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STATE OF INDIANA

APR 30 2004

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED JOINT PEITION 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)
PILOT UNIVERSAL SERVICE PROGRAM)

CAUSE NO. 42590

PREFILED TESTIMONY OF

MATTHEW G. PARSELL – PUBLIC’S EXHIBIT NO. 1

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

APRIL 30, 2004

Respectfully submitted,



Randall C. Helmen Attorney No. 8275-49
Deputy Consumer Counselor

**VECTREN ENERGY DELIVERY / CITIZENS GAS AND COKE UTILITY
CAUSE NO. 42590
PREPARED TESTIMONY OF MATTHEW G. PARSELL**

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Matthew G. Parsell, and my business address is Room N501 Government Center North, 100 N. Senate Avenue, Indianapolis, Indiana 46204.

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A: I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as the Assistant Director, Natural Gas Division.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A: I graduated from Indiana Wesleyan University with a Bachelor of Science degree in Business Administration and later completed a Masters in Business Administration (M.B.A.) from Indiana Wesleyan University. I also am a Chartered Industrial Gas Consultant (C.I.G.C.), which is a two year program that includes economics, engineering and business courses offered by the Industrial Gas Institute of Technology. During my tenure at the OUCC I have attended various seminars that address regulatory issues, such as Camp NARUC in 1998 and NARUC's Practical Skills for a Changing Utility Environment.

Q: DESCRIBE YOUR WORK EXPERIENCE.

A: Before joining the OUCC I was employed by Indiana Gas Company and its affiliate ProLiance Energy, LLC. I was with Indiana Gas from September, 1990 until July, 1996 and held various positions in sales and marketing, including Industrial Gas Representative, Key Account Program Manager and Industrial Sales Manager. As Sales Manager I was responsible for gas sales and utility services provided to all the industrial customers on the Indiana Gas system. In July of 1996 I joined ProLiance Energy, LLC as Industrial Commercial Sales Manager and later held the position of Key Account Manager. In these positions I was responsible for the sales and creation of products for large unbundled customers. Products sold were mainly gas commodity in service forms such as fixed gas pricing, NYMEX hedged pricing, different storage options, spot pricing, cash pricing and index pricing. Part of my duties included interfacing with gas traders and gas supply professionals in order to design custom products for individual customers. In April, 1998 I gained employment at the OUCC, first in the Engineering section and then in the Natural Gas Division. My current responsibilities include the daily supervision of the OUCC's involvement in the gas cost adjustment (GCA) proceedings. During my tenure at the OUCC, I have supervised and/or testified in numerous GCA proceedings. Also, I was directly involved with the Citizens Gas monthly gas cost adjustment settlement in Cause No. 37399-GCA 75.

Q: ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?

A: Yes. I am a board member of the National Association of Energy Standards Board (NAESB), and a member of the NAESB Retail Natural Gas Quadrant.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I will testify regarding the settlements the OUCG has entered into to create a Universal Service Fund (USF) for gas customers, one with Vectren and one with Citizens Gas.

Q: HOW HAVE YOU PREPARED FOR YOUR TESTIMONY?

A: I have read and analyzed the Joint Petitioners' testimony and exhibits. I participated in several meetings pertaining to this case, both with OUCG personnel and also with Petitioner's representatives. I carefully reviewed the two settlement agreements in this Cause. I also reviewed information on universal service programs in other states such as Ohio and Pennsylvania.

Q: PLEASE DESCRIBE THE BACKGROUND FOR UNIVERSAL SERVICE.

A: Several discussions and meetings regarding a need in Indiana for a universal service fund have taken place between the settling parties over the last several months. The settling parties agreed that increasing commodity costs create undue hardship on low-income customers. In its publication *The Cold Facts: The First Annual Report on the Effect of Home Energy Costs on Low-Income Americans*, the National Low-Income Consortium observes that energy costs can amount to 70% of

a low-income household's income during the heating season. Many other states, including Ohio and Pennsylvania, have created successful universal service programs that lessen the burden on these customers. The OUCC collected data on other states' programs to create benchmarks for what Indiana's program should look like.

Q: ARE THERE ANY PUBLICATIONS THAT SURVEY THE AVAILABILITY OF LOW INCOME ENERGY ASSISTANCE PROGRAMS ACROSS THE UNITED STATES?

A: Yes. The American Association of Retired Persons (AARP) provides such a publication: *Energy and Telephone Assistance in the States: Public Programs that Help Low-Income Customers*, which is available at http://research.aarp.org/consume/d17557_energy.pdf. This AARP publication details all utility low-income service programs on an overall and state-by-state basis.

Q: HOW MANY STATES ARE COVERED IN THE AARP PUBLICATION?

A: The AARP report details the programs in all 50 states. Among those, 26 states have implemented universal service programs (natural gas, electric, or both). The AARP report provides information on the funding, administration, and benefits distribution of these programs.

Q: WHAT TRENDS HAVE BEEN IDENTIFIED IN OTHER STATES' UNIVERSAL SERVICE PROGRAMS?

A: Every state has its own variation on universal service, but certain core principles are common. The majority of the programs require that all available resources, such as LIHEAP monies and charitable contributions, be exhausted before the customer can receive USF assistance. This ensures that USF resources are used to supplement – not replace – traditional sources of low-income assistance. Also, most states require that all utility customers participate in funding the program. This means that residential (including USF households), choice, commercial, industrial and transportation customers all contribute to the USF.

Funding the Indiana Specific USF Proposals

Q: ARE THE USF PROGRAMS PROPOSED IN THIS CAUSE FOR SIGECO, INDIANA GAS AND CITIZENS GAS FUNDED BY FIXED MONTHLY CHARGES ON CUSTOMERS OR VOLUMETRIC (i.e. USAGE BASED) CHARGES?

A: The Vectren (SIGEGO and Indiana Gas) USF program will be funded through volumetric charges, which are capped at seven (7) cents per dekatherm for residential customers, five (5) cents per dekatherm for commercial customers and two (2) cents per dekatherm for industrial/transportation customers. The Citizens program will be funded via Citizens' Customer Benefits Distribution (CBD).

Q: ARE THERE ADVANTAGES TO USING VOLUMETRIC CHARGES TO FUND UNIVERSAL SERVICE?

A: Yes. Volumetric charges are used in many other states' universal service programs. This approach balances the supply of funds with the demand on them. For example, colder than normal weather can substantially increase usage by consumers, and this creates both an increased demand for and supply of USF funds. With the volumetric approach, the availability of funds will increase during unusually cold winters, which is precisely the time when the need for low-income assistance is typically greatest.

Residential heating needs during winter months can easily become unaffordable for many low-income customers. Volumetric charges also facilitate more funds being available in colder than normal winters when usage will be higher. This methodology is often used in electric universal service programs, where increased usage creates additional funding in the cooling season. In contrast, fixed monthly charges collect the same amount each month, including in the summer season where some users are already burdened by high, fixed service charges designed to cover some of the utility's fixed costs of providing service.

Q: WILL THE OVERALL COST OF THE UNIVERSAL SERVICE PROGRAMS BE FIXED?

A: No, quite the contrary. The need for USF funds will vary with the severity of winter season weather and the volumes of natural gas consumed. The variability of USF costs highlights the need for funding the USF program by volumetric charges. Fixed

charges would neither recognize nor respond to the fluctuating need for low-income assistance from the USF.

Q: IS IT IMