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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Eastern Natural Gas Company for Approval of an Alternative Rate Plan Proposing a Revenue Decoupling Mechanism	:	Case No. 08-940-GA-ALT
In the Matter of the Application of Pike Natural Gas Company for Approval of an Alternative Rate Plan Proposing a Revenue Decoupling Mechanism	:	Case No. 08-941-GA-ALT

SUPPLEMENTAL MEMORANDUM OF APPLICANTS

On September 15, 2008, Eastern Natural Gas Company ("Eastern") and Pike Natural Gas Company ("Pike")(collectively, "the Applicants" or "the Companies") respectfully moved for reconsideration of the August 29, 2008 letter ("Deficiency Letter") or, in the alternative, moved for waivers of Rule 4901:1-19-05(A)(1) and (2); (C)(1); and (C)(2)(b) through (f) and (h)-(i) and (C)(3) of the Ohio Administrative Code. The Applicants respectfully requested that the Commission, the Attorney Examiner, or the Staff find that the August 1, 2008 applications are in substantial compliance with Section 4929.051, Revised Code and the Ohio Administrative Code.

After informal consultation with the Staff, the Applicants are submitting this Supplemental Memorandum to further address why the requirements of Rule 4901:1-19-05(C)(2)(f) and (C)(3) of the Ohio Administrative Code are satisfied by the applications or should be waived.

I. Rule 4901:1-19-05(C)(2)(f) of the Ohio Administrative Code (cross-subsidization of services)

Rule 4901:1-19-05(C)(2)(f) requires one of the exhibits to an alternative rate plan application to be "a detailed discussion of how potential issues concerning cross-subsidization of services have been addressed in the plan."

Eastern and Pike submit that there are no potential issues concerning cross-subsidization of services. Eastern and Pike each have two classes of customers: General Service customers and Transportation customers.[1]

A review of the applications will reveal that Eastern and Pike proposed a revenue decoupling mechanism for each class. Both Eastern and Pike used the billing determinants and revenue requirements from their last rate cases but altered the rate design so that more of the revenue is based on the fixed monthly customer charge from both classes and less comes from the volumetric charges.

Paragraphs 18, 19 and 20 of the Eastern Application provides as follows:

> 18. The proposed base rate adjustment would reduce the linkage between the volumes sold and cost recovery for General Service customers. Eastern proposes a 20% increase in its monthly customer fee from seven dollars and 50 cents ($7.50) a month to nine dollars ($9) a month, with a 9.0% increase in the volumetric rate from $0.20462 per Ccf to $0.22297 per Ccf in order to achieve the projected revenue requirements from the last rate case using the billing determinants from that case.
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> 19. Eastern proposes an adjustment to the base rates of all Industrial Service and Transportation customers. With respect to the Industrial and Transportation customers, Eastern proposes to increase the monthly customer charge from one hundred fifty dollars ($150) a month to two hundred dollars a month ($200). Further, the discounted tail block (over 5000 Ccf) would be increased from $0.1000 per Ccf to $0.20462 per Ccf. Currently, Industrial and Transportation

[1] Both Eastern and Pike also have an Industrial Service Schedule but neither Company hasany customers served under the Industrial Services Schedule.

customers pay $0.20462 per Ccf for transportation in the first tier (first 5000 Ccf) and $0.1000 per Ccf in the second tier. For conservation purposes, Eastern is proposing to eliminate that second tier.

20. Based upon the actual number of customers and volumes for the twelve months ending March 31, 2008, the proposed base rate adjustments would produce a revenue level of $2,540,836 which is less than Eastern's originally authorized level of revenues of $2,607,421, but greater than the $2,243,658 it actually realized. See Exhibit E.

Thus, both General Service and Transportation rate schedules are proposed to have a decoupling mechanism whereby rates for both classes have been adjusted. The first page of Exhibit E to the Eastern Application demonstrates that column (h) (the proposed class adjusted revenue resulting from the adjusted rates) will not exceed column (d) (the class revenue authorized in the last rate increase case). Although Eastern's Transportation customers will have rates adjusted by a higher percentage than their General Service customer counterparts, that is due in large measure to the drastic reduction in test year transportation volumes. Eastern's test year transportation volumes of 144,968 MCF have been reduced to 49,884 MCF for the twelve months ending March of 2008. Thus, Eastern has proposed adjustments to both classes of customers and has calculated the impact of such adjustments on a class basis as well as on a total company basis. Eastern proposed a revenue decoupling mechanism on an individual class basis which did not create a cross-subsidization issue.

Likewise, Pike has employed a similar procedure in proposing a revenue decoupling mechanism for its two classes of customers. Paragraphs 18-20 of the Pike Application provides as follows:

18. The proposed base rate adjustment would reduce the linkage between the volumes sold and cost recovery for General Service customers. Pike proposes a 28.6%

increase in its monthly customer fee from seven dollars ($7.00) a month to nine dollars ($9.00) a month, with a 1.5% reduction in the volumetric rate from $0.18876 per Ccf to $0.18599 per Ccf in order to achieve the projected revenue requirements from the last rate case using the billing determinants from that case.

