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STATE OF INDIANA
BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION INDIANA UTILITY
REGULATORY COMMISSION

JUN 07 2004

VERIFIED JOINT PETITION OF INDIANA GAS)
COMPANY, INC., SOUTHERN INDIANA GAS)
AND ELECTRIC COMPANY AND THE BOARD)
OF DIRECTORS FOR UTILITIES OF THE)
DEPARTMENT OF PUBLIC UTILITIES OF THE)
CITY OF INDIANAPOLIS, AS SUCCESSOR)
TRUSTEE OF A PUBLIC CHARITABLE TRUST,)
d/b/a CITIZENS GAS & COKE UTILITY,)
PURSUANT TO IND. CODE § 8-1-2.5 et. seq.)
FOR APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN WHICH WOULD)
ESTABLISH A UNIVERSAL SERVICE PROGRAM)

CAUSE NO. 42590

REBUTTAL TESTIMONY

Of

GREGORY A. SAWYERS And
L. DOUGLAS PETITT

On Behalf
Of Petitioners

Citizens Gas & Coke Utility,
Indiana Gas Company, Inc., and
Southern Indiana Gas & Electric Company

June 7, 2004

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**Behalf of
Petitioners**

**Citizens Gas & Coke Utility,
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Southern Indiana Gas & Electric Company**

Petitioners' Exhibit GAS-R

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Gregory A. Sawyers. My business address is 2020 N. Meridian Street,
3 Indianapolis, Indiana 46202.

4 **Q. ARE YOU THE SAME GREGORY A. SAWYERS THAT PREVIOUSLY**
5 **TESTIFIED IN THIS PROCEEDING?**

6 A. Yes.

7 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY AND EXHIBITS OF**
8 **NICHOLAS PHILLIPS, JR. FILED ON BEHALF OF INTERVENORS**
9 **MANUFACTURING AND HEALTH PROVIDING CUSTOMERS.**

10 A. Yes, I have.

11 **Q. HAVE YOU ALSO HAD AN OPPORTUNITY TO REVIEW THE DIRECT**
12 **TESTIMONY AND EXHIBITS OF ROGER D. COLTON FILED ON BEHALF**
13 **OF INTERVENOR CITIZENS ACTION COALITION OF INDIANA?**

14 A. Yes, I have.

15

16

I. Testimony of Nicholas Phillips, Jr.

17 **Q. MR. PHILLIPS BEGINS HIS TESTIMONY WITH TWENTY-SEVEN**
18 **“POINTS” SUMMARIZING WHAT HE BELIEVES IS WRONG WITH THE**
19 **PROPOSED UNIVERSAL SERVICE PROGRAM (“PROGRAM”). DO YOU**
20 **HAVE A GENERAL RESPONSE TO MR. PHILLIPS’ SUMMARY?**

21 A. Yes, I do. Mr. Phillips’ twenty-seven points can be broken down into several general
22 categories for purposes of my response. The utilities developed the Program in

1 collaboration with the statutory appointed representative of all ratepayers, the Indiana
2 Office of Utility Consumer Counselor (“OUCC”), with the Citizens Action Coalition
3 of Indiana, Inc. (“CAC”) and other interested groups. Moreover, Citizens is
4 providing significant monetary contributions to the Program. (Cf., Phillips’ Test.
5 page 4, lines 37-39; page 5, lines 1-14; and page 5, lines 6-18).

6 The purpose of the Program is to provide needed assistance to the utilities’
7 low-income customers and participating customers are the main beneficiaries of the
8 Program – not the utilities. (Cf., Phillips’ Test. page 4, lines 6-9; page 5, lines 10-11;
9 and pages 5-6, lines 50-51 and 1-2.)

10 **Q. YOU INDICATED CITIZENS IS MAKING A SIGNIFICANT MONETARY**
11 **CONTRIBUTION TO THE PROGRAM. PLEASE DESCRIBE THAT**
12 **CONTRIBUTION.**

13 **A.** Citizens is dedicating the Customer Benefit Distribution (“CBD”) to fund all costs of
14 the Program, with the exception of the LIHEAP funds. During the “Stop Gap”
15 period, Citizens is contributing \$576,000 of unregulated funds from its 2004 CBD
16 that are expected to be available January 1, 2005. During the “Pilot Program,”
17 Citizens is contributing \$500,000 from the Warm Heart Warm Home Foundation
18 (“WHWH”), \$300,000 from its weatherization fund, \$1,100,000 from Citizens By-
19 products in support of the GCA-50 settlement, and an additional \$4,400,000 of
20 unregulated funds from the CBD.

