just a few more questions, Mr. Ulrey. We talked about SRR-A and SRR-B and essentially the difference in theory between SRR-A and SRR-B, the B actually has a component that removes the weather risk from the company. Would you agree with that characterization?

A. I think the better characterization is that the SRR-B because it takes out the impact of abnormal temperatures reduces the risk for customers and the company. If you accept that rate design is done on a normalized basis, weather normal basis, and is intended to remove that abnormality, the SRR-B simply achieves that. It keeps customers from having to pay more than the authorized fixed costs recovery approved in the last rate case while it also helps the company not underrecover, so I would say both customer and company realize the benefits of the weather aspect of SRR-B.

Q. Okay. Let's talk about the company benefits of the removal of the weather impact. Would you agree with me that when the weather impact is removed, that it will contribute to a more stable revenue source for the company?

A. The base revenues are stabilized. Now, under the decoupling rider the company doesn't collect those revenues until the subsequent year when the decoupling rider is in place, whereas, the straight fixed variable would recover on a current basis, but it does -- both of those do stabilize the base rate revenues.

Q. And also another benefit to the company would be, Mr. Ulrey, that -- and we are talking now about the removal of the weather impact associated with your SRR-B, would be that it should increase the company's ability to attract capital improvement; is that correct?

A. I think Mr. Benkert's testimony addresses the value of stable revenues as far as attracting capital and having a positive impact on bond ratings which could lead to lower costs for interest expense and benefiting customers as well in the longer term.

MS. GRADY: Mr. Ulrey, that's all the questions I have. I am now going to turn you over to Mr. Serio, if the bench will allow.

ATTORNEY EXAMINER: Let's go off the record for one moment.

(Recess taken.)

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

MR. SERIO: Thank you, your Honor.

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CROSS-EXAMINATION (Continued)

By Mr. Serio:

Q. Good morning, Mr. Ulrey.

A. Good morning.

Q. You are the policy witness behind the company's proposal to implement the fixed variable rate design, correct?

A. Correct.

Q. And by straight fixed variable we are referring to an increase in the recovery of the fixed charge and a decrease in the recovery on the volumetric charge, correct?

A. An official definition of straight fixed variable would be only a customer charge and no volumetric charge. The way it's evolved in Ohio we are now talking in terms of partial straight fixed variable and full straight fixed variable. Under partial straight fixed variable there are increases to the customer charge, decreases to the volumetric charge, but the volumetric charge remains nonzero.

Q. Okay. And am I correct that the main driver behind the company wanting to go to a straight fixed variable rate design is the steadily decreasing average usage per customer that the company has experienced?

A. That's an important consideration but it's by no means the only consideration. The testimony of Mr. Overcast in this proceeding describes a number of other reasons to pursue movement to straight fixed variable.

Q. You referenced in your testimony some American Gas Association studies that supported or documented the decreases in annual sales. Do you recall that?

A. Yes, I do.

Q. When you were looking at those studies, did the company assume that decreases in sales per customer are going to continue at the same pace, or is there some point in time where it's your belief that customers will have learned to have conserved about as much as they can and there is a base level of usage that's required by a customer in the Midwest in order to keep warm in the wintertime?

A. There are many factors that impact average use per customer. I've been in the gas business for 27 or 8 years, and the average use per customer when I came in the business at Indiana Gas Company was about 141 dekatherms per customers. It's dropped in Indiana to in the 80s. It's had varying percentage reductions each year.

Some of it related to more efficient appliances being mandated by the Federal Government. Some of it had to do with higher -- tighter homes as far as insulation, set back thermostats, a number of things continue to change, but the downward trend continues. It's our concern is that it will continue to accelerate or it will stay high, the reduction in average use per customer, because of the high natural gas prices compared to prior years. The AGA has done other studies on price elasticity, and as the price of gas goes up, it is expected that customers will continue to dial down, so my expectation is AUPC, or average use per customer, will continue to decline into the future.

Q. You referenced 141 dekatherms. That would be roughly 141 Mcf, right?

A. That's right.

Q. And approximately what year was that?

A. It was 1981, I believe.

Q. So from 1981 to approximately 2008 which would be a 27-year period?

A. Yes.

Q. The consumption decreased from 171 DCM to somewhere in the 80s, correct?

A. Correct.

Q. If you project from 2008 27 years to 2035, you would anticipate seeing the consumption to go from in the 80s down into the 20s?

A. I wouldn't necessarily project the same reduction as has occurred to date. I would though, as I said, continue to believe that there will be a reduction in average use per customer over time.

Q. And the reason that the reductions going forward are going to be less than what you have experienced in the past is once you insulate a home, you've probably done the majority of what you can do to reduce your usage based on weatherization. You can't just continue to insulate a home to the point where you eliminate your need for gas, correct?

A. I suppose there's a practical limit on what can be done to a housing envelope to -- to reduce usage based on current technologies and if every customer had done every one of those things based on current technologies, it's possible that we will have a slowdown for that particular component of the average use per customer reduction. But it doesn't say anything about future technologies that may come along and further improve in that particular case the housing envelope technology.

Q. You talked about appliances. At some point, you know, appliances continue to get more efficient, but the improvements in efficiency are considerably less than the initial improvements in efficiency, correct?

