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October 9, 2009

Via Hand Delivery

Public Utilities Commission of Ohio
Docketing Division
180 East Broad Street
Columbus, Ohio 43215-3793

Re: Case No. 09-458-GA-UNC

Dear Docketing

Attached are hard copy filings of the following documents for the above-referenced case which were electronically filed today:

- DEO Exhibit 2 – Supplemental Direct Testimony of Vicki H. Friscic on behalf of Dominion East
- OhioDEO Exhibit 3 – Direct Testimony of Mike Reed on behalf of Dominion East Ohio
- DEO Exhibit 4 – Direct Testimony of Eric Hall on behalf of Dominion East Ohio
- Statement Informing the Commission whether the issues raised in the Comments filed by Staff and Interveners have been resolved

We electronically filed a document on October 6, 2009 in this case. We called the electronic filing contact number and we were subsequently transferred to the Utilities Department, where we confirmed that an electronic filing was satisfactory and no hard copy backup was necessary.

Very truly yours,



Paul A. Colbert

COI-1429921v1

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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Application of the East Ohio Gas
Company d/b/a Dominion East Ohio to
Adjust its Pipeline Infrastructure
Replacement Program Cost Recovery
Charge and Related Matters.

Case No. 09-458-GA-UNC

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SUPPLEMENTAL DIRECT TESTIMONY OF
VICKI H. FRISCIC
ON BEHALF OF
DOMINION EAST OHIO

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1 **I. INTRODUCTION**

2 **Q1. Please state your name, occupation and business address.**

3 A1. My name is Vicki H. Friscic. I am employed by The East Ohio Gas Company, d/b/a
4 Dominion East Ohio ("DEO"), as Director, Regulatory & Pricing. My business address
5 is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

6 **Q2. Did you file direct testimony in this proceeding on August 28, 2008.**

7 A2. Yes.

8 **Q3. What is the purpose of your supplemental direct testimony in this proceeding?**

9 A3. The purpose of my supplemental direct testimony is to address the issues raised by Staff
10 in its Comments and Recommendations filed on October 2, and by OCC in its Comments
11 filed on the same date.

12 **II. STAFF'S COMMENTS AND RECOMMENDATIONS**

13 **Q4. Please describe DEO's overall impression of Staff's Comments and**
14 **Recommendations.**

15 A4. Contrary to Staff's assertions, its recommendations are not consistent with the Stipulation
16 and Recommendation approved by the Commission in Case Nos. 07-829-GA-AIR et. al.
17 ("Stipulation and Recommendation"). The recommendations regarding the treatment of
18 operation and maintenance ("O&M") expense in particular contradict a plain reading of
19 the initial Pipeline Infrastructure Replacement program application filed in Case No. 07-
20 169-GA-ALT (which was subsequently consolidated with DEO's base rate case filed in
21 Case Nos. 07-829-GA-AIR et. al.), the June 12, 2008 Staff Report issued in that case, and
22 the Stipulation and Recommendation approved by the Commission.

1 **Q5. What evidence is there to suggest that Staff's Comments and Recommendations**
2 **contradict the terms of the Stipulation and Recommendation?**

3 A5. If Staff's reading of the Stipulation and Recommendation were as clear as it suggests,
4 there is no question but that the Office of the Ohio Consumers' Counsel ("OCC")
5 comments filed in the case would have objected to DEO's inclusion of such O&M
6 expenses as well. OCC did not. While OCC did recommend a minor adjustment to the
7 incremental O&M expense amount, it did not raise the blanket objection to its inclusion
8 as did Staff. Nor did OCC object to DEO's approach to quantifying O&M expense
9 savings, which Staff alleges "runs counter to a fundamental premise underlying both the
10 Company's annual PIR applications and the Commission's approval of PIR recovery."
11 (Staff Comments and Recommendations at p. 11.) OCC has participated extensively in
12 each LDC's PIR-type applications and was a signatory party to the Stipulation and
13 Recommendation in this case. Staff's suggestion that its recommendations represent a
14 black and white reading of the application, initial Staff Report and the Stipulation and
15 Recommendation is belied by the fact that where Staff saw white, the OCC saw black.