19. Pike proposes a base rate adjustment that would also apply to all Industrial Service and Transportation customers. With respect to the Industrial and Transportation customers, Pike proposes an increase in the monthly customer charge from one hundred fifty dollars ($150) a month to two hundred dollars a month ($200). Further, the first block of the volumetric rate (for the 1st 5000 Ccf) would be increased by 16.2% from $0.16000 per Ccf to $0.18599 per Ccf. The second block of the volumetric rate for Industrial and Transportation customers (for all Ccf over 5000 Ccf per month) would be increased by 20.6% from $0.04662 per Ccf to $0.05622 per Ccf. Currently, Industrial and Transportation customers pay $0.16000 per Ccf for transportation in the first tier and $0.04662 per Ccf in the second tier.

20. Based upon the actual number of customers and volumes for the twelve months ending March 31, 2008, the proposed base rate adjustments would produce a level of revenue of $2,652,665 which is just below Pike's originally authorized revenues of $2,652,691, but greater than the $2,464,050 it actually realized. See Exhibit E.

Like Eastern, Pike is proposing to adjust the Transportation class rates by a greater percentage than it did its General Service class. However, both classes were adjusted individually in a manner to avoid cross-subsidies.

Eastern and Pike submit that a review of paragraphs 18-20 and Exhibit E of the respective Applications reveals that both Applicants were careful to adjust individual class rates in their proposal in order to avoid potential issues of cross-subsidization. Eastern and Pike respectfully request that either the Commission find that both have met the requirement of Rule 4901:1-19-05(C)(2)(f) of the Ohio

Administrative Code in their respective applications or find that such a requirement should be waived in these cases.

II. Rule 4901:1-19-05(C)(3) of the Ohio Administrative Code (Commitments).

Rule 4901:1-19-05(C)(3) provides that "to the extent the applicant is seeking alternative forms of rate setting than that found in section 4909.15 of the Revised Code, the Applicant should detail those commitments to customers it is willing to make to promote the policy of the State specified in Section 4929.02 of the Revised Code. The extent of commitment specified should be dependent upon the degree of freedom from Section 4909.15 of the Revised Code requested by the Applicant."

Neither Eastern nor Pike are seeking an alternative form of rate setting other than that found in Section 4909.15, Revised Code. Neither are seeking any freedom from Section 4909.15, Revised Code. Therefore, no "commitments" should be required of Eastern or Pike under this rule.

However, as part of a proposed revenue decoupling mechanism under Section 4929.051, Revised Code, both Eastern and Pike have committed to establish a Demand Side Management ("DSM") program, which is contingent upon the approval of the DSM rider. Such a program would be initially targeted on the Company's high usage PIP customers. Eastern and Pike have committed that the specifics of the programs would be determined with the input of the Staff and other parties in this case. See paragraph 21 of both the Eastern and Pike Applications. The Applicants continue to stand by those commitments.

In addition, Eastern and Pike have each committed that neither will make or give any undue or unreasonable preference or advantage to any person, firm, corporation or locality or subject any person, firm, corporation or locality to any undue or unreasonable prejudice or disadvantage. Both commit that they will offer their regulated services to all similarly situated consumers. Both Eastern and Pike state that they do not intend to offer consumers a bundled service that includes both regulated and unregulated services or goods. Eastern and Pike have committed that neither will condition or limit the availability of any regulated services or goods or condition the availability of a discounted rate or improved quality, price, term or condition for any regulated services or goods on the basis of the identity of the supplier of any other services or goods or on the purchase of any unregulated services or goods.

Both Eastern and Pike will continue to promote the available to consumers of adequate, reliable and reasonably priced natural gas services and will continue to do so after the implementation of this alternative rate plan. In addition, both Eastern and Pike commit that approval of this proposed base rate adjustment will allow them to continue to promote conservation while at the same time allowing the recovery of revenues necessary to earn a reasonable rate of return. See paragraphs 25-27 of the respective Applications.

Eastern and Pike submit that neither seeks an alternative form of rate setting from the one that is found is Section 4909.15, Revised Code. Notwithstanding that, Eastern and Pike have committed to establish a demand side management program if the DSM rider is approved and have committed to continue to promote the policy of this State as well as to promote conservation of natural gas if these Applications are approved.

III. Conclusion

Eastern and Pike submit that their respective applications meet the requirements on the issues of potential cross-subsidization and of commitments as set forth in Rule 4901:1-19-05(C)(2)(f) and (C)(3) of the Ohio Administrative Code. However, if the Commission should find that this information is not sufficient, then Eastern and Pike seek waivers of these requirements.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing document was served upon the following persons by hand delivery and by electronic mail this 3rd day of October, 2008:

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