A. I am not an expert on that area either. I do know that we have gas furnaces now, gas heating equipment, that are achieving 90 plus percent efficiencies and if 100 percent is the limit, which you would assume it is, then there may be a limit on that. Again, I don't know that there might not be technology in the future, though, that somehow uses -- improves it beyond what we are seeing today.

Q. Now, those are the things that are reducing usage. On the flip side there's more appliances that use gas today than there were 27 years ago, correct? For example, do you recall 27 years ago that there was the same proliferation of outdoor fire pits?

A. There -- they used to call them luau lamps when I --

MS. HUMMEL: I object, your Honor. I think that assumes facts not in evidence.

ATTORNEY EXAMINER: Sustained.

Mr. Ulrey, 27 years ago would you have predicted the consumption would have dropped from 141 Mcf per customer to 80 plus Mcf per customer by this point in time?

THE WITNESS: I don't think so, your Honor. The --

ATTORNEY EXAMINER: And you are not presenting yourself as an expert in technology trends or --

THE WITNESS: I am not.

ATTORNEY EXAMINER: -- future advances.

THE WITNESS: I am not.

ATTORNEY EXAMINER: Thank you.

Q. Mr. Ulrey, you would agree with me with the straight fixed variable rate design the balance between the fixed charge and the commodity volumetric portion as proposed by the company, as you have proposed it, would be a wash for a customer using the average usage for gas, correct?

MS. HUMMEL: May I hear that question again, please?

ATTORNEY EXAMINER: Why don't we ask Mr. Serio to restate the question because I had trouble following it as well.

MS. HUMMEL: Thank you.

Q. As proposed by the company, the straight fixed variable rate design, the increase in the fixed portion would be offset by the decrease in the volumetric portion for a customer easing the average annual volumes of gas, correct?

A. That's correct.

Q. And for a customer that uses less than average, there would be an increase, correct, a net increase to their bill?

A. For every increase in the customer charge that reduces the volumetric charge?

Q. For a low use customer, yes.

A. A low use customer, and I assume by low use you mean some -- anybody using less than the average.

Q. Yes.

A. The percentage -- the increase to those customers would be positive, whereas, for the average customer, all things being equal, there would be no impact.

Q. And the flip side is for a customer using more than average, they would see a negative effect to their net bill, correct?

A. To their -- they would see a negative effect to their base rate recovery portion of their bill.

Q. And to the extent that you were using less than average, the positive impact to the bill would be greater as the amount of gas you use is further away from the average amount. For example, if 85 Mcf a year is average and as a low use customer you use 40 Mcf a year, that customer would experience a larger net increase to their bill than a customer that used 60 Mcf a year, correct?

A. That's correct.

Q. Flip side being for a customer that uses 120 Mcf a year, they would see a greater decrease than a customer that used 100 Mcf a year?

A. Again, assuming movement from the volumetric charge to the customer charge, yes.

Q. And that's just a matter of the math, as you move further away from the average, that the impact would get greater?

A. That's correct.

Q. Now, you were in the room this morning when I asked Mr. Heid about gradualism with the move to the straight fixed variable rate design?

A. I was.

Q. And you recall when I asked him if the company had considered instead of making the move from a $7 fixed customer charge to the 16.50 in the winter and then ultimately to the $22 I believe it was in Stage 2, if the company had considered increasing it, for example, a dollar a year and making the move from 7 to 8 to 9 to 10, and he indicated that he didn't have any recollection of any discussions like that, and he deferred the question to you. So my question to you is at any point in time did the company consider that type of gradual change to the straight fixed variable -- to the customer charge?

A. We looked at a number of approaches to moving to straight fixed variable and came up with this two rate case approach because it provided enough time to educate customers on what we were doing. It mitigated the instant -- or the impact of going instantaneously to straight fixed variable by spreading it out over five to seven years, but it didn't take forever to eliminate the intraclass subsidies that the low use customers are enjoying in the residential class. We recognized that large volume customers were paying more than their fair share of costs, and we didn't want to prolong forever the correction of that intraclass subsidy, so the five to seven year stage over two rate cases seemed like a good time frame to accomplish both of those objectives.

Q. So that means that you looked at a change that might be a dollar per year but decided that that was insufficient to meet your needs or you didn't look at that particular type of move?

A. I don't recall looking at a dollar per year prior to filing the application. That would involve a number of stages and we just thought fewer stages might be better. It's not something that couldn't be done as long as you had full decoupling to go with it. It's just not something we considered.

Q. Now, you indicated that customer education was something that you factored in your decision and you thought by spreading it out over a two rate case period it would enable you to be able to educate customers. What do you have in mind to be able to educate customers? What are -- what's the company going to do?

A. Well, I suspect that the local public hearings we'll be able to provide some information. Beyond that we don't have a program laid out, but the idea is we want to communicate to customers that their billing will be more like the billing that they are used to seeing from most of their other service providers.

When you ask a customer today how much they pay for gas distribution service, they simply don't know. The volumetric charge and the service charge just confuse them as to what they are paying.