16 **Q6. To what do you attribute Staff's attempt to re-interpret the Stipulation and**
17 **Recommendation?**

18 A6. It appears that Staff is trying to force fit the cost recovery approach taken in other LDCs'
19 infrastructure programs into the cost recovery provisions approved by the Commission
20 for DEO. There is absolutely no basis for Staff to do so. Each company has unique
21 issues that it is addressing in its infrastructure replacement program, and each company
22 presumably negotiated in good faith with Staff and other parties regarding the resolution
23 of those issues. If Staff were concerned about the differences across programs, it should

1 have seen to it that those concerns were addressed in the Stipulation and
2 Recommendation. As it was, Staff did not and cannot now try to renegotiate the terms of
3 a stipulation that has received the Commission stamp of approval. Regrettably, Staff's
4 Comments and Recommendations have the effect of doing just that. Staff cannot now
5 take a cookie cutter approach to interpreting the provisions of multiple programs and cost
6 recovery that were negotiated separately and addressed issues unique to each LDC.

7 **Q4. Please describe Staff Recommendation No. 1.**

8 A4. Staff recommends that regulatory assets associated with incremental depreciation and
9 incremental property taxes be amortized over the useful life of the PIR assets.

10 **Q5. Does DEO agree with Staff Recommendation No. 1?**

11 A5. No.

12 **Q6. Why does DEO disagree with Staff Recommendation No. 1?**

13 A6. Staff Recommendation No. 1 would require DEO to amortize deferred depreciation
14 expense incurred on new additions during the PIR program year over the useful lives of
15 the PIR assets, approximately 50 years. Staff is effectively recommending that DEO
16 amortize an amortization. Depreciation, by its very nature, is amortization of capitalized
17 costs over the life of the associated assets. To further spread, or amortize, a portion of the
18 depreciation again over the lives of the PIR assets is unreasonable and violates the
19 accounting principle of matching revenues with associated expenses. Such incremental
20 depreciation expense recognizes a cost that has already been incurred and, therefore,
21 should be recovered in a timely manner. In its application, DEO seeks to defer
22 depreciation on new plant additions during the PIR fiscal year for the purpose of
23 recognizing that expense over the period that the associated cost recovery charge is in

1 effect. Similarly, Staff's proposal for deferring incremental property tax expense incurred
2 during the PIR fiscal year and amortizing it over the useful lives of the PIR assets is
3 unreasonable. Although incremental property tax expense is not already an amortization,
4 there is no basis for spreading it over the lives of the PIR assets. Such expense has
5 already been incurred and should be recovered in a timely manner. DEO requests that the
6 Staff recommended amortization of property tax expense be rejected for the same reasons.

7 **Q7. Does the inclusion of the incremental depreciation expense and incremental**
8 **property tax in the PIR Cost Recovery Charge in addition to the annualized**
9 **depreciation as proposed by DEO result in recovery of excessive depreciation and**
10 **property tax expense?**

11 A7. No. For each year of the PIR program, the actual depreciation expense that will be
12 incurred consists of (1) a full year of depreciation expense on plant assets as of the end of
13 the prior year and (2) depreciation on new additions to plant during the current year. In
14 DEO's PIR application, DEO is requesting recovery of an annual level of depreciation
15 expense similarly comprised: depreciation on expense already accumulated on new
16 additions during the PIR fiscal year from July 1, 2008, through June 30, 2009,
17 ("incremental depreciation"), plus a full year of depreciation expense on the PIR plant
18 assets as of the June 30, 2009 end of the fiscal year ("annualized depreciation").
19 Together, those components of depreciation equate to one year's worth of depreciation
20 expense. Failure to include both components in the PIR Cost Recovery Charge will deny
21 DEO of full and timely recovery of depreciation on the PIR assets. DEO also requests
22 similar timely recovery of incremental and annualized property tax expense associated
23 with PIR plant additions during the PIR fiscal year and, as with depreciation expense,

1 seeks to match the recognition of these expenses with the associated revenues during the
2 period the PIR Cost Recovery Charge is in effect.

