1 BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO 2 3 In the Matter of: : Case No. 07-1080-GA-AIR 4 The Application of Vectren: Energy Delivery of Ohio, : Inc., for Authority to 5 Amend its Filed Tariffs to: Increase the Rates and Charges for Gas Services : 7 and Related Matters. 8 In the Matter of: Case No. 07-1081-GA-ALT 9 The Application of Vectren: Energy Delivery of Ohio, : Inc., for Approval of an : 10 Alternative Rate Plan for : 11 a Distribution Replacement: Rider to Recover the Costs: of a Program for the 12 Accelerated Replacement of: Cast Iron Mains and Bare : 13 Steel Mains and Service Lines, a Sales 14 Reconciliation Rider to 15 Collect Difference Between: Actual and Approved Revenues, and Inclusion in: 16 Operating Expense of the : Costs of Certain 17 Reliability Programs. 18 19 **PROCEEDINGS** 20 VOLUME IV 21 before Mr. Gregory Price, Attorney Examiner, at the 22 Public Utilities Commission of Ohio, 180 East Broad 23 Street, Room 11-F, 10:00 a.m. on Monday, August 25, 24 2008.

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6	and
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1	Monday	Morning	Session,
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- 2 August 25, 2008.
- 3 - -
- 4 ATTORNEY EXAMINER: Let's go back on the
- 5 record. Good morning. The Public Utilities
- 6 Commission has set for hearing at this time and this
- 7 place in the Matter of the Application of Vectren
- 8 Energy Delivery of Ohio, Inc., for Authority to Amend
- 9 its Filed Tariffs to Increase the Rates and Charges
- 10 for Gas Service and Related Matters, Case No.
- 11 07-1080-GA-AIR, et al.
- 12 My name is Gregory Price. I am the
- 13 Attorney Examiner assigned to preside over the
- 14 hearing today. This is our fourth day of hearing in
- 15 this proceeding.
- 16 Let's begin by taking abbreviated
- 17 appearances from the parties. Company.
- 18 MS. HUMMEL: Thank you, your Honor.
- 19 Gretchen J. Hummel on behalf of the company.
- 20 ATTORNEY EXAMINER: OCC.
- MS. GRADY: Thank you, your Honor.
- 22 Maureen R. Grady on behalf of the Consumers' Counsel.
- 23 ATTORNEY EXAMINER: And counsel.
- MR. MARGARD: Werner L. Margard on behalf

1	of the Commission staff.
2	ATTORNEY EXAMINER: Thank you very much.
3	Do we have any preliminary matters for the Bench
4	before we take our first witness?
5	Hearing none
6	MS. HUMMEL: No, your Honor.
7	ATTORNEY EXAMINER: we will take our
8	first witness.
9	MS. HUMMEL: Thank you, your Honor. The
10	company calls H. Edwin Overcast.
11	(Witness sworn.)
12	ATTORNEY EXAMINER: Please be seated and
13	state your name and business address for the record.
14	THE WITNESS: My name is H. Edwin
15	Overcast. My business address is P.O. Box 2946
16	McDonough, Georgia 30253.
17	ATTORNEY EXAMINER: Thank you.
18	Please proceed, Ms. Hummel.
19	MS. HUMMEL: Thank you, your Honor.
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- 1 H. EDWIN OVERCAST
- 2 being first duly sworn, as prescribed by law, was
- 3 examined and testified as follows:
- 4 DIRECT EXAMINATION
- 5 By Ms. Hummel:
- 6 Q. Mr. Overcast, would you please state for
- 7 the record by whom you were employed for the purposes
- 8 of providing testimony in this proceeding and what
- 9 the subject matter of your testimony is.
- 10 A. Yes. I was employed by Vectren Energy
- 11 Delivery of Ohio to present testimony related to
- 12 straight fixed variable rate design and the
- 13 appropriateness of that rate design as applied to gas
- 14 LDC.
- 15 Q. Thank you. Do you have a copy of what
- 16 has been marked as Company Exhibit 8 in front of you?
- 17 A. Yes, I do.
- Q. Could you briefly describe that exhibit
- 19 for the record.
- 20 A. That exhibit is my prefiled testimony.
- 21 It includes an appendix that has my background, and
- 22 it includes a set of exhibits, three exhibits, to the
- 23 testimony.
- Q. And were -- was Company Exhibit 8