If you ask them what they pay for telephone, for internet, for cable, for those other service, they can tell you because it's a fixed charge per month. So what I envision us doing is over time helping customers understand that we are moving to something that will help them actually realize what they are paying for gas distribution service separate from what they are paying for gas supply.

ATTORNEY EXAMINER: Mr. Ulrey, can you tell me what the -- at today's prices what the split is on a customer's bill between distribution and supply? What's the percentage?

THE WITNESS: There's variation based on the current cost of gas supply, but a 75 percent gas cost, 25 percent distribution cost so 80/20 is right in the ballpark.

ATTORNEY EXAMINER: In that range?

THE WITNESS: Yes.

ATTORNEY EXAMINER: Thank you.

Q. So that I can understand your answer to the Examiner, you are saying currently today 25 percent of the bill is the customer charge and approximately 75 percent is cost of gas, and that with the move to straight fixed variable it becomes

20 percent is customer charge and 80 percent or --

A. No. I was trying to indicate what portion was the distribution cost, customer charge plus volumetric, and what portion was just purely gas and supply, 75/25 or 80/20 depending on the cost of gas per month.

Q. Today the customer charge is anywhere from 20 to 25 percent of the bill and the cost of gas itself is 70 -- is 75 to 80 percent of the bill?

A. The 20 to 25 percent is customer charge plus the fixed costs recovered in the volumetric charge. It's the total -- it's the charge the company assesses for distribution service. It's the only charge where we actually earn our money in the state of Ohio. It's the distribution charge -- charges.

Q. And after the company goes to the first stage of the straight fixed variable as proposed in this proceeding, how are those percentages going to be impacted?

A. You are referring to the percentage increase in the distribution charge versus the gas cost charge?

Q. Currently 20 to 25 percent of the bill is the customer charge made up of the fixed and volumetric component. After Stage 1, using today's cost of gas, I am assuming that that 20 to 25 percent is going to be a different number, correct?

MS. HUMMEL: I have to object, your Honor. That's like three times now. Mr. Ulrey has testified three times now that the 80/20 is the percentage of gas costs to distribution charge, not customer charge, distribution, total distribution charge.

MR. SERIO: I believe I said fixed and volumetric portion of the customer charge.

ATTORNEY EXAMINER: Overruled. You can answer the question.

A. I assume your question goes to what does the percentage increase to the distribution charge do to this mix?

Q. Yes.

A. And based on our application filing, we proposed an 8 percent overall total bill increase. It -- it's not going to move us too far beyond this range. It's still going to be 20 -- depending upon the cost of gas, it's still going to be 20/80. It might be 25/75. It might be 28 and 72, but it's not going to move it very much. I haven't done the calculation, Mr. Serio. I would have to get a piece of paper out and --

Q. That's for the first stage. Do you know what would happen at the end of the second stage?

A. At the second stage there would be no charge whatsoever because we are not proposing additional revenues to be recovered in the second stage, simply moving revenues, base rate revenues, from the volumetric charge to the customer charge in the second phase, so it won't impact the overall distribution component of this ratio.

Q. Okay. At the end of the second stage, your proposal is the fixed portion of the winter customer charge would be 20 -- let me find it here. $22 --

A. $22.

Q. $22. And the volumetric portion will have decreased from the current volumetric portion, correct?

A. Correct, from the Stage 1 portion.

Q. But if you take those two pieces and multiply them over a year, that would be a larger percentage of the customer's total bill than today's current $7 and higher commodity charge, correct?

A. No, not on average. We are not proposing any more revenues to be recovered in Stage 2 than we are authorized in Stage 1 so the total revenues are what they are. The percentage increase is what they are. And the impact on that ratio is fixed and it doesn't -- let me just say it doesn't change between Stage 1 and Stage 2.

Q. And it's a simple matter of taking the calculation that we have in the record right now and just running the number to verify that, correct? In fact, you did that as part of the application where you picked a gas cost and then ran the calculation with the different scenarios of the fixed portion of the customer charge?

A. We did and we have -- I believe in Mr. Heid's E-5 we have both Stage 1 and Stage 2 rates and you can see they are similar impacts.

ATTORNEY EXAMINER: Mr. Ulrey, but within the year we all know that a very high percentage of customers gas usage is in the winter months. Within the year will a customer's bill, the distribution portion of the customer's bill, go up or down, the average customer in the winter months?

THE WITNESS: In Stage 2, your Honor, compared to Stage 1?

ATTORNEY EXAMINER: Yeah.

THE WITNESS: The winter distribution charge will go up -- I'm sorry. The winter customer charge will go up. The volumetric charge will go down. It wasn't a complete zero impact because the volumetric charge also had some summary components to it, and we didn't increase the customer service charge, but if it's much -- if it's much of a change, it's not very large.

ATTORNEY EXAMINER: What percent of your customers are on budget?

THE WITNESS: I don't have an exact number. It's been in the 20 percent range historically.

ATTORNEY EXAMINER: For an average customer, average usage on budget, will there be any impact on their -- the shift from traditional rate structure to straight fixed rate variable?

THE WITNESS: For the average customer on a budget bill, there wouldn't -- average customer with or without budget bill, no impact certainly with budget bill. The customer would see no impact.

ATTORNEY EXAMINER: Their bill would stay the same every month.

THE WITNESS: It would.