3 **Q8. Why is it important for DEO to obtain timely recovery of costs incurred in the PIR**
4 **program?**

5 A8. DEO is expending substantial funds in the PIR program as evidenced by the over \$90
6 million of capital spending and over \$1 million of incremental O&M expense identified
7 in its application. Substantial depreciation and property taxes are incurred each year as a
8 result of those investments. Delaying recovery of those expenses by amortizing them
9 over the life of the plant creates cash flow issues and denies DEO the opportunity to
10 recover the true incremental cost of the program. After all, DEO must remit its property
11 taxes according to the schedules imposed by each taxing jurisdiction and cannot spread
12 each year's payments over the life of the asset. Adding the cash flow burden on top of
13 already imposing capital and O&M expenditures imposes an undue burden on the
14 company and directly contradicts the approach set forth in the application – an approach
15 that was not modified in any way by the Stipulation and Recommendation approved by
16 the Commission.

17 **Q9. Please describe Staff Recommendation No. 2.**

18 A9. Staff Recommendation No. 2 is that plant additions should not be reduced by plant
19 retirements for purposes of the depreciation calculation.

20 **Q10. Does DEO agree with Staff Recommendation No. 2?**

21 A10. Yes.

22 **Q11. Please describe Staff Recommendation No. 3.**

1 A11. Staff Recommendation No. 3 has three parts recommending adjustments to the plant
2 assets on which the PIR Cost Recovery Charge is based. Part A recommends the removal
3 of costs totaling \$452,195 associated with projects that DEO placed in service after June
4 30, 2009. Part B recommends the removal of costs totaling \$2,510,364 associated with
5 projects that are still in construction or preliminary design and have not been placed in
6 service. Part C recommends the removal of costs totaling \$360,649 associated with curb-
7 to-meter installations for service line extensions to new customers.

8 **Q12. Does DEO agree with Staff Recommendation No. 3?**

9 Q12. No.

10 **Q13. Why does DEO disagree with Staff Recommendation No. 3?**

11 A13. Staff Recommendation No. 3 is inconsistent with the Federal Energy Regulatory
12 Commission ("FERC") System of Accounts adopted by the Commission (18 C.F.R. 201
13 at Gas Plant Instructions, (11) Work Order and Property Record System Required,
14 subpart (B)). That section states, "Each utility shall keep its work order system so as to
15 show the nature of each addition to or retirement of gas plant, the total cost thereof, the
16 source of costs, and the gas plant account or accounts to which charged or credited. Work
17 orders covering jobs of short duration may be cleared monthly." Under proper and
18 accepted utility accounting standards, DEO is recording its numerous distribution
19 projects as "massed assets," for which project costs are closed to the gas plant accounts
20 monthly as such costs are incurred. In so doing, DEO is merely complying with FERC-
21 approved accounting methods. It should also be noted that DEO has utilized that
22 approach for some time predating the date certain in its last rate case, Case No. 07-829-
23 GA-AIR et al. As a result, the quantification of the rate base equivalent in this

1 proceeding is consistent with that used to determine the rate base underlying DEO's
2 currently approved rates and charges. Staff's recommended disallowance is thus
3 inconsistent with the FERC-approved accounting methodology employed in the
4 traditional ratemaking process. Staff has not denied that DEO expended the funds set
5 forth in the cost recovery charge application, and the company should not be penalized
6 for complying with appropriate accounting treatment of those funds.

