

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of The :
East Ohio Gas Company dba Dominion : Case No. 09-458-GA-UNC
East Ohio to adjust its Pipeline : PIR Annual Filing for Fiscal Year
Infrastructure Replacement (PIR) Cost : 2008/2009
Recovery Charge and Related Matters :

**PREFILED
TESTIMONY
OF
KERRY J. ADKINS**
Utilities Department
Accounting & Electricity Division
Public Utilities Commission of Ohio

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1. Q. Please state your name, employer, and business address.

A. My name is Kerry J. Adkins. I am employed by the Public Utilities Commission of Ohio (Commission or PUCO), 180 East Broad Street, Columbus, Ohio, 43215-3793.

2. Q. What is your current position and duties at the PUCO?

A. I am a Public Utilities Administrator 2 in the in the Utilities Department Accounting and Electricity Division. I manage and participate on staff teams that review natural gas distribution and water utilities' applications for recovery of certain costs associated with infrastructure replacement programs. In addition, I serve on staff teams that review the lead-lag studies filed in base rate proceedings and perform other related duties as assigned.

3. Q. Please briefly describe your educational background and work experience.

A. I received B.A. degree in history and political science from Ohio Northern University and a Master of Public Administration degree with concentrations in regulatory policy and fiscal administration from The Ohio State University. I began my employment with the PUCO in 1989 as a Researcher II in what was then the Consumer Services Department's Nuclear Division. Since that time, I have held a number of analyst and management positions at the Commission. I was assigned to my present

position in January 2008. Prior to my employment with the PUCO, I was employed by the City of Whitehall, Ohio.

4. Q. Have you previously testified before the Commission?

A. Yes. I have provided testimony before the Commission in rate and enforcement proceedings and customer complaint cases.

5. Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support Staff Recommendations Four and Five in the Staff Comments and Recommendations that were filed in this case on October 2, 2009.

6. Q. What is Staff Recommendation 4?

A. The Staff recommended that the \$1,128,760 for incremental operation and maintenance (O&M) expenses that Dominion East Ohio Gas (Company or DEO) included in its August 28, 2009 Application should be eliminated from the revenue requirement calculation.

7. Q. What are the incremental O&M expenses that DEO proposed in its Application?

A. The Company includes the \$1,128,760 for incremental O&M on Line 25 of Schedule 1 of the Application. Schedule 1 presents the proposed revenue

requirement calculation. In testimony filed on August 28, 2009, Company witness Friscie states that the incremental O&M expenses includes internal labor and vehicle charges, contract labor costs, and costs for a Web-based service that would not have been incurred but for the PIR program. She further maintains that the labor costs included in the incremental O&M expenses were not included in the capital recovery portion of the Application.

8. Q. Why does the Staff believe that DEO's proposed incremental O&M expenses should be eliminated from the revenue requirement in this case?

A. Principally, because the Staff believes that such expenses were never authorized for PIR recovery. The Commission authorized DEO's PIR when it approved the parties' Stipulation and Recommendation filed in Case No. 07-829-GA-AIR, et al (Stipulation). The Stipulation adopted all of the Staff's PIR-related recommendations in the Staff Report (Case No. 08-169) that was filed in the original PIR application case except for seven modifications that are not germane to the incremental O&M expense in this case. In that report, the Staff delineated the items that DEO proposed to recover through the PIR cost recovery charge in addition to its investments for pipeline replacements and assuming ownership of customer service lines. The four items were: (1) incremental depreciation expense; (2) incremental property taxes; (3) incremental O&M expenses; and, (4) a return on the rate base for PIR program expenditures.

In the Staff Report, the Staff recommended Commission approval of items 1, 2, and 4 in that case. However, in a later section of the Report, the Staff rejected the Company's request for incremental O&M expenses, except for deferring a recommendation on O&M costs associated with meter relocations. In the Staff Report, the Staff recommended Commission approval of items 1, 2, and 4 in that case. However, in a later section of the Report, the Staff rejected the Company's request for incremental O&M expenses, except for deferring a recommendation on O&M costs associated with meter relocations.