Q. (By Mr. Serio) Mr. Ulrey, has the company done any focus groups or outreach programs with the customers to determine how they would react to the change to straight fixed variable rate design that you are proposing?

A. Not to my knowledge, Mr. Serio. I think the evidence we have though is that most customers are familiar with the fixed variable rate design because so many of their services use that approach. That's because so many of those services are provided through network systems just like the gas distribution system so -- but, no, we have not to my knowledge done any forums to determine how they would react to this.

Q. I think you referenced cable service and telephone service as two of the items where that's the way customers get their bill today; is that correct?

A. That's correct.

Q. With either telephone or cable service is there an additional charge for the actual commodity of cable service or telephone service other than the fixed charge that they pay, the customers pay?

A. Well, in cable it would be those additional services that subscriber charges, if you pick up HBO or Stars or some of those other networks, that causes a variable cost to be incurred by the cable company. My presumption is that customers will have to pay that as the variable component of the bill. It won't change their fixed costs, but they will have to pay for those added services that cost, those cable company's additional subscriber fees. Telephone there may be other fixed costs being recovered when there are other services provided. I don't know enough about that to say.

Q. So to the extent the customers are used to a fixed charge for telephone and cable, that's different than paying a fixed charge for natural gas service where you still have to pay a commodity cost in addition to your fixed charges, correct?

A. I wouldn't say so. I think it's exactly the same. I think that if we charge a distribution charge slowly, fixed variable flat monthly rate, that customers will understand that's what I pay for distribution gas service. It will be there clearly on the bill. The gas costs component which is already separately stated will be separate. They will be able to say here is my distribution service. Here is my gas service. Just like if you got a cable bill, here is my cable and here is my add-ons. I think it's exactly -- and that's what we are driving to.

We also like the idea that we not only -- they not only see it and recognize it, but they then start to understand the value of distribution service that they are receiving because if you assume 50 or 60 percent of the revenue requirement is approved in this proceeding, the fixed monthly charge for our residential customers would be in the neighborhood of $18.50 so they would see finally what kind of value they receive for gas distribution service and how efficient that's being provided to them.

Right now, they don't know. They have no idea. They mix it up with this gas cost and they think the distribution company is taking home buckets of money.

ATTORNEY EXAMINER: Mr. Ulrey, are you arguing this shift to fixed straight variable will simplify the bill for the customers?

THE WITNESS: I believe it would, and Dr. Overcast has suggested as well in his testimony that it would.

Q. Okay. I had asked you -- you made a comparison between natural gas service and telecom and cable. What is the comparable volume -- what is the comparable commodity in cable or telecom that you are referring to as the commodity that we have in the natural gas industry?

MS. HUMMEL: Asked and answered.

ATTORNEY EXAMINER: Sustained.

Mr. Serio, I know you don't like his answer.

MR. SERIO: Your Honor, it's not that I didn't like it. I don't know that I understood it.

Q. The company has not proposed the change in move toward straight fixed variable rate design for all customers in this proceeding, has it?

A. My testimony indicates that our intention is to try to mitigate as much as possible the amount of fixed costs recovery that's subject to volumetric charges. In this rate case we are proposing a two stage movement toward full straight fixed variable for residential but not complete. We propose one stage for all the other rate classes, but in my testimony I suggest that in our next rate case we may need to propose further movement toward straight fixed variable for the general service rate class and the large general and large volume rate schedules through building demands or contract demands which are another form of straight fixed variable rate design.

Q. With regard to the general service class customers, why did you not propose the same type of move towards straight fixed variable as you proposed for the residential class?

A. Our general service class has a wide variety of customer types. We have approximately 18 to 20 thousand customers in that general service class, so we've divided them among three meter groups for billing purpose, group 1, 2, and 3. Those represent different meter sizes. Group 1 is the smallest meters that are residentials in size and nature. The group 2 is larger, and the group 3 are larger yet.

We did propose what we thought were the maximum movements to customer charges within that group because their facilities' characteristics are different and their cost profiles are different. We couldn't come up with a single fixed charge to cover all of those fixed costs. We will have to go to a billing demand approach. Upon discussions internally and with staff prior to filing the rate case, we decided one stage would be appropriate for group 2 -- I'm sorry -- general service group 2 and group 3 meters and that we would postpone until the next rate case any further movement allowing us time to develop and to explain to the parties a billing demand approach.

Q. Are you done?

A. That's it.

Q. So am I correct that for general service customers in groups 1, 2, and 3, the company is at greater risk of underrecovering revenues to those classes of customers than the company is for residential customers pursuant to the straight fixed variable proposal in this proceeding?

A. No. The company's proposal is partial movement to straight fixed variable with an interim decoupling rider which would mitigate the risk of underrecovery of those costs due to declining use per customer in those classes. So there is, if the decoupling rider is implemented, no risk that those general service volumetric charge fixed costs would not be recovered anymore so than the residential.

Q. Staff did not propose -- the staff is opposed to your decoupling mechanism, correct, in the staff report?

A. The staff report approved the SRR-A in the initial rate for that, but it did not approve of the SRR-B.

Q. To the extent the Commission were to adopt the staff proposal or the staff recommendation in the staff report, would that mean that the company would be at a greater risk of underrecovering revenues from the general service class customers than it would be from residential customers?