7 **Q14. Does DEO have any other reason to disagree Staff Recommendation No. 3?**

8 A14. Yes, DEO disagrees with Part C of Staff Recommendation No. 3 because: (1) as part of
9 DEO's Application in Case No. 08-169-GA-ALT to establish the PIR program, DEO
10 proposed to "assume responsibility and ownership of curb-to-meter service lines that the
11 Company installs, replaces, ties in or repairs" (Application at 3, 5) and to include "the
12 cost associated with the replacement and repair of existing service lines...as well as the
13 installation of service lines for new construction" (Application at 6); (2) Staff, through
14 the PIR Staff Report in that case supported "DEO's proposal to assume the responsibility
15 for the installation of all customer service lines..." and said that "[t]he costs associated
16 with this activity should be recovered through the Infrastructure Replacement Program"
17 (Staff Report at 3), in addition to stating "Staff believes the PIR Cost Recovery Charge
18 should recover...costs associated with assuming ownership of curb-to-meter service lines
19 including new installations..." (Staff Report at 4 and 5); (3) the Stipulation and
20 Recommendation agreed to by DEO, Staff, OCC and others adopted the Staff Report
21 recommendations and, if not addressed in the Staff Report, adopted DEO's Application
22 (Stipulation at 3); and (4) the Stipulation and Recommendation addressed the issue
23 directly by agreeing that "DEO shall assume ownership of and responsibility for all

1 customer-owned service lines (including effectively coated lines) whenever such lines are
2 separated from the mainline and a pressure test is required before the line can be returned
3 to service" (Stipulation at 8). There was never any agreement to credit revenues
4 associated with service line extensions to new customers. There was, however, an
5 agreement to include the associated costs. Staff's insertion of the issue at this late date is
6 evidence of yet another attempt to renegotiate the terms of the Commission-approved
7 Stipulation and Recommendation in this case. Staff's assertion that associated revenues
8 should be included fails to recognize the substantial decline in customer count since the
9 rate case. Since the December 31, 2007 end of the test year in Case Nos. 07-829-GA-
10 AIR et. al., DEO has seen a decline in residential customer count of over 35,000
11 customers or over 90 times the 381 new main-to-curb projects that Staff recommends be
12 excluded from rider recovery.

13 The curb-to meter installations that Staff seeks to exclude from the PIR Cost Recovery
14 Charge meet the criteria agreed upon by DEO, Staff and OCC and ultimately approved
15 by the Commission. Staff Recommendation No. 3, Part C is in conflict with the
16 Stipulation and the PIR Staff Report. DEO does not believe that it is appropriate to
17 amend in this proceeding the items previously agreed upon and approved for recovery
18 through the PIR Cost Recovery Charge in Case No. 08-169-GA-ALT.

19 **Q15. Please describe Staff Recommendation No. 4.**

20 **A15.** Staff recommends the elimination from the PIR revenue requirement of \$1,128,670 of
21 incremental operation and maintenance ("O&M") expense because Staff incorrectly
22 alleges that incremental O&M expense represents an adjustment made for the first time in

1 DEO's PIR Cost Recovery Charge Application and that recovery of incremental O&M
2 was never contemplated in the Stipulation and Recommendation or the PIR Staff Report.