9. Q. Does the Staff have any other reasons why the proposed incremental O&M expenses should not be included in the revenue requirement calculation?
- A. As I discuss in greater detail later in this testimony, the Staff believes that cost savings resulting from implementation of the PIR program was an important underpinning supporting the Commission's approval of the program. Inclusion of additional incremental O&M expenses eliminates any cost savings from implementation of the PIR program in this case (and likely in future cases as well) and undermines this important premise.
10. Q. Was the Staff able to verify whether the expenses sought by Dominion are, in fact, "incremental?"

A. No. The Company did not provide incremental O&M cost data in its pre-filing notice for this case. The Staff did not have O&M expense data to analyze until the Company filed its Application in this case on August 28, 2009. To confirm that the internal and contractor labor and vehicles are incremental to the labor and vehicles included in the capital projects or O&M expenses included in the Company's base rates requires the same type of cost analysis that the Staff performs in a base rate proceeding. Here, the Staff only had approximately one month to perform this analysis. Therefore, given the complexity of the analysis required and the short time frame, the Staff was not able to complete its analysis.

11. Q. Based on the preliminary analysis that the Staff was able to do, are there any concerns about the incremental nature of the expenses included in the Company's proposed incremental O&M expenses?

A. Yes. Data that the Company provided to Staff appears to indicate that the Company's vehicle leasing expenses actually went down during the PIR test year when compared to 2007 and 2008. The Company records its expense for leasing vehicles in General Ledger Account 5307040 "Rent Exp-Vehicles (purchased vehicles are capitalized). In 2007, the expense recorded in this account was \$3,744,002. In 2008, it was 3,687,126. In the PIR test year, \$3,615,833 was recorded. This downward trend of recorded expenses in the Rent Exp-Vehicles account raises questions about whether

the Company's claim for vehicle expenses that the Company is claiming are incremental to what is already recovered through base rates. The Staff was not able to complete its investigation of the Company's request for incremental labor expenses. As a result, the Staff would recommend that if the Commission determines that the Company may recover the proposed O&M expenses, then it should require the Company to conclusively demonstrate that the expenses are incremental prior to including such expense in the PIR Recovery Charge.

12. Q. In supplemental testimony filed on October 9, 2009, Company witness Friscie claims that Staff Recommendation No. 4 conflicts with the Staff's agreement in the Stipulation and the Commission's approval of that agreement to permit DEO to recover incremental O&M expenses through the PIR Cost Recovery Charge (Supplemental Testimony at 9), how do you respond?
- A. The Staff's position on incremental O&M Staff does not conflict with the terms of the Stipulation. As Company witness Friscie correctly points out on page 10 of her supplemental testimony, the Stipulation does not specifically address the issue of incremental O&M expenses at all. Additionally, as I noted above, the Stipulation defers to the Staff Report where the expense categories that Staff recommended for PIR recovery excluded incremental O&M expense.

13. Q. What was Staff Recommendation 5?

A. The Staff recommended modifications to the Company's proposed methodology for calculating cost savings resulting from implementation of the PIR program. Under the Staff's methodology, the cost savings amount in the revenue requirement calculation on Schedule 1, Line 26 of the Company's Application is increased from \$85,022 to \$554,300.

14. Q. How does the Company calculate the proposed cost savings and how does the Staff's methodology differ?

A. The Company takes the three O&M accounts related to leak surveillance, leak repair, and corrosion monitoring that were identified in the Stipulation, then adds a fourth account related to corrosion remediation (a logical extension of corrosion monitoring) and compares the PIR test year (July 1, 2008 – June 30, 2009) expenses for these accounts against the expenses for the same four accounts in a baseline year (July 1, 2007 – June 30, 2008). The differences between the between the PIR test year expenses and the baseline year expenses, whether positive or negative, are then netted and the aggregate test year amount is then subtracted from the aggregate baseline year amount to arrive and the resulting amount is reported as the PIR cost savings. The Staff's approach recommends that where any account shows a difference between the test-year and the baseline year that is positive (meaning costs actually went up when compared to the baseline year),

should be set to zero prior to netting the test year accounts and subtracting the aggregate result from the aggregate amount for the baseline year.