- 1 prepared by you or under your supervision?
- 2 A. Yes, it was.
- 3 Q. Do you have any changes or corrections
- 4 that you would like to make to Company Exhibit 8?
- 5 A. None that I am aware of.
- 6 Q. And if you were asked the same questions
- 7 contained in Company Exhibit 8 today, would your
- 8 answers be the same?
- 9 A. Yes, they would.
- 10 MS. HUMMEL: Thank you, Mr. Overcast.
- 11 I move for admission of Company Exhibit
- 12 8, and I offer Mr. Overcast for cross-examination,
- 13 your Honor.
- 14 ATTORNEY EXAMINER: Thank you.
- 15 Consistent with our previous procedure we will defer
- 16 ruling on the admission of Company Exhibit 8 at this
- 17 time.
- 18 Ms. Grady.
- MS. GRADY: Thank you, your Honor.
- 20 ATTORNEY EXAMINER: Cross.
- 21 - -
- 22 CROSS-EXAMINATION
- 23 By Ms. Grady:
- Q. Good morning, Mr. Overcast.

- 1 A. Good morning.
- Q. Mr. Overcast, is it your opinion that
- 3 both full rate fixed variable design -- let me strike
- 4 that.
- 5 Is it your opinion that full rate fixed
- 6 variable rate design as opposed to any other rate
- 7 design approach strikes the best balance when a
- 8 regulatory agency is establishing rates and charges?
- 9 And I am going to refer you to your testimony at 1,
- 10 lines 31 through 33.
- 11 A. Yes.
- 12 Q. And by full rate fixed variable you mean
- 13 a flat rate unavoidable customer charge with no
- 14 variable commodity portion; is that correct?
- 15 ATTORNEY EXAMINER: Ms. Grady, are you
- 16 saying "full rate fixed variable" or "full straight"?
- MS. GRADY: Oh, full straight fixed
- 18 variable.
- 19 ATTORNEY EXAMINER: Thank you. The Bench
- 20 is easily confused.
- 21 MS. GRADY: It was a long weekend, let me
- 22 say that.
- MS. HUMMEL: Not long enough.
- A. I think the answer is that in this case

1 because there are no variable costs associated with

- 2 gas delivery on an LDC full straight fixed variable
- 3 rate would consist of a fixed charge -- delivery
- 4 charge and no volumetric rate, but in the real
- 5 definition, I mean, you know, if you had variable
- 6 costs, they would be recovered in a variable
- 7 component.
- Q. I understand. Now, for VEDO the full
- 9 straight fixed variable rate would be around \$22; is
- 10 that correct?
- 11 A. I believe 21 or 22 dollars is the right
- 12 number, yes.
- 13 Q. And the move to full SFV would be from
- 14 the current \$7 customer charge?
- 15 A. Yes.
- 16 Q. And you testify, in fact, that it would
- 17 be reasonable to transition from the current rates to
- 18 SFV immediately; is that correct?
- 19 A. Yes.
- 20 Q. Offhand, Mr. Overcast, can you name 3
- 21 commissions out of 50 that have adopted a full
- 22 straight fixed variable rate approach to rate design?
- 23 A. Well, the Georgia commission adopted full
- 24 straight fixed variable rate design in the Atlanta

- 1 Gas Light case in 1998. I was a witness in that
- 2 proceeding. And the Missouri commission has adopted
- 3 full straight fixed variable for at least two gas
- 4 companies in Missouri.
- 5 Q. Now, you testified that it's your opinion
- 6 that the current volumetric rate design in use by
- 7 this company is unreasonable and unwise. And that's
- 8 at page 4, lines 1 through 3. Do you see that?
- 9 A. Yes.
- 10 Q. And you also testify at page 2 that "the
- 11 current volumetric rate design is unreasonable and
- 12 that would be a reference to lines 30 and 31; is that
- 13 correct?
- 14 A. I don't see the word "unreasonable"
- 15 there, not in lines 30 and 31.
- 16 Q. "As things presently stand, I believe the
- 17 current volumetric rate design is unreasonable and
- 18 must be modified"; am I reading that correctly? And
- 19 that would be lines 30 and 31, page 2.
- 20 A. Oh, excuse me. I'm on page 3, I'm sorry.
- 21 I am looking at the wrong place. Yes, that's
- 22 correct.
- Q. And let's also go to page 5, lines 27
- 24 through 28. You testify there that "the current