1 **Q. ARE ANY OF THE ABOVE REQUIRED CONTRIBUTIONS?**

2 A. Yes. Citizens is required under the terms of the GCA-50 settlement to provide the
3 amount of \$1,100,000 to support low-income customer programs. Additionally
4 Citizens, while not required, has provided the \$500,000 (WHWH) and \$300,000
5 (weatherization) funds in the past. The remaining \$4,976,000 are “new”
6 contributions Citizens is making to support these customers.

7 However, I do not understand the significance Mr. Phillips places on “new”
8 contributions. In my opinion “new” contributions to customers are of no greater
9 importance or value than those contributions Citizens traditionally has made or that it
10 makes pursuant to a prior Commission Order.

11 **Q. DO CITIZENS’ RATEPAYERS PAY ALL EXPENSES ASSOCIATED WITH**
12 **THE UTILITY’S BAD DEBT AS MR. PHILLIPS CLAIMS?**

13 A. No. In fact, the rates of Citizens’ industrial customers do not include any expenses
14 related to bad debt, despite the fact that those customers contribute to the problem.
15 For the period from October 2002 through today, Citizens has written-off
16 approximately \$350,000 of bad debt expense attributable to industrial customers.
17 Moreover, Citizens’ other customers do not pay the full cost of Citizens’ bad debt
18 expense. Citizens’ last general rate case was in 1991, where the level of bad debt
19 expense recovered in base rates was established at approximately \$1.8 million.

1 Citizens' bad debt expense has averaged approximately \$4.4 million over each of the
2 past three years.

3 **Q. CAN THE PAYMENT DIFFICULTIES OF LOW-INCOME CUSTOMERS BE**
4 **REMEDIED SIMPLY BY CITIZENS' FINDING WAYS TO LOWER GAS**
5 **COSTS AND RATES?**

6 A. No. Citizens has not increased its base rates since 1991. Given the passage of
7 thirteen years, and the resulting impact on Citizens' level of expenses, it is doubtful
8 that Citizens' current rates allow it to earn the return authorized in the 1991 rate case.

9 With respect to lowering gas costs, Citizens demonstrates in quarterly GCA
10 proceedings that its gas purchasing strategy is reasonable and prudent given the best
11 information at the time. Citizens goes to great lengths to reduce volatility and
12 mitigate cost increases to ensure that it purchases gas commodity at the lowest cost
13 reasonably possible.

14 **Q. IN YOUR OPINION, DO THE BENEFITS OF THE PROGRAM JUSTIFY ITS**
15 **COST?**

16 A. Yes. Mr. Phillips suggests the "benefits" of the Program consist exclusively of the
17 utilities' anticipated reduction in bad debt write-offs (which with respect to Citizens
18 are estimated to be \$270,000 to \$420,000 annually). Mr. Phillips proposes that it
19 would be more economical for ratepayers to simply pay the bad debt rather than the
20 cost of the Program. The primary purpose of the Program is to benefit Citizens low-

1 income customers – not reduce Citizens’ bad debt write-offs. Citizens is sincere in its
2 desire to assist its low-income customers and I believe the Program will go a long
3 way in doing so. The true monetary “benefit” of the Program is the approximately
4 \$6,680,000 that will be dedicated to providing discounted gas bills for Citizens’
5 eligible low-income customers.

6 I also note that while Mr. Phillips characterizes the “benefits” the utilities will
7 reap from the Program as “meager,” he inconsistently states that Petitioners are “the
8 main beneficiaries of the plan.” (Cf., Phillips’ Test. page 9, lines 8-9; Phillips’ Test.
9 Page 5, line 10). The “main beneficiaries” of the Program are Petitioners’ low-
10 income customers. Any benefits to the utilities are secondary.

11 **Q. SHOULD RATEPAYERS BE CONCERNED THAT THE PROGRAM IS**
12 **MERELY A “FIRST STEP” AND THE “NEXT STEP” WILL BE A MORE**
13 **COSTLY PROGRAM?**

14 A. No. The Program is a pilot. It is designed to give the utilities, the Commission, the
15 OUCC and other interested parties the opportunity to assess its effectiveness in
16 providing aid to customers in need. Any modifications to the Program at the end of
17 the pilot period would have to be approved by the Commission in a fully docketed
18 proceeding where interested parties would have an opportunity to be heard.

19 **Q. IN YOUR OPINION SHOULD THE POSSIBILITY THAT ELECTRIC**
20 **UTILITIES MAY PRESENT SIMILAR PROPOSALS IF THE PILOT**

1 **PROGRAM IS APPROVED HAVE ANY BEARING ON THIS**
2 **PROCEEDING?**

3 A. No. Joint Petitioners obviously can not control what other utilities might or might not
4 do. I believe the Program should be judged on its own merit, not based on
5 speculation regarding what other utilities might do. Moreover, any utility intending
6 to implement a comparable universal service program would have to seek
7 Commission approval in a proceeding where the particular utility's ratepayers would
8 have an opportunity to be heard.