15. Q. Why do you believe the Staff's recommended methodology is better?

A. Staff's approach protects customers against cost increases and is consistent with cost savings that should accrue from implementation of the PIR program. The idea of allowing cost increases to swallow up cost savings that would otherwise lower the revenue requirement and save customers money runs counter to the promise of cost savings that was supposed to result from implementation of the PIR program.

16. Q. Is any particular level of savings promised under the PIR?

A. No, but a fundamental premise of the PIR is to enhance system reliability and safety and to reap reductions in many expenses with system replacements and improvements. Both the Company and its customers should benefit from the PIR. Accelerating pipeline replacement will eliminate leaks, help the Company reduce maintenance and related costs, and result in a safer, more dependable system that benefits customers as well. The Company benefits from more timely recovery of investments in PIR projects. In its original PIR Application, the Company noted that it will experience O&M savings by eliminating future corrosion monitoring activity and the need to install anodes for the cathodic protection of those pipe-

lines (*i.e.*, corrosion remediation). (Application at 10-11; emphasis supplied.) The Staff noted that this reduction in O&M expenses should be used to reduce the fiscal year-end regulatory asset in order to provide customers a more immediate benefit of the cost reductions achieved as a result of the PIR program.

In direct testimony filed in Case No. 07-829-GA-AIR, Company witness Tim McNutt stated that DEO anticipated O&M savings comparable to those reported by other companies from reduced incidence in leak repair expenses, and that DEO would credit such savings to customers. The idea that the PIR will generate cost savings that would be passed on to customers was important to the Staff in its original recommendation to approve the PIR and, Staff believes, to the Commission's approval as well of the PIR rider.

17. Q. How do you respond to Company witness Friscie's claims that the original PIR application, PIR Staff Report, and Stipulation all support that cost savings should be assessed in the aggregate.
- A. The Staff disagrees. As witness Friscie points out on page 12 of her supplemental testimony, the Stipulation does not explicitly define how the expected O&M savings will be calculated. Similarly, the Company's PIR Application and the PIR Staff Report also do not specifically define how

savings will be calculated. The Staff submits that savings was contemplated by DEO in each of the four areas related to leak detection and repair and corrosion monitoring and remediation, and it is reasonable to look at each category individually. This approach has the benefit of preventing large cost increases in any one or more areas from significantly reducing or completely eliminating cost savings in other areas or perhaps even causing additional costs to be passed on to customers.

18. Q. How do you respond to Company witnesses Friscic and Hall's contentions that it is early in the PIR program and that cost savings will ultimately be realized in the leak surveillance and repair and corrosion monitoring categories?

A. First, I would point out that the Company witnesses offer no opinion regarding when such savings will occur. Witness Hall states that leak repair costs will decrease "over a long period of time," but no other estimate of when savings may be realized is offered. Second, Staff believes that cost increases seen during the test year in this case will continue into at least the short term future. Company witness Hall states in his testimony that DEO now records as an expense some leak repair costs that were previously capitalized and is experiencing more leaks on its system, thus leak repair expenses have increased. He also, notes that DEO has experienced increases in the corrosion monitoring expenses due to increased testing

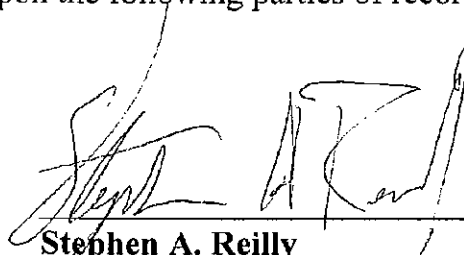
requirements. Given this upward trend in costs in categories where savings were supposed to be realized coupled with the Company's approach that allows cost increase in any one category to reduce savings in other areas, the Staff is doubtful that DEO customers will experience meaningful savings from implementation of the PIR, at least during the five year period that the Commission approved for the PIR. Additionally, the Staff would point out that other Ohio LDCs have achieved more significant cost savings earlier and based upon smaller investment in capital additions than the \$90 million proposed by DEO in this case.

19. Q. Does this conclude your pre-filed direct testimony?

A. Yes.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prepared Direct Testimony** of **Kerry J. Adkins** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by electronic mail, upon the following parties of record, this 14th day of October, 2009.


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