- 1 volumetric rate design is unreasonable." Do you see
- 2 that?
- 3 A. Yes.
- 4 Q. And you also testify on page 9 that
- 5 volumetric pricing fails to provide a reasonable
- 6 basis for recovery. Do you see that?
- 7 MS. HUMMEL: What line are you referring
- 8 to on page 9?
- 9 MS. GRADY: I can get that. It's a
- 10 carryover from page 8.
- MS. HUMMEL: Thank you.
- 12 A. Yes, I see that.
- Q. Was the volumetric rate design
- 14 unreasonable for VEDO when it was approved by the
- 15 Commision in the company's last rate case?
- 16 A. Well, by definition when the Commission
- 17 approved the rate, they approved it as being
- 18 reasonable but that doesn't mean it is reasonable
- 19 given all these factors that I have addressed in this
- 20 testimony as to why it is unreasonable.
- 21 Q. Now, on page 5, lines 4 through 5, you
- 22 talk about the GCR charge portion of a customer's
- 23 bill. Do you see that?
- 24 A. Yes.

1 Q. Do you have an opinion on whether that --

- 2 the design of that rate is reasonable?
- 3 A. I believe that GCR recovery is
- 4 reasonable, yes.
- 5 Q. Now, on page 2 you state that the current
- 6 volumetric rate design is unreasonable and should be
- 7 modified to, among other things, and there you have
- 8 it listed as category 3 facilitate budgeting and
- 9 funding of the capital improvements to maintain the
- 10 integrity of the pipelines. Do you see that
- 11 reference?
- 12 A. Yes.
- Q. Are you familiar with the distribution
- 14 replacement rider proposed in this case?
- 15 A. Yes, in general.
- 16 Q. Is it your understanding that the
- 17 distribution replacement rider would allow budgeting
- 18 and funding of capital improvements to maintain the
- 19 integrity of the pipelines?
- 20 A. That is my understanding, yes.
- Q. Now, on page 17 of your testimony, lines
- 22 28 through 29, you say that the SFV represents a
- 23 customer friendly option. Can you explain to me how
- 24 the SFV is a customer friendly option?

- 1 A. It's much easier for customers to
- 2 understand. It also provides better price signals
- 3 for customers. Under the current volumetric rate
- 4 customers make decisions on conservation based on
- 5 false price signals thinking that they can actually
- 6 avoid the volumetric charge when they can't. It also
- 7 protects customers from the vagaries of weather in
- 8 the sense when it's colder than normal, their bill
- 9 stays the same. When it's warmer than normal, their
- 10 bill stays the same.
- 11 ATTORNEY EXAMINER: Can you explain why
- 12 customers can't avoid the volumetric charge?
- 13 THE WITNESS: Well, because the
- 14 volumetric charge recovers fixed costs so when they
- 15 avoid it in the short run by installing some
- 16 conservation device, ultimately the company is forced
- 17 to come back and recover those dollars, and they
- 18 either recover them in a higher fixed charge or
- 19 higher volumetric charges. And in either case even
- 20 the customer who conserves is subject to a higher
- 21 portion of those charges because their reduced use
- 22 becomes the basis for calculating the new rate.
- 23 ATTORNEY EXAMINER: Thank you.
- Q. (By Ms. Grady) Further on down in that