3 **Q16. Does DEO agree with Staff Recommendation No. 4?**

4 A16. No.

5 **Q17. Why does DEO disagree with Staff Recommendation No. 4.**

6 A17. DEO disagrees with Staff Recommendation No. 4 because it is in conflict with Staff's
7 agreement in the Stipulation and Recommendation, and the Commission's approval of
8 that agreement, to permit cost recovery of incremental O&M expense through the PIR
9 Cost Recovery Charge. At pages 8 through 10 of DEO's Application in Case No. 08-
10 169-GA-ALT, DEO expressly requested cost recovery of incremental O&M expense
11 associated with the PIR program. Similarly, the PIR Staff Report stated, "Regarding the
12 request for incremental O&M expenses, Staff recommends that they do not include
13 increased corporate service company and shared service expenses allocated to DEO that
14 are not charged to the capital project." In this case, the exception proves the rule. Staff's
15 statement in the PIR Staff Report clearly contemplates the inclusion of O&M expense.
16 Staff's assertion that that the report "expressly rejected inclusion of all of the incremental
17 O&M expenses specifically identified in the Company's Application except those related
18 to relocating inside customer meters (where the Staff withheld a recommendation until
19 the Company submitted a meter relocation plan.)" is a mischaracterization of the PIR
20 Staff Report and DEO's application filed in Case No. 08-169-GA-ALT. (Comments and
21 Recommendations at page 10, emphasis added.) DEO's application stated that
22 "[i]ncremental O&M expenses associated with the PIR program shall be calculated based
23 on incremental and non-duplicative costs that, but for the existence of the PIR program

1 and assumption of ownership of service lines, would not be incurred by DEO.” Those
2 were not limited to the increased corporate service and share service expenses allocated
3 to DEO but not charge to the capital project. (Application at page 9.) Staff’s Comments
4 and Recommendations filed October 2, 2009 in this proceeding ignore Staff’s previous
5 position, which clearly agrees that DEO may recover incremental O&M subject to the
6 reasonable limitations proposed by Staff. DEO’s incremental O&M expenses do not
7 include corporate service company or shared service expenses at all. The fact that OCC
8 did not object to the inclusion of most of DEO’s incremental O&M is additional evidence
9 that Staff has improperly stretched in the import of the statements made in its PIR Staff
10 Report.

11 The Stipulation and Recommendation in Case No. 08-169-GA-ALT does not specifically
12 address the issue of incremental O&M expense. The Stipulation does, however,
13 recognize “the fiscal year-end regulatory asset eligible for recovery through the PIR Cost
14 Recovery Charge.” Stipulation at 10. The PIR Staff Report does not address the content
15 of the regulatory asset referenced in the Stipulation, but DEO’s Application in Case No.
16 08-169-GA-ALT specifically includes incremental O&M as part of the regulatory asset.
17 DEO’s Application in Case No. 08-169-GA-ALT at 8. The Stipulation adopted the PIR
18 Staff Report proposal, which permits the cost recovery of incremental O&M through the
19 PIR Cost Recovery Charge and adopts DEO’s Application to the extent the issue is not
20 addressed in the Staff Report. Stipulation at 3, 8. As previously discussed, DEO’s PIR
21 Application extensively discussed cost recovery of incremental O&M through the PIR
22 Cost Recovery Charge.

1 DEO discussed its intention to include incremental O&M expense in the determination of
2 the PIR Cost Recovery Charge with Staff and OCC at meetings held at the Commission's
3 offices on November 14, 2008 and March 19, 2009. These meetings were part of DEO's
4 obligation to provide OCC and Staff an annual PIR Cost Recovery preview before DEO
5 filed its Application in this case. Stipulation at 9.

6 DEO's Notice of Intent to File an Application to Adjust Pipeline Infrastructure
7 Replacement Program Cost Recovery Charge filed at the Commission on May 29, 2009
8 also included a request to recover incremental O&M expense through the PIR Cost
9 Recovery Charge. Notice of Intent at Schedule 1, Line 25, Schedule 13, Lines 9-11.
10 Because there was no actual data regarding incremental O&M expense, Schedule 1
11 showed that "O&M (Net)" was to be determined and Schedule 13 showed incremental
12 O&M expense at \$0.00 for purposes of cost allocation.

13 DEO's PIR Cost Recovery Charge Application, filed August 28, 2009 in this proceeding,
14 set forth actual incremental O&M expense on Schedules 1, 13 and 15. This was not a
15 new proposal. Incremental O&M expense has been intended to be part of the PIR Cost
16 Recovery Charge from the moment the charge was first proposed by DEO. Staff has not
17 disputed the amount of incremental O&M expense incurred by DEO. Because
18 incremental O&M has been requested by DEO in its initial Application and in the
19 Application for the charge to be included as part of the rider, and because incremental
20 O&M expense has been addressed and agreed to as part of the PIR Staff Report and the
21 Stipulation approved by the Commission and properly calculated as part of the PIR Cost
22 Recovery Charge, DEO should be permitted to recover incremental O&M expense.