9 **Q. IN YOUR OPINION, DOES THE PROPOSED PROGRAM BENEFIT**
10 **MANUFACTURING AND HEALTH PROVIDING CUSTOMERS?**

11 A. Yes. I agree with Mr. Colton that commercial and industrial customers will benefit
12 from the utility's provision of affordable home energy – especially those customers
13 that are in the business of providing health care services to low-income persons.

14 (See, Colton Test., pages 15-28.)

15 **Q. MR. PHILLIPS IS CRITICAL OF THE FACT THAT ONLY CUSTOMERS**
16 **THAT HAVE APPLIED FOR AND QUALIFY FOR LIHEAP ARE ELIGIBLE**
17 **FOR THE PROGRAM. DO YOU HAVE A RESPONSE?**

18 A. Because the Program may be funded in part with LIHEAP funds, participants must be
19 LIHEAP recipients. Also, the requirement that Program participants be LIHEAP
20 recipients creates an easily defined group of eligible customers. One of the utilities'

1 goals in designing the Program was to keep it administratively simple. Neither the
2 utilities nor the community action agencies that will be enrolling customers want to
3 be placed in the position of making determinations as to who is eligible.

4 Limiting the Program to LIHEAP participants also eliminates the possibility
5 that the cost of the Program could “triple” if all of the LIHEAP eligible customers in
6 the utilities’ service territory participated. (See, Phillips Test. page 20, lines 25-26.)
7 Once LIHEAP funds are exhausted for the year, enrollment in the Program also will
8 be discontinued. This creates a natural enrollment limit.

9 **II . Testimony of Roger D. Colton**

10 **Q. DO YOU HAVE ANY GENERAL THOUGHTS REGARDING MR.**
11 **COLTON’S TESTIMONY?**

12 **A.** Generally, I agree with Mr. Colton’s testimony especially with respect to the benefits
13 that will result from the Program. I also concur with Mr. Colton’s conclusion that the
14 Program “is substantively reasonable, will deliver systemwide benefits to the
15 customers of each of the three Petitioners, and involves a reasonable funding
16 mechanism.” (Colton Test. page 4, lines 3-5.) Citizens, SIGECO and IGC also do
17 not oppose most of the modifications to the Program proposed by Mr. Colton. My
18 testimony addresses each of Mr. Colton’s proposed modifications.

19 **Q. MR. COLTON’S FIRST PROPOSED MODIFICATION IS THAT**
20 **DISCOUNTS PROVIDED TO LOW-INCOME CUSTOMERS UNDER THE**
21 **PROGRAM BE TIED TO INCOME RATHER THAN POVERTY LEVEL. DO**
22 **YOU AGREE?**

1 A. No, I do not agree that the manner in which customers qualify for and are placed in a
2 certain discount tier should be modified. The percentage discount for which a
3 customer qualifies will depend on the number of “points” the customer receives under
4 the State’s Energy Assistance Program Benefit Matrix. Poverty level is but one of a
5 number of factors used to assign “points” to customers under the Matrix. Other
6 factors, to name a few, include: (i) size of the household; (ii) whether there are at risk
7 persons in the home (i.e., elderly or disabled individuals and children under the age of
8 5); and (iii) the heating source used in the home (i.e., gas, electric, oil, etc.). The
9 Matrix is included as the last page of Exhibit GAS-5, attached to my direct testimony.
10 I believe using the State’s Matrix to assign the varying discount percentages to
11 customers is an administratively simple and effective way of ensuring that
12 participants with the greatest need will receive the greatest benefit.

13 **Q. MR. COLTON FURTHER PROPOSES THAT THE PERCENTAGE**
14 **DISCOUNT TIERS BE CHANGED. DO YOU AGREE WITH THIS**
15 **PROPOSAL?**

16 A. Joint Petitioners are not opposed to making the changes to the percentage discount
17 tiers proposed by Mr. Colton to the extent that doing so does not substantially
18 increase costs. Based on Mr. Colton’s testimony and accompanying exhibits it
19 would appear that the proposed modifications to the percentage discount tiers would
20 not result in a significant cost increase. Under Mr. Colton’s proposal, the net bill for
21 Citizens’ participating low-income customers would be 25%, 40% or 50% lower than
22 their normal residential gas service bill, instead of 35%, 40% and 45%. The net bill
23 for SIGECO and IGC’s participating low-income customers would be 35%, 50% or

1 60% lower than their normal residential gas service bill, instead of 45%, 50% and
2 55%.