- 1 response, Mr. Overcast, you say that the movement to
- 2 full SFV permits customers to appreciate the
- 3 relationship between the base rate bills and annual
- 4 consumption and that over time this will reduce the
- 5 customer confusion. Do you see that?
- 6 A. Yes.
- 7 Q. And what -- and the time period that
- 8 you -- that customer confusion will be reduced over
- 9 would be according to your testimony a few billing
- 10 cycles; is that correct?
- 11 A. Well, I think you need some -- you need a
- 12 combination of a few winter months and a few summer
- 13 months, so it could be over a few billing cycles.
- Q. Now, on page 2, lines 28 through 30, you
- 15 indicate that VEDO has implemented programs and
- 16 policies to assist customers to reduce their use of
- 17 natural gas. Do you see that?
- 18 A. Yes.
- 19 Q. Can you tell me what programs you are
- 20 talking about there?
- 21 A. It's my understanding that VEDO has
- 22 implemented some conservation programs for their
- 23 customers.
- Q. Do you know anything about the extent of

- 1 the programs, who those programs would be targeted
- 2 to, whether those are weatherization programs? Do
- 3 you know any of those details?
- 4 A. Not right offhand. I did look at the
- 5 material some time ago, but I don't remember. There
- 6 were conservation programs.
- 7 Q. Would you consider low income
- 8 weatherization conservation --
- 9 A. Yes.
- 10 Q. -- in your terminology? Now, you would
- 11 agree with me, Mr. Overcast, that gradualism is one
- 12 of the principles you give consideration to in
- 13 designing rates?
- 14 A. Yes.
- 15 Q. And you would -- would you agree that
- 16 customer acceptance of a particular rate design is a
- 17 principle to give consideration to in designing
- 18 rates?
- 19 A. We talked about this in the deposition
- 20 and, you know, it's one of those things customer
- 21 acceptance requires customer understanding to really
- 22 know if -- if -- if the customers' views have -- have
- 23 merit. I mean, I know customers who don't want to
- 24 pay anything for their utility service, and we

- 1 can't -- that's not an acceptable position.
- Q. And I thought you would come back to
- 3 that. Would you agree with, Mr. Overcast, the ideal
- 4 rate for most customers is to get it for free or at
- 5 something greatly reduced over what they are paying?
- 6 A. Most of the ones I have talked to that
- 7 would be true.
- 8 Q. And you would consider other issues more
- 9 significant than whether its customers accept it or
- 10 not; is that correct?
- 11 A. I think you have to, yes.
- 12 Q. Do you know if VEDO has done any customer
- 13 surveys to test the acceptance of straight fixed
- 14 variable with its customers?
- 15 A. I do not.
- 16 Q. Have you seen any studies or analysis
- 17 conducted by VEDO or on its behalf as to whether
- 18 customers are likely to understand straight fixed
- 19 variable?
- A. I am not aware of any.
- 21 Q. One of the advantages of straight fixed
- 22 variable rate design on page 16 that you testified
- 23 to, and I am going to direct your attention to lines
- 24 29 through 30, is that customers benefit from fixed

- 1 rates simplicity. Do you see that?
- 2 A. Yes.
- 3 Q. That there is a single charge for
- 4 delivery, right?
- 5 A. Yes.
- 6 Q. And there you go on to say the charge
- 7 does not change regardless of the weather. Do you
- 8 see that?
- 9 A. Yes.
- 10 Q. That's not exactly true under VEDO's
- 11 proposal, is it?
- 12 A. Under full SFV?
- Q. Under VEDO's proposal.
- 14 A. VEDO didn't propose full SFV.
- 15 Q. So is your statement only related to SFV
- and not VEDO's proposal?
- 17 A. My statement there is discussing SFV, the
- 18 full concept, not necessarily any particular element
- 19 of VEDO's proposal.
- Q. VEDO's proposal has a seasonal change,
- 21 doesn't it?
- 22 A. Yes.
- Q. So sometimes customers would pay -- under
- 24 their Stage 1 customer charge they would pay \$10 and