23 **Q18. Please describe Staff Recommendation No. 5.**

1 A18. Staff recommends increasing the O&M Baseline Savings amount from \$85,022 to
2 \$554,300 by prohibiting DEO from including increases to the baseline expenses while
3 requiring DEO to include all decreases associated to the baseline expenses.

4 **Q19. Does DEO agree with Staff Recommendation No. 5?**

5 Q19. No.

6 **Q20. Why does DEO disagree with Staff Recommendation No. 5?**

7 A20. DEO disagrees with Staff Recommendation No. 5 because it is fundamentally
8 unreasonable and unfair. At pages 10 and 11 of DEO's Application in Case No. 08-169-
9 GA-ALT, DEO agreed to compare its fiscal year O&M expense associated with leak
10 repairs and corrosion monitoring activities to a test year expense level to identify savings
11 relative to that test year level. Such savings would be used to reduce the fiscal year-end
12 regulatory asset in order to provide customers with the benefit of cost reductions resulting
13 from the PIR program. The Application, PIR Staff Report and the Stipulation and
14 Recommendation all support the notion that O&M expense for those leak repair and
15 corrosion monitoring activities should be assessed in the aggregate. Either the PIR is
16 resulting in O&M savings or it isn't with regard to all of the operations activities that
17 would be impacted by the program. There is nothing in either the Staff Report or the
18 Stipulation and Recommendation in that case which indicates that the O&M expenses
19 should be viewed in any other manner. The Stipulation and Recommendation states
20 "Any savings relative to a baseline level of O&M expenses associated with leak detection
21 and repair processes...and corrosion monitoring expenses shall be used to reduce the
22 fiscal year-end regulatory asset eligible for recovery through the PIR Cost Recovery
23 Charge" (Stipulation at 10). Although not explicit, the wording "a baseline level of O&M

1 expenses” clearly suggests that baseline O&M savings should be determined in the
2 aggregate. The Stipulation does not state that such expenses should be evaluated by
3 individual O&M activities to determine savings. It is unfair and unreasonable for Staff
4 and OCC to now selectively choose the costs of activities in which a decrease from the
5 baseline level occurred while disregarding the fact that DEO has experienced cost
6 increases in other related activities. Staff should not be permitted to “cherry pick” from a
7 list of cost impacts and only select those that result in reductions. The varying nature of
8 those expenses will result in changes over the years, and Staff’s methodology would
9 likely result in a new selection of cost elements every time DEO makes a filing. Such an
10 approach is confiscatory and unreasonable. DEO made a good faith effort to identify
11 O&M savings relative to the baseline for the activities specified in the Stipulation. DEO
12 went further than required by including costs associated with corrosion remediation. The
13 result is the savings of \$85,022 credited against costs included in the calculation of
14 DEO’s PIR Cost Recovery Charge. The \$554,300 of savings recommended by Staff
15 results from the corrosion remediation activities alone and the fact that the PIR program
16 has not yet had the effect of reducing O&M expenses related to leak detection and repair
17 and corrosion monitoring has not been considered. PIR Cost Recovery Charge

18 **Q21 If DEO had not voluntarily included corrosion remediation in the calculation of**
19 **baseline O&M savings would there be any savings for customers?**

20 A21. No. Because corrosion mediation was not included in the baseline O&M savings
21 calculation in the Stipulation, the PIR Staff Report or DEO’s PIR program Application,
22 Staff could not compel the inclusion of corrosion remediation. It is unreasonable for

Staff to increase the amount of baseline O&M savings that customers were not otherwise entitled to pursuant to the Stipulation.