3 **Q. WHAT IS YOUR OPINION REGARDING MR. COLTON'S CONCERN**
4 **THAT SOME CUSTOMERS MAY NOT RECEIVE THEIR FULL LIHEAP**
5 **BENEFIT UNDER THE PROGRAM?**

6 **A. The utilities share Mr. Colton's concern that some customers may not receive their**
7 **full LIHEAP benefit under the terms of the Program as set forth in the Amended**
8 **Stipulations. The utilities recognize that in some cases, specifically when a customer**
9 **lives in a small energy efficient dwelling, the total discount under the Program might**
10 **be less than the amount of the annual LIHEAP benefit. However, I believe this**
11 **would affect only a small number of customers and would have a minimal monetary**
12 **impact on those customers.**

13 On the other hand, the modifications to the Program proposed by Mr. Colton
14 and others the utilities have independently considered, which would allow the utilities
15 to ensure that all customers receive their full LIHEAP benefit would increase
16 administrative costs significantly. Citizens, for example, would have to make
17 changes to its billing system and likely add staff to deal with tracking the benefits
18 provided to customers.

19 Mr. Colton points out that the utilities may be required by federal law to
20 ensure that all customers receive their entire LIHEAP benefit. To the extent that the
21 Program does not meet the requirements of federal law, the utilities are willing to
22 make the necessary modifications to ensure that it complies with applicable law.

1 **Q. HAVE THE UTILITIES DETERMINED A MANNER IN WHICH THE**
2 **PROGRAM COULD BE MODIFIED SO THAT THERE IS NO QUESTION**
3 **THAT IT COMPLIES WITH FEDERAL LAW?**

4 A. Yes. Instead of having the Family and Social Service Administration direct each
5 participating customer's EAP grant into the respective utility's "Universal Service
6 Fund," the EAP grant would continue to be applied directly to customer bills. The
7 utilities then would discount the bills of participating customers by 5%, 20% or 30%,
8 with respect to Citizens and 15%, 30% and 40% with respect to SIGECO and IGC.
9 The EAP grant itself, generally accounts for an approximately 20% decrease in the
10 customer's annual gas bill. Therefore, the net bills of Citizens' participating
11 customers on an annual basis ultimately still would be approximately 25%, 40% or
12 50% lower than their normal residential gas service bill. The net bills of SIGECO
13 and IGC's participating customers ultimately would still be approximately 35%, 50%
14 or 60% lower than their normal residential gas service bill on an annual basis.

15 **Q. WOULD THIS MODIFICATION ALSO ALLEVIATE THE POSSIBILITY**
16 **THAT LIHEAP BENEFITS RECEIVED IN THE SPECIFIED PROGRAM**
17 **YEAR WOULD BE USED TO PAY ENERGY COSTS IN A LATER YEAR?**

18 A. Yes, it would. LIHEAP funds would be separated from funds provided by the
19 utilities and their customers and, thereby, ensure that customers get the full amount of
20 their LIHEAP benefit each year.

21 **Q. IF THE PROGRAM IS CONTINUED BEYOND THE PILOT PERIOD AND**
22 **THE UTILITIES ARE PERMITTED TO RECOVER ASSOCIATED**
23 **ADMINISTRATIVE COSTS, WOULD THE UTILITIES ANTICIPATE**

1 **RECOVERING ANY AMOUNT BEYOND THE “INCREMENTAL” COST OF**
2 **THE PROGRAM?**

3 A. No. The utilities’ intention is that they would recover only incremental Program
4 costs. The utilities would not seek to recover any costs they already are being
5 compensated for through their rates and charges.

6 **Q. DO YOU HAVE AN OPINION REGARDING MR. COLTON’S**
7 **RECOMMENDATION THAT THERE BE AN OFFSET TO THE AMOUNT**
8 **OF BAD DEBT EXPENSE WRITE-OFF SAVINGS SHARED BY THE**
9 **UTILITIES TO THE EXTENT WRITE-OFFS ATTRIBUTABLE TO LOW-**
10 **INCOME CUSTOMERS ARE INCLUDED IN THE UTILITY’S BAD DEBT**
11 **EXPENSE WHICH IS RECOVERED THROUGH RATES?**

12 A. While I agree with the proposition in general, I do not agree that there should be an
13 offset in this case. First, I note that Mr. Colton agrees that the terms of the Program
14 allowing the utilities to share ½ of any bad debt savings are reasonable. Mr. Colton’s
15 recommendation with respect to the offset is premised on the assumption that all bad
16 debt expense associated with low-income customers “is currently embedded in
17 existing rates” and the utility is “assured of receiving” compensation for that expense.
18 (Colton Test. page 48, line 15-16; page 49, line 8 (emphasis in text).) Citizens
19 currently is not recovering the full amount of its bad debt expense related to low-
20 income customers through its existing rates. Over the past three years, Citizens’ bad
21 debt expense has been on average \$2.6 million more than the bad debt expense
22 amount embedded in its base rates.