- 1 then under winter they would pay a different charge,
- 2 right?
- 3 A. Yes.
- 4 Q. Up to 16. Now, the charge -- does it
- 5 cost -- is there a different charge in providing
- 6 distribution service in the summer than there is in
- 7 the winter?
- 8 MS. HUMMEL: Your Honor, may I --
- 9 ATTORNEY EXAMINER: You may.
- 10 MS. HUMMEL: -- object?
- 11 ATTORNEY EXAMINER: Sure.
- MS. HUMMEL: VEDO's proposal for this --
- 13 specific proposal for rates in this case is not the
- 14 subject matter of Mr. Overcast's testimony. He's
- 15 testifying on straight fixed variable.
- 16 ATTORNEY EXAMINER: But he's testifying
- 17 on straight fixed variable as applies in this case.
- 18 I think it's a fair question. Overruled.
- 19 A. Actually, the cost for delivery is an
- 20 annual cost. And what VEDO has chosen to do is to
- 21 split that annual cost. The costs are there for a
- 22 year. That's what a test year does. It determines a
- 23 cost for a year, and VEDO has elected to propose to
- 24 collect those costs in two different charges based on

1 winter and summer to more narrowly mirror the kind of

- 2 bills that exist today under a volumetric rate where
- 3 the rates -- where the bills are higher in the winter
- 4 and lower in the summer, and I don't see anything
- 5 wrong with that. It's the total collection of costs
- 6 through the fixed charge that we are concerned about.
- 7 ATTORNEY EXAMINER: Are you arguing
- 8 that's an example of gradualism?
- 9 THE WITNESS: Well, it's probably -- it
- 10 probably is an example of gradualism. I haven't
- 11 thought of it that way but, yes, it's probably an
- 12 example of gradualism.
- 13 ATTORNEY EXAMINER: Do you think the two
- 14 charges undermine the simplicity you are talking
- 15 about?
- 16 THE WITNESS: No. I think customers can
- 17 pretty much understand if it's \$10 for this six
- 18 months and \$16 for that six months, that doesn't
- 19 undermine that.
- 20 ATTORNEY EXAMINER: Thank you.
- 21 Thank you, Ms. Grady.
- 22 Q. (By Ms. Grady) So, Mr. Overcast, you said
- 23 the cost of distribution is an annual charge,
- 24 correct?

- 1 A. It's an annual cost, yes.
- 2 Q. And does it vary by month?
- A. If it's an annual cost, it doesn't vary
- 4 by month.
- 5 Q. So what kind of price signal are you
- 6 sending to customers when you vary the charge by
- 7 month when the month -- the underlying month doesn't
- 8 vary? Is that one of the false price signals you
- 9 testified to earlier?
- 10 A. No.
- 11 Q. And why not?
- 12 A. Because the customer charge is fixed and
- 13 fixed charges don't enter into the price signals at
- 14 the margin.
- 15 Q. Can you rephrase that so I can understand
- 16 that?
- 17 A. When you are calculating marginal costs,
- 18 fixed costs don't enter into marginal costs.
- 19 Q. And how do you define marginal costs
- 20 there?
- 21 A. Marginal cost is the changing cost
- 22 associated with a one unit change in output.
- Q. And the reason that you understand that
- 24 VEDO is proposing a different customer charge in the

- 1 winter versus the summer is what, Mr. Overcast?
- 2 A. I believe you would have to ask Mr. Ulrey
- 3 exactly the rationale, but I believe it had something
- 4 to do with more closely mirroring the way customers
- 5 are used to seeing lower bills in the summer and
- 6 higher bills in the winter.
- 7 Q. And if customers are used to -- strike
- 8 that.
- 9 And the current charges that customers
- 10 receive under the rate design proposal that is in
- 11 place right now is sending false price signals to
- 12 customers; isn't that correct?
- 13 A. Yes, it does.
- 14 MS. GRADY: That's all the questions I
- 15 have.
- 16 - -
- 17 EXAMINATION
- 18 By Attorney Examiner:
- 19 Q. Mr. Overcast, do you believe that the
- 20 company's proposal is incrementally better in terms
- 21 of sending false price signals than what the company
- 22 is currently billing? This is on a continuum, isn't
- 23 it?
- A. Yes. It is moving in the correct