III. OCC'S COMMENTS

Q22. Please describe OCC Comment No. 1.

A22. OCC Comment No. 1 is similar to Parts A and B of Staff Recommendation No. 3. OCC Comment No. 1 requests removal from the PIR Cost Recovery Charge of costs associated with projects placed in service after June 30, 2009. Based upon OCC's Comment No. 1, OCC recommends the exclusion of \$4,484,656.75.

Q23. Does DEO agree with OCC Comment No. 1?

A23. No.

Q24. Why does DEO disagree with OCC Comment No. 1?

A24. DEO disagrees with OCC's Comment No. 1 for the same reasons that it disagrees with Parts A and B of Staff Recommendation No. 3. DEO is properly accounting for capital additions pursuant to the FERC System of Accounts.**Q24. Please describe OCC's Comment No. 2.**

A25. OCC Comment No. 2 is virtually identical to Part C of Staff Recommendation No. 3. OCC proposes to deny DEO cost recovery associated with curb-to-meter installations for new customers in the amount of \$345,532.

Q26. Does DEO agree with OCC's Comment No. 2?

A26. No.

Q27. Why does DEO disagree with OCC Comment No. 2?

A27. DEO disagrees with OCC Comment No. 2 for the same reasons that it disagrees with Part C of Staff Recommendation No. 3. Cost recovery for curb-to-meter installations has

1 been part of the PIR Cost Recovery Charge since it was first proposed in Case No. 08-
2 169-GA-ALT. The PIR Staff Report included cost recovery for curb-to-meter
3 installations and OCC agreed to such cost recovery through the PIR Cost Recovery
4 Charge in the Stipulation ultimately approved by the Commission. It is inappropriate to
5 deprive DEO of cost recovery associated with curb-to-meter installations for new
6 customers after approval of cost recovery through such a rigorous process. Neither OCC
7 nor Staff disputes the costs included in the PIR Cost Recovery Charge for curb-to-meter
8 installations. Under these circumstances the Commission should permit DEO to recover
9 costs associated with curb-to meter installations for new customers.

10 **Q28. Please describe OCC Comment No. 3.**

11 A28. OCC Comment No. 3 asks the Commission to deny DEO recovery of \$2,285,301.40 of
12 annualized depreciation expense and \$1,261,777.87 of annualized property tax expense
13 because OCC alleges the expenses are out of test year.

14 **Q29. Does DEO agree with OCC Comment No. 3?**

15 A29. No.

16 **Q30. Why does DEO disagree with OCC Comment No. 3?**

17 A30. DEO disagrees with OCC Comment No. 3 because it is proper to permit an annualized
18 treatment of depreciation expense as previously discussed at Answer A7. Annualized
19 depreciation on assets as of the end of the prior year is but one component of total
20 depreciation expense on PIR assets that will be incurred each year. DEO is entitled to
21 recover an annual level of depreciation expense in each year's calculation of the PIR Cost
22 Recovery Charge. Annualized depreciation plus depreciation expense on new PIR

1 additions during the PIR fiscal year are the measure of total depreciation expense for
2 which DEO has requested recovery in its PIR cost recovery application,

3 **Q31. Please describe OCC Comment No. 4.**

4 A31. OCC Comment No. 4 asks that DEO exclude \$70,500 of Envista Computer Software
5 from incremental O&M.

6 **Q32. Does DEO agree with OCC Comment No. 4.**

7 A32. No.

8 **Q33. Why does DEO disagree with OCC Comment No. 4.**

9 A33. DEO specifically purchased the subscription to the Web-based Envista service in order to
10 coordinate its many construction projects with projects of governmental units and other
11 utilities. Each participating municipality, agency and utility will pay for its own
12 subscription to the Envista service. Because there is no incremental cost to also include
13 non-PIR projects, DEO has determined that such projects may also be entered into the
14 Envista system. Doing so does not invalidate the primary purpose of DEO's subscription,
15 which is for use as part of the PIR program. DEO has properly included the Envista
16 expense in incremental O&M. OCC has not disputed the amount of the expense. As
17 previously discussed, OCC has agreed to the recovery of incremental O&M as part of the
18 Stipulation underlying the PIR Cost Recovery Charge.