1 **Q. DO YOU AGREE WITH MR. COLTON’S RECOMMENDATION THAT THE**
2 **UTILITIES SHARE SAVINGS OF OTHER EXPENSES WITH THEIR**
3 **CUSTOMERS THROUGH A CAPITATED EXPENSE SAVINGS**
4 **ESTIMATE?**

5 A. No. The utilities do not expect to see “substantial savings” in “credit and collection”
6 expenses and working capital associated with reductions in arrears. Citizens has had
7 an opportunity to assess the impact low-income assistance programs have on “credit
8 and collections.” During the 2003 heating season, Citizens operated a program called
9 “Keep the Heat On,” which provided payment assistance to 4,400 low-income
10 customers. As a result of the program, 1,100 customers were able to maintain service
11 throughout the year that otherwise would have been disconnected. Citizens, however,
12 experienced no appreciable drop in the amount of its “credit and collections” expense.
13 Instead, “credit and collections” efforts switched from low-income customers to other
14 customers. Citizens also experienced increased costs associated with customer
15 service. Citizens found that low-income customers participating in the program were
16 more likely to call customer service representatives or come to Citizens’ office to
17 make payments or to seek other services, like specialized payment arrangements.

18 Under Citizens’ proposal, there also would be no increase in working capital.
19 Citizens will fund the Program retroactively using funds from its CBD. In most
20 cases, Citizens will accrue the cost associated with providing the discount to
21 customers before it realizes any funds from the CBD – in some cases, months earlier.
22 To the extent Citizens has funds from the CBD available before it accrues the cost of
23 providing the discount, there still will be no increase in working capital. Funds from

1 the CBD always have been accumulated for distribution to customers. The fact that a
2 greater portion of those funds now will be used to benefit Citizens' low-income
3 customers does not represent an increase in working capital.

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS**
5 **PROCEEDING?**

6 **A. Yes, at this time.**

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Southern Indiana Gas & Electric Company**

Petitioners' Exhibit LDP-R

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is L. Douglas Pettit. My business address is 20 N.W. Fourth Street, Evansville,
3 Indiana 47702.

4 **Q. ARE YOU THE SAME L. DOUGLAS PETITT THAT PREVIOUSLY TESTIFIED**
5 **IN THIS PROCEEDING?**

6 A. Yes.

7 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY AND EXHIBITS OF**
8 **NICHOLAS PHILLIPS, JR. FILED ON BEHALF OF INTERVENORS**
9 **MANUFACTURING AND HEALTH PROVIDING CUSTOMERS?**

10 A. Yes, I have.

11 **Q. HAVE YOU ALSO REVIEWED THE DIRECT TESTIMONY AND EXHIBITS**
12 **OF ROGER D. COLTON FILED ON BEHALF OF INTERVENOR CITIZENS**
13 **ACTION COALITION OF INDIANA?**

14 A. Yes, I have.

15 **Q. IN HIS TESTIMONY, MR. PHILLIPS USED TWENTY-SEVEN POINTS TO**
16 **SUMMARIZE WHAT HE BELIEVES IS WRONG WITH THE PROPOSED**
17 **UNIVERSAL SERVICE FUND PROGRAM (“PROGRAM”). DO YOU HAVE A**
18 **GENERAL RESPONSE TO MR. PHILLIPS’ “POINTS?”**

19 A. I believe Mr. Phillips misses the point of the Program. The Program is not a cost based
20 program. It was designed to fill a societal need and with the public interest in mind.
21 Making energy affordable for low-income customers is in the best interest of society.

22 More than half of the states have some form of low-income energy assistance
23 program. Several of these universal service programs provide a very similar form of rate
24 discounting for those who qualify based on income. Mr. Colton’s testimony provides an
25 overview of several of these programs and the positive results experienced.

1 Secondly, a significant amount of Mr. Phillips' testimony concerns matters
2 pending in other cases. Assertions made regarding pending and separate cases are
3 inappropriate and should not be a factor in the Commission's determination of whether
4 the Program is in the public interest.

5 Thirdly, Mr. Phillips claims the utilities designed this Program without any input
6 from the customers who will be paying for the Program. On the contrary, the utilities
7 undertook a collaborative process that attempted to balance the needs of all parties. The
8 utilities worked with the Indiana Office of Utility Consumer Counselor ("OUCC"), the
9 state agency that represents consumers, and Citizens Action Coalition of Indiana, Inc.
10 ("CAC"). The OUCC is a signatory to the Stipulation and Amended Stipulation setting
11 forth the terms of the proposed Program.