A. If the decoupling rider proposal is now approved, the company would be of risk for both rate class volumetric charge fixed costs, and depending upon what stage there's -- maybe in both stages there are absolutely more fixed costs subject to underrecovery in the residential rate than in the general service rate.

Q. So in the residential rate where you've increased the fixed portion of the customer charge, there would still be greater risk of underrecovery than the general service class where you have not increased the fixed customer charge?

A. We did increase the fixed -- the customer charge in the general service class.

Q. Just for the Stage 1 customers, correct?

A. That's correct. We did increase it. Are you saying Stage 2 now?

Q. Well, so you are saying because you increased it for the Stage 1 customers, they are comparable to residential customers who are going to have an increased fixed charge?

A. I am saying the risk is -- is the same between the two. If you have fixed costs being recovered through a volumetric charge, whether you are residential or general service, to the extent there is a decline of average use per customer in those classes, the company is at risk for those underrecoveries, no more, no less. They are both at risk -- I also said that the residential --

ATTORNEY EXAMINER: Go ahead and finish and then I have a question.

A. The residential class has more fixed costs left in its volumetric charge than the general service class does. I believe under the second stage as well.

Q. When you say that, are you referring to all three groups under general service or just group 1?

A. The volumetric charge is the same for all group -- for all general service customers.

Q. Okay.

A. It's only the customer charges that are differentiated.

ATTORNEY EXAMINER: We had an extensive discussion with Mr. Serio about declines and customer usage on residential customers. Have you seen comparable declines in use among the remaining customers, more declines in use among the remaining customers, less decline in use of the customer costs?

THE WITNESS: The general service class which is the commercial, not the very large industrials, but all the other industrial customers have average use per customer declines to a significant extent over the years as well. They use about on average for the whole class about 400 -- I believe about 400 Mcf per year, and in years past they would have used well over 500 so the decline is there.

ATTORNEY EXAMINER: Is the percentage decline comparable to residential customers, if you know?

THE WITNESS: I don't know exactly. I think it would be fairly close, but I don't know.

ATTORNEY EXAMINER: Thank you.

Q. (By Mr. Serio) Is that information in the record anywhere that compares the decline among residential customers to commercial to industrial?

ATTORNEY EXAMINER: It is now.

MS. HUMMEL: It is now.

Q. I am talking about the specific numbers rather than just your general recollections.

A. To my knowledge Vectren did not put in historical declining average use per customer numbers for residential service other than between this rate case and last rate case for the residential class.

Q. Okay. So as I understand it, group 2 and group 3 customers in the general service class you are not proposing any increase to the fixed charge to those customers, correct?

A. In our Stage 1 rates we proposed increases to all three of those customer charges. In fact, we created group 3 in this filing and assigned them an $80 customer charge. That was as far as we felt we could go on the per customer charge. Because of their differing characteristics we needed to find another way to differentiate among them for fixed cost recovery, which we weren't prepared to do in this rate case.

Q. Okay. So for the first stage of the increase both residential and all general service class customers will see an increase to the fixed portion of their bill?

A. To their customer charges, yes.

Q. And in Stage 2 only residential customers will see an additional increase to the fixed portion of their customer charge?

A. To their customer charge, yes.

Q. Now, you indicated also that one of the reasons you didn't go further with the general service class customers is because you had had discussions with the staff prior to filing the Staff Report. Do you recall that?

A. Yes.

Q. Was it the staff's recommendation to you that you not do that, or was that the company's decision?

A. No. In fact, simply what I did was mention the concept to staff to obtain a reaction, and the reaction was one of not understanding its application of demand charges to the gas business, which indicated to me that I needed to find a way to educate over time how that could work, and so the company, Vectren, made the decision not to pursue it simply after that very small exchange.

Q. Now, you've referenced a couple of times education. To the extent that you make the changes that you are proposing, if the Commission were to approve in this proceeding and you found that customers still either didn't like the changes or didn't understand them, does that mean that the company would reconsider the second rate case change of continuing the movement to the elimination of the volumetric portion and continuing increase to the fixed portion of the service charge?

A. When you say customers, you are not accepting or not understanding --

Q. Yes.

A. Do you mean low usage customers or?

Q. Well, I assume you are going to try to educate all customers.

A. That's right.

Q. Then if you find that there is a widespread "I don't get it, I don't like it," is the company going to still continue down that path?

A. It's hard to understand how the customers wouldn't understand this type of billing for distribution service, and I think understanding, as I said earlier, the value they receive for distribution service through that fixed charge could lead to acceptance. If you are saying that low income -- low usage customers would protest it and would change our approach, that goes against our other objective, which is to properly assign to customers their fair share of the cost they cause to occur on the system so just not sure that we would see the kind of objections that would cause us to stop the transition.

Q. Okay. I think you said two things in your answer. You said you don't -- you have a hard time understanding how customers wouldn't understand it, and then you said you don't think you would see the kind of reaction that would cause you to change.

A. Widespread.

Q. Widespread. So is your position that unless you saw widespread objection and widespread misunderstanding that the company would still go forward, correct?