19 **Q34. Please describe OCC Comment No. 5.**

20 A34. OCC Comment No. 5 raises a concern about the timeliness of DEO's recognition of plant
21 retirements.

22 **Q35. Does DEO agree with OCC Comment No. 5.**

23 A35. No.

1 **Q36. Why does DEO disagree with OCC Comment No. 5.**

2 A36. DEO disagrees with OCC Comment No. 5 because DEO's Notice of Intent was intended
3 as an estimate. DEO's PIR Cost Recovery Charge Application included actual expenses
4 and adjustments, including plant retirements. DEO's Application has been the subject of
5 extensive investigation and audit. OCC has not suggested that it has uncovered any
6 accounting error that would delay the recognition of retirements. DEO does not believe
7 that a systematic accounting problem exists. DEO, however, will commit to cooperate
8 with OCC by addressing its concerns regarding the timely processing of retirements
9 associated with the the PIR program with its Operations and Accounting departments.

10 **Q37. Please describe OCC Comment No. 6.**

11 A37. OCC Comment No. 6 asks the Commission to order DEO to file a report documenting its
12 efforts to obtain stimulus funding through the American Recovery and Reinvestment Act
13 of 2009 for the PIR program and as part of the 2010 PIR application.

14 **Q38. Does DEO agree with OCC Comment No. 6.**

15 A38. No.

16 **Q39. Why does DEO disagree with OCC Comment No. 6?**

17 A39. DEO is unaware of any stimulus funding available for the PIR program. DEO is willing
18 to discuss the matter with OCC and Staff. If OCC is aware of a reasonable funding
19 opportunity, DEO commits to explore the opportunity. If OCC became aware of such an
20 opportunity during the course of the program's implementation, it should have alerted
21 DEO to that fact given OCC's insistence on having "meaningful participation with
22 Company and Staff in annual PIR previews and PIR Cost Recovery Procedures and any

1 other PIR-related process or proceeding that impacts the scope of the PIR program and/or
2 the cost recovery of the PIR program.” (Stipulation and Recommendation at page 9.)

3 **Q40. Does DEO object to Staff’s and OCC’s Comments and Recommendations for any**
4 **other reason?**

5 A40. Yes. DEO has had extensive discussions with Staff and OCC since it filed its
6 Application to establish PIR as an alternative ratemaking mechanism in Case No. 08-169-
7 GA-ALT. With the exception of the proper treatment of plant additions not completed at
8 June 30, 2009, all of the issues raised by Staff and OCC have been thoroughly vetted
9 among the Parties. Staff, had an opportunity to clarify its positions, objections and
10 recommendations in the PIR Staff Report and Stipulation. Staff did not suggest that DEO
11 amortize incremental depreciation over the lives of the PIR assets, it did not suggest that
12 it was improper for DEO to recover incremental O&M expense, it did not suggest that
13 O&M baseline savings should be determined based upon individual cost categories
14 instead of in the aggregate. Neither did OCC. Many of Staff’s recommendations are
15 directly contradicted by the Staff Report and Stipulation upon which DEO relied upon to
16 formulate its PIR Cost Recovery Charge Application. The Commission approved the
17 Stipulation, including Staff’s recommendations made in the Staff Report. DEO believes
18 it is unreasonable for Staff and OCC to renegotiate now what each previously agreed to
19 and the Commission approved.

20 **IV. CONCLUSION**

21 **Q41. Does this conclude your testimony?**

22 A41. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was sent by electronic mail to the following parties on this 9th day of October, 2009.

/s Grant W. Garber

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