12 Finally, much of Mr. Phillips' testimony implies that Vectren is not financially
13 responsive to the needs of its constituents. Vectren plays a significant role in providing
14 assistance to those in need. There are many examples of its generosity, including \$1.7
15 million in charitable contributions to non-profits last year, as well as another \$1.7 million
16 in funds that Vectren provides via its Share the Warmth program and through distribution
17 of GCA 50 settlement funds, which are given back to customers through various
18 programs.

19 **Q. MR. PHILLIPS URGES THE UTILITIES TO LOWER GAS COSTS IN LIEU OF**
20 **THE PROGRAM. DO YOU AGREE THAT THIS IS A VIABLE**
21 **ALTERNATIVE?**

22 **A.** No. Reducing gas costs is not a replacement for the Program. The fact is, over the last
23 several years, Vectren has dedicated significant resources to efforts to mitigate gas cost
24 volatility. At its own cost, Vectren hired Cambridge Energy Research Associates to help
25 design a portfolio approach to gas purchasing so that a large amount of Vectren's gas

1 supply will be procured in advance of the delivery date, thereby reducing exposure to
2 market price spikes. Vectren has embarked on a hedging program also designed to
3 counteract volatility. These efforts are reported in every GCA. Vectren, as part of the
4 American Gas Association (AGA), as well as on its own, actively supports lobbying
5 efforts to enhance LIHEAP funding, and supports legislative proposals to increase access
6 to gas supply and decrease demand on the natural gas system. None of Vectren's efforts
7 as an LDC necessarily will lead to "lower" gas costs. As a single buyer in a national
8 marketplace, Vectren has no magic answer to find gas priced below market. However, its
9 efforts to protect its customers from gas cost volatility are sincere, contrary to Mr.
10 Phillips' implication that Vectren just wants to raise rates. The fact of the matter is
11 Vectren, like virtually every other LDC, is harmed when the price of the commodity
12 increases. Price elasticity of demand ensures that customers "dial back" when gas costs
13 are high. In many cases, we lose customers forever when there are dramatic spikes in the
14 cost of the commodity. The decrease in demand and usage, along with the increased cost
15 of inventory and the cost of the money associated with the higher inventory all reflect
16 financial harm that LDCs incur due to high gas costs.

17 The important point is the Program is a needed approach to higher customer bills
18 that compliments the efforts made by the utilities to reduce gas cost volatility.

19 **Q. DOES THE FACT THAT VECTREN ENERGY ("IGC") HAS FILED A**
20 **REQUEST FOR A BASE RATE INCREASE UNDERMINE THE UNIVERSAL**
21 **SERVICE PROGRAM PROPOSAL?**

22 A. No. The base rate case will be reviewed on its own merits in a separate proceeding.
23 Moreover, the rationale for the Program is distinct from whether or not Vectren Energy
24 (IGC) is earning a reasonable return on its plant in service.

25

1 Because gas costs are typically 70-75% of a customer's bill, a rate increase related
2 to distribution charges has a much smaller impact on the total customer bill. By its
3 nature, the Program, which is designed as a total bill discount, addresses the risk of
4 higher gas prices.

5 It must be noted that Vectren Energy last increased its base rates in 1992. Vectren
6 Energy periodically requires rate relief in order to attract and invest capital and provide
7 reliable gas service. That need happens to coincide with rising gas prices and Vectren
8 Energy's desire to assist low-income customers through the Program. There is nothing
9 improper about filing a timely rate case while also proposing to assist less fortunate
10 customers.

11 **Q. IS THE PROGRAM "COST BASED?"**

12 **A.** No. Mr. Phillips attempts to apply cost of service theory to the Program. While there are
13 benefits to the Program in terms of reduced bad debt, reduced disconnections, etc., we
14 have never said the Program is cost based. Rather, the Program has been designed to
15 benefit the public by assisting those customers most in need. The cost of the Program is
16 spread over all customers on a volumetric basis. Assisting low-income customers and
17 having the cost to do so recognized in utility rates is not a novel concept. Rather, in
18 utility proceedings, the "public interest" is often considered. That interest is particularly
19 germane in an Alternative Regulatory Plan proceeding, where the legislature has declared
20 that "the public interest requires the commission to be authorized to issue orders and to
21 formulate and adopt rules and policies that will permit the commission to flexibly
22 regulate and control the provision of energy services to the public. . . ."

23 While, we have never asserted that the benefits associated with the Program could
24 be quantified in their entirety, I would point out several facts. Our analyses show there
25 will be a savings of approximately \$750,000 over the next two years in bad debt expense.

1 Secondly, Mr. Colton's testimony describes the many benefits of these types of
2 programs. Some of these benefits are experienced specifically by businesses. They
3 include:

- 4 ● reduction in employee turnover
- 5 ● reduction in employee time missed at work
- 6 ● reduction in employee illnesses and the resulting loss of productivity

7 (See Colton Test., pages 15-28) In this era of escalating gas prices, which are the
8 predominant part of the customer's bill, implementing a pilot Program to assist low-
9 income customers is in the public interest.