A. Mr. Serio, I am not sure what we would do if we had widespread objections to an appropriate rate design.

Q. Okay.

A. I don't anticipate it happening, but I can't say that we would stop the transition.

Q. Okay. Fair enough. What do you consider -- how would you quantify widespread?

A. It would be something --

MS. HUMMEL: I am going to object. It's speculative, your Honor.

MR. SERIO: Yeah, it is speculative, but the witness said I don't think we would do it if we don't see widespread. Well, I would like to know what the standard of widespread would be since he is the policy witness. I think I am entitled.

ATTORNEY EXAMINER: Mr. Ulrey, will you know widespread when you see it?

THE WITNESS: Yes.

ATTORNEY EXAMINER: I think that's the

best you are going to get.

Q. In your testimony you indicated that you anticipated that the cost of gas this winter would be significantly greater than it was last year? Do you recall that?

A. Yes.

Q. Is that still your position that you expect the cost of gas this winter to be significantly higher than the cost it was last winter?

A. Yes. Our most recent look at that was a week or so ago and we still had -- actually, this is among all of our utilities -- we still had 15 to 20 percent increases expected for this winter over gas costs actually billed last winter, so it's still anticipated that we will have higher prices this winter for our customers.

Q. In your rebuttal testimony on page 5, I think you identify a $3.72 difference or 48.3 percent in the gas commodity price, so the 15 percent you are referencing now is your most current view in contrast to that 48.3 percent, correct?

A. Well, my 15 to 20 -- actually, it's 20 plus percent was referring to the total bill impact to a customer so the percentage of gas costs would be a little bit higher.

Q. What's your most current estimate comparable to the 48.3 percent? Do you have a number there?

A. I can say that gas costs as of yesterday for next winter, I believe, were up 12 or 14 cents. I think the winter strip is now $9.14, meaning the average NYMEX price from November through March.

Q. Okay. Am I correct, Mr. Ulrey, that the company used PIPP customers as a surrogate for all low income customers when you were trying to determine the impact of the straight fixed variable rate design on customers?

A. I think Mr. Overcast testifies that the movement to straight fix -- full straight fixed variable rate design would benefit the PIPP customer class because they use more than the average customer and as we established earlier, that would have the effect of reducing the distribution charge component of their billing.

Q. Do you know how non-PIPP low income customers are going to fare under the proposed changes in rate design that the company has proposed

in this case?
A. How do you define non-PIPP low income?
Q. A low income customer that's not on the PIPP program, 150 percent of the poverty level or below.
A. Do I know how those customers will be impacted?
Q. Yes, yes.
A. By full straight fixed variable?
Q. By the straight fixed variable as proposed in this case.
A. The partial straight fixed proposed in this case?
Q. Yes.
A. I do not have any information on low income customers and their distribution among -- in the usage scale, so we've -- I have not done any analysis on that.
Q. Did you see the testimony of Roger Colton submitted by OCC in this proceeding?
A. I did.
Q. Have you read the testimony?
A. I have.
Q. And would you agree with me Mr. Colton

has raised an issue as to whether low income customers and PIPP customers are impacted in the same manner by the move to straight fixed variable as proposed by the company in this proceeding?

A. Mr. Serio, I did read his testimony. I know he is making an assertion in that regard. I only read it once and it didn't -- I didn't understand it. It didn't become apparent to me in one reading, and I have not read it since, so I can't really comment on his conclusions that he may have raised.

Q. As part of your analysis in determining to go forward with the straight fixed variable as proposed in this proceeding, did the company do any analysis to determine how it would impact low income customers that were not PIPP customers?

MS. HUMMEL: May I have the question back, please, your Honor?

ATTORNEY EXAMINER: Please.

(Record read.)

A. We had not done any analysis of -- prior to filing the application but based on the Colton testimony, the company is now doing or has completed analysis of low income in usage correlation.

Q. Is that something that you are familiar with, or is there another witness that's more well versed on that?

A. I am not familiar with it, and I don't know which witness will present that.

Q. You anticipate that's going to be presented in this proceeding?

A. Actually I don't know.

Q. So if I asked you questions as to whether the company had done any analysis regarding how size of a home would impact how customers are affected by straight fixed variable, you wouldn't have any detailed knowledge of that?

A. If you mean how they are affected by the bill amounts, no. We didn't do any correlation but we -- and Mr. Overcast's testimony addresses this. We recognize the cost to serve a customer is not impacted by -- a residential customer is not impacted by the size of the house or the income levels or it -- the investment in the facilities is very homogeneous and the cost to serve them are very similar, so the impact of SFV, we believe, is appropriate, even though it may have varying impacts upon customer bills.

Q. To the extent that density of customers per square mile differs, is that a factor that would affect cost per serving customers?

A. There are so many variables associated with that. It's not only the length of mains associated with density but also the cost to install mains in more dense areas. Our rates do not differentiate based on geography so.

ATTORNEY EXAMINER: Are you saying there are some variables that are increased when density goes up and some variables that are decreased when density goes up?

THE WITNESS: Your Honor, that's my understanding. The best witness to address that is Mr. Overcast. He testifies on the costs to serve customers and I think would be best equipped to respond to those type questions.

ATTORNEY EXAMINER: Thank you.