- 1 direction.
- Q. It is moving in the correct direction.
- 3 It may not be perfect.
- 4 A. Yeah. I mean, the idea here is that your
- 5 goal, if you are going to do something that makes
- 6 economic sense that's cost based, is to have a
- 7 straight fixed variable rate design. I mean, I have
- 8 been party to a flash cut from volumetric rate to
- 9 full straight fixed variable. We did that in 1998
- 10 for Atlanta Gas Light when they unbundled their
- 11 system. And we introduced something -- we had a
- 12 customer charge, but we had something called the
- 13 dedicated design day capacity charge and that was a
- 14 charge that we put in specifically to help mirror the
- 15 fact that bills were higher in the winter and lower
- 16 in the summer and also to match bills by size of the
- 17 customer. It wasn't cost based. It was a political
- 18 decision.
- 19 And when we put that in, you got a very
- 20 large charge every month, and ultimately the next
- 21 year we went back and changed that so you would
- 22 collect more revenue in the winter and less in the
- 23 summer because cosmetically the customers weren't
- 24 prepared to go all the way to full straight fixed

- 1 variable, and I think that's what makes VEDO's
- 2 proposal so attractive. They said, look, freeze --
- 3 basically freeze the commodity charge. We will put
- 4 all the increase in the customer charges. And we
- 5 will move in a gradual fashion to the ultimate goal
- 6 which is straight fixed variable. And they've said
- 7 in the interim because straight fixed variable
- 8 doesn't provide us with a reasonable opportunity to
- 9 recover the revenues that the Commission authorizes,
- 10 let us have a -- a decoupling mechanism that -- and
- 11 that's the best role for decoupling as far as I'm
- 12 concerned is to act in that transitionary phase to
- 13 full straight fixed variables so that you are giving
- 14 the company a reasonable opportunity to recover their
- 15 revenues and at the same time you are moving to a
- 16 much more efficient rate design, one that is sound on
- 17 a marginal cost basis and one that really reflects
- 18 the cost -- as I have shown in my testimony, the cost
- 19 of service is the same for all but some very, very
- 20 small, I mean, not even a percent but in hundreds of
- 21 a percent of residential customers because of the way
- 22 VEDO designs their system.
- 23 ATTORNEY EXAMINER: Thank you.
- Mr. Margard.

1 MR. MARGARD: I have no questions. Thank

- 2 you, your Honor.
- 3 ATTORNEY EXAMINER: Redirect.
- 4 MS. HUMMEL: Just one question, your
- 5 Honor. Well, maybe two.
- 6 - -
- 7 REDIRECT EXAMINATION
- 8 By Ms. Hummel:
- 9 Q. Mr. Overcast, Ms. Grady asked you a
- 10 question about what the full straight -- full
- 11 straight fixed variable rate would be, and I believe
- 12 you said somewhere in the whereabouts of \$22. Do you
- 13 recall that?
- 14 A. Yes.
- 15 Q. Is it your understanding that that amount
- 16 would be at the revenue level proposed by the company
- in this proceeding?
- 18 A. Yes, that was my understanding.
- 19 MS. HUMMEL: That's all I have, your
- Honor.
- 21 ATTORNEY EXAMINER: Recross.
- MS. GRADY: No, your Honor.
- 23 ATTORNEY EXAMINER: Mr. Margard.
- MR. MARGARD: No, thank you.

1	ATTORNEY EXAMINER: You are excused.
2	Thank you very much.
3	Let's go off the record.
4	(Discussion off the record.)
5	ATTORNEY EXAMINER: Back on the record.
6	At this time we have a pending motion for the
7	admission of Exhibit 8. Do we have any objections?
8	Hearing none Company Exhibit 8 will be
9	admitted.
10	(EXHIBIT ADMITTED INTO EVIDENCE.)
11	ATTORNEY EXAMINER: That's our final
12	witness for today. We will continue this hearing on
13	Wednesday at 10 o'clock. Thank you all.
14	Let's go off the record.
15	(The hearing was adjourned at 11:02 a.m.)
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Т	CERTIFICATE
2	I do hereby certify that the foregoing is
3	a true and correct transcript of the proceedings
4	taken by me in this matter on Monday, August 25,
5	2008, and carefully compared with my original
6	stenographic notes.
7	
8	Karen Sue Gibson, Registered
9	Merit Reporter.
10	(KSG-4960)
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Case No(s). 07-1080-GA-AIR

Summary: Transcript Vectren Energy Vol. IV 8-25-08 electronically filed by Mrs. Jennifer D. Duffer on behalf of Armstrong & Okey, Inc.