10 **Q. MR. PHILLIPS' TESTIMONY STATES THAT VECTREN'S REDUCTION IN**
11 **WRITE-OFFS WILL BE \$372,968 DURING THE PILOT PROGRAM, WHILE**
12 **YOU INDICATE IT WILL BE APPROXIMATELY \$750,000. WHICH**
13 **STATEMENT IS CORRECT?**

14 A. My testimony is accurate. Mr. Phillips' testimony is based on a statement I made during
15 my deposition, which I have corrected via errata sheets. Vectren anticipates saving
16 approximately \$372,968 annually during the two year pilot Program.

17 **Q. THE LARGE CUSTOMERS COMPLAIN ABOUT THEIR LACK OF INPUT IN**
18 **THE PROCESS USED TO DEVELOP THE PROGRAM. PLEASE RESPOND.**

19 A. For about a year, we performed research, attended public meetings on cost of energy
20 issues, met with the agencies that administer aid to customers, and reviewed the elements
21 of a universal service type program with the OUCC. We also met, once we had a refined
22 concept, with the large customer representatives, as well as with the CAC. This process,
23 if unusual, was unique given the level of efforts made to discuss the concept of a low-
24 income program with many interested groups, and the level of research performed

1 regarding similar programs. This pilot Program has been appropriately and seriously
2 considered and designed to reflect how such programs have been implemented elsewhere.

3 **Q. MR. PHILLIPS REFERS TO THE PROGRAM AS AN INCOME TRANSFER**
4 **PROGRAM. DO YOU AGREE?**

5 A. No. Mr. Phillips' view ignores the fact that utility rates already reflect a state policy to
6 protect and assist low-income customers. Bad debt expense, and thus customer rates,
7 would be lower if the utilities could shut off customers for non-payment throughout the
8 year. However, there is a disconnect moratorium in place so customers who cannot
9 afford to pay gas bills are at least protected during the heating season. This reflects a
10 public interest in the quality of human life, and a willingness to have higher rates to
11 sustain this policy objective.

12 The concept applies here – acting to assist low-income customers, and giving
13 them the ability to become regular paying customers, is an objective the public is
14 interested in achieving. It is far more than an income transfer or forced charitable
15 contribution – it is part of providing and regulating an essential service to the public.

16 **Q. MR. PHILLIPS CONTINUALLY INSINUATES THAT VECTREN ENERGY**
17 **NEEDS TO REDUCE ITS OPERATING COSTS. HAS HE POINTED TO A**
18 **SINGLE SPECIFIC COST THAT IS TOO HIGH OR UNNECESSARY?**

19 A. No.

20 **Q. HOW DO YOU REACT TO THE THREAT THAT IF THE PROGRAM IS**
21 **APPROVED, SOME CUSTOMERS MIGHT GIVE LESS TO CHARITY?**

22 A. Every year, each customer decides whether to donate to charitable causes. Presumably
23 there are many factors that drive such decisions. Using Mr. Phillips' logic, every time a
24 cost is adjusted for a service, customers may cease their United Way contributions. That
25 potential does not alter the merits of the Program, nor can it influence important policy

1 decisions. This Program serves the public interest. Whether or not a number of
2 customers will modify their use of discretionary income is speculation that has no bearing
3 on the proposal in this proceeding.

4 **Q. MR. PHILLIPS, ON PAGE 15 OF HIS TESTIMONY, ANSWERS A QUESTION**
5 **WITH AN INFERENCE THAT WEATHERIZATION PROGRAMS ARE NOT**
6 **EFFECTIVE AND ULTIMATELY WILL LEAD TO HIGHER RATES FOR**
7 **THOSE CUSTOMERS WHOSE HOMES HAVE NOT BEEN WEATHERIZED.**
8 **DO YOU UNDERSTAND AND AGREE WITH THIS ASSESSMENT?**

9 **A.** No. I am confused by both the question and the response. First, it is intuitive that
10 weatherization programs are effective at reducing energy usage and costs. There is
11 voluminous material that supports that conclusion. However, earlier in his testimony Mr.
12 Phillips asks why the utilities don't do something about the high cost of natural gas,
13 suggesting that we had some control over gas commodity prices. Because the price of a
14 commodity is a function of demand and supply, it is our contention that a demand
15 reduction program is one way of putting downward pressure on the price of the
16 commodity. So, it appears to me that Mr. Phillips would have supported the
17 weatherization component based on his testimony. Instead, he takes the opposite
18 approach.