MR. SERIO: I guess it doesn't pay to be cleanup.

Q. The company has a certain number of low use customers on the system today. I believe in deposition you estimated there were approximately 8,000 bills that were customers that might discontinue gas service altogether because of the change in how the rate design is going to flow to them on -- in their bills. Do you recall that?

A. Yes, I do. And I have some better numbers associated with that. I had stated 8,000 bills, but, in fact, it was actually 3,000 customers in total, perhaps 3,200 both residential and general. That's more like 37,000 bills. It represented all customers with usage less than 60 Ccf per year, in other words, half an Mcf per month or no usage whatsoever.

Q. And so your assumption is for those low usage customers below 60, they are using gas for reasons other than heating?

A. Most assuredly they would not be using that for space heating.

ATTORNEY EXAMINER: Are they using -- would usage that low -- I am afraid to ask the question, it will reveal my lack of knowledge, but here goes, when you say that low, would it indicate people using it for heating hot water or not heating hot water?

THE WITNESS: It could be hot water. It could be a gas stove. It could be --

ATTORNEY EXAMINER: Fire pits?

THE WITNESS: A fire pit, maybe a gas log, but certainly it wouldn't be more than one of those. It's just very, very low usage.

ATTORNEY EXAMINER: But it could be a hot water tank.

THE WITNESS: It could be a hot water tank. Those usually, I believe, use more than that per month, but it could be a very small usage, I mean, very small hot water tank.

Q. (By Mr. Serio) And you indicate it was 37,000 billing units?

A. That's the total number of bills.

Q. On an annual basis.

A. It's 12 times the 3,200 or so.

Q. So if all those customers decided to quit taking gas, the lost revenues to the company would be $7 customer charge times that 37,000 number, correct?

A. Part of that was general service customers, and that's $10, so I believe the total -- and we made a pro forma adjustment to indicate these customers would not be on the system reacting to a full price -- a partial full price, and that totaled about $300,000. It included the customer charge as well as the small amount of base rate revenue recovered through the volumetric charges.

ATTORNEY EXAMINER: And that pro forma adjustment is in your schedules?

THE WITNESS: It is reflected in our schedules. I don't know that it's separately identified but --

ATTORNEY EXAMINER: It's reflected in your schedules?

THE WITNESS: It is.

Q. Your pro forma adjustment showing that is after the test year, correct?

A. That's correct.

Q. So if those customers leave the system, there is no impact on customers in this rate proceeding, but it would happen in the next rate case, correct?

MS. HUMMEL: Your Honor, could we go off the record for a minute?

ATTORNEY EXAMINER: Yes.

(Discussion off the record.)

ATTORNEY EXAMINER: Let's take 5 minutes.

(Recess taken.)

ATTORNEY EXAMINER: Let's go back on the

record.

MR. SERIO: Thank you, your Honor. In an off the record discussion I have concluded that I have no more questions.

ATTORNEY EXAMINER: Thank you.

Mr. Airey.

MR. AIREY: No questions.

ATTORNEY EXAMINER: Mr. Margard.

MR. MARGARD: Nor do I. Thank you.

ATTORNEY EXAMINER: Redirect?

MS. HUMMEL: Thank you, your Honor.

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REDIRECT EXAMINATION

By Ms. Hummel:

Q. Mr. Ulrey, you were asked a couple of questions -- several questions by Ms. Grady about the application in Case No. 08-632 seeking continued deferral authority for the difference between actual base revenues and Commission-approved based revenues in the last rate case. Do you recall those questions?

A. I do.

Q. And you were asked if you could -- if you knew what the amounts anticipated for deferrals for

October and November and December were for this year. Do you recall that question?

A. I do.

Q. And did you have occasion to check the numbers that you posited for the record for accuracy during the break?

A. I did. And my previous estimates were off the mark somewhat. The budgeted deficiencies, in other words, the decoupling rider deficiencies projected in our budget for those months were for the month of October, 2008, $500,000; November, 2008, was $500,000; and December, 2008, is $800,000. This budget was established last fall. We've seen deficiencies that have been somewhat less than the budget so although this total is to $1.8 million, we would expect it to be lower than that in actual -- in actuality.

Q. Thank you.

A. You're welcome.

Q. Mr. Serio asked some questions about customers' ability to understand the straight fixed variable rate design. Do you recall those questions?

A. I do.

Q. Do you have an opinion regarding the

ability of customers to understand a straight fixed variable rate design that includes fixed costs in the customer charge compared with the understanding that would be required if the same fixed costs were recovered through a decoupling rider or some combination of customer charges and decoupling rider?

A. Yes.

Q. And what is that opinion?

A. I think I've indicated that the straight fixed -- full fixed variable is simple to understand and simple to bill. That would imply that it's easier for customers to understand exactly what they are paying for gas distribution service.

Decoupling riders are extremely important as long as you have a volumetric customer charge so that the company will not underrecover its costs, but it's -- it's more difficult for a customer certainly to understand that, and it takes a number of forms. The problem is that there is a volumetric charge that remains when you have the necessity of a decoupling rider. The volumetric charge is attempting to recover fixed costs from customers through a variable charge. The message to customers is that you can reduce costs, the company's costs, if you reduce usage and, in fact, these are fixed costs. They can't -- they won't be reduced by reduced usage, but the customer looks at that price signal, maybe even makes economic decisions for their energy efficiency decisions, efforts, based on that price signal thinking that they will avoid those costs, but the decoupling rider will ultimately return those costs to that customer even though it's on a year delay.