19 **Q. ON PAGE 18, LINE 15 OF HIS TESTIMONY, MR. PHILLIPS STATES THAT**
20 **“BOTH MR. PETITT AND MR. SAWYERS ACKNOWLEDGED THAT THE**
21 **PROPOSED PROGRAM WAS ONLY A FIRST STEP” AND THAT NEITHER**
22 **COULD OUTLINE WHAT THE NEXT STEPS WOULD BE. SHOULD THIS BE**
23 **A CAUSE FOR CONCERN?**

24 **A.** No. This is a pilot Program filed as an Alternative Regulatory Plan. By definition, we
25 don't know for sure what the next steps will be until we know how the Program

1 performs. Whatever step(s) follow will be subject to a public proceeding, at which time
2 interested parties can participate.

3 **Q. ON PAGE 22, STARTING WITH LINE 20, MR. PHILLIPS DISCUSSES THE**
4 **FACT THE UTILITIES DO NOT HAVE OR COLLECT INCOME DATA ON**
5 **THEIR CUSTOMERS. DO YOU AGREE WITH MR. PHILLIPS' ASSERTION**
6 **THAT UTILITIES SHOULD COLLECT SUCH DATA?**

7 A. Absolutely not. Mr. Phillips refers to the fact that during our depositions, Mr. Sawyers
8 and I were unable to answer questions regarding customers who are not LIHEAP
9 assisted. In order to answer those questions, we would need to know their income level.
10 The only customers for whom we have any indication of income level are the LIHEAP-
11 assisted customers. We know this by virtue of the fact that they are enrolled in a program
12 that requires them to meet certain income criteria. The utility does not certify or enroll
13 these customers; therefore we have no reason to know any of that information. Beyond
14 that group of customers, we have no customer income information, nor do we want to
15 know. If Mr. Phillips were our customer, we would not know how much he made, nor
16 would he want us to know.

17 **Q. MR. PHILLIPS ASSERTS THAT SIGECO/IGC ARE NOT PARTICIPATING**
18 **FINANCIALLY IN ASSISTING LOW-INCOME CUSTOMERS. DO YOU**
19 **AGREE WITH THIS ASSESSMENT?**

20 A. No. Besides continually under-recovering bad debt expense, Vectren has contributed
21 approximately \$1.7 million to energy assistance programs. Over \$1.1 million of this
22 went to Share the Warmth recipients. Additionally, Vectren has spent a great deal of
23 time and expense in the development and formation of this Program, which it is not
24 seeking to recover. Likewise, the Indiana Energy Association, of which Vectren is a
25 member, funded the original study with dues paid by the utility companies. In addition,

1 Vectren, through the Vectren Foundation, supports numerous causes throughout Indiana.
2 In 2003, the foundation provided approximately \$1.7 million to charities throughout the
3 communities we serve.

4 **Q. MR. COLTON CITES A CONCERN REGARDING THE POSSIBILITY THAT**
5 **SIGECO/IGC MIGHT OVER-RECOVER BAD DEBT EXPENSE FROM ITS**
6 **LIHEAP CUSTOMERS THROUGH THE COST SHARING MECHANISM**
7 **DESCRIBED IN THE PROGRAM. DO YOU BELIEVE THIS IS A RELEVANT**
8 **CONCERN GIVEN THE CURRENT STATUS OF BOTH UTILITIES?**

9 A No. While I respect the fact that this could be a concern, it should not be a concern in
10 this situation. Between SIGECO and IGC, the utilities collectively have under-recovered
11 bad debt expense by approximately \$15 million over the last five years. A significant
12 portion of this bad debt expense was incurred due to LIHEAP customers over a period of
13 time when the utilities had not been earning their allowed rate of return. Further, this
14 mechanism is part of a negotiated settlement where all of the costs to plan, implement
15 and administer the pilot Program are absorbed by IGC, SIGECO and Citizens.

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. Yes, at this time.
19

CERTIFICATE OF SERVICE

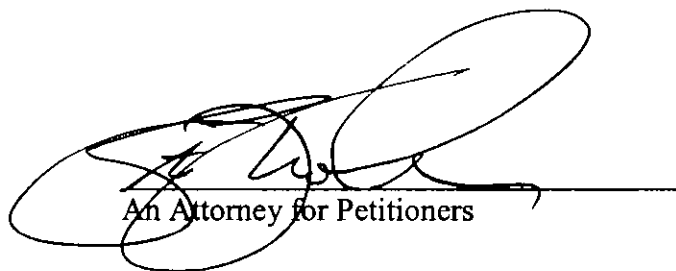
I hereby certify that on this 7th day of June, 2004 a copy of the foregoing "Rebuttal Testimony of Gregory A. Sawyers and L. Douglas Pettit" has been served by U. S. Mail or personal delivery to:

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