I don't think customers would understand that. I don't think they would appreciate it either if they knew that they were receiving an inaccurate price signal in the first place. Now, as I say, decoupling riders are very important in the interim, but in the long-term straight fixed variable is a much better answer and I think, therefore, easily -- more easily understood by a customer.

Q. Thank you. You discussed a little bit with Mr. Serio customer education surrounding separate fixed variable rate design moved to straight fixed variable rate design. Do you recall that?

A. Yes, I do.

Q. Is the company the only source of information the customers have when it comes to their understanding of their natural gas distribution charges?

A. No. There would be others. Certainly the Commission staff could assist in the education venues. The OCC as well could assist in the education of customers on the benefits of -- or the aspects and the attributes of straight fixed variable rate design. I suppose even gas marketers could help explain to customers the difference between their portion of the bill and the distribution bill if it was set up accordingly. So there would certainly be other sources of information that could help educate the customers on this move to full straight fixed variable.

Q. And customers' opinions about rate design would be influenced by those other sources of information, correct?

A. I would say both -- all three of those sources are highly respected sources of information, and it would impact customers' thoughts about the change to full straight fixed variable.

MS. HUMMEL: Thank you. That's -- those are all the questions I have, your Honor.

ATTORNEY EXAMINER: Recross, OCC?

MS. GRADY: Thank you.

RECROSS-EXAMINATION

By Ms. Grady:

Q. Mr. Ulrey, you updated your budgeted deficiencies associated with the SRR decoupling revenues?

MS. HUMMEL: Objection, your Honor. I think he said he corrected them.

MS. GRADY: I'm sorry, corrected, thank you.

A. Yes, I corrected them.

Q. And you said that your experience has been that -- let me strike that.

The budgeted -- the budgeted deficiencies from 2008 -- let me strike that.

Are the budgeted deficiencies for 2008, are you relying on an average use per customer figure to get to those deficiencies?

A. I don't prepare the budget, but I would assume that each -- each month of the budget would have an estimate of the average use per customer for that month that is the basis for the expected base rate revenue recovery which would then be the basis for establishing this deficiency calculation.

Q. And then, Mr. Ulrey, you said the

experience of the company has been that the budgeted deficiencies have been a little higher than what's actually being experienced; is that right?

A. That's what I was told, yes.

Q. Would that mean then that the average use per customer figure is not declining as much as you would have assumed in the 2008 budget?

A. It could -- it could reflect less reduction in average use per customer. It could just be part of the mix of what months were the average use per customer from the rate case attributed to. I simply don't know what we might attribute the difference to.

MR. SERIO: I had a question, Mr. Ulrey. You indicated that your understanding -- you thought the customers would understand the straight fixed variable better than the decoupling mechanism in response to Ms. Hummel's questions, and my question to you is that based on any kind of surveys or focus groups with customers?

THE WITNESS: No. Other than my personal opinion as a customer of utility service.

MR. SERIO: Thank you.

ATTORNEY EXAMINER: Mr. Airey.

MR. AIREY: No cross.

ATTORNEY EXAMINER: Mr. Margard.

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

ATTORNEY EXAMINER: Ms. Hummel.

MS. HUMMEL: Nothing further, your Honor.

Thank you, Mr. Ulrey.

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EXAMINATION

By Attorney Examiner:

Q. Mr. Ulrey, are you familiar with OCC's proposal for decoupling that they have proposed in lieu of the rate design that the company has recommended?

A. Yes, your Honor. I believe the OCC proposed a decoupling rider more akin to our SRR-A which does not have the weather tracking --

Q. Right.

THE WITNESS:

A. -- aspect to it.

Q. Leaving aside whatever the result of the weather normalization would be in a given year, the total residential customer class revenue to be produced by the company's proposal versus OCC's proposal, would it be identical controlling out the weather normalization factor?

A. Yes, I believe their proposal if we assume normal weather for the 12 months would generate the same as our SRR-B proposal which has weather tracking. The total revenue paid by residential consumers in the state would be the same irrespective which proposal the Commission would assume, assuming away the abnormal weather.

ATTORNEY EXAMINER: Thank you. You are excused.

MS. HUMMEL: I renew my motion for the admission of Company Exhibits 9 and 9a, your Honor.

ATTORNEY EXAMINER: Any objection to the admission of 9 or 9a? Hearing none they will be admitted.

(EXHIBITS ADMITTED INTO EVIDENCE.)

ATTORNEY EXAMINER: Let's go off the record, please.

(Discussion off the record.)

ATTORNEY EXAMINER: We have heard our last witness for the day, and this hearing will be adjourned until 10:30 on Monday, August 25.

Thank you all.

(The hearing concluded at 1:07 p.m.)

CERTIFICATE

I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Friday, August 22, 2008, and carefully compared with my original stenographic notes.

Karen Sue Gibson, Registered
Merit Reporter.

(KSG-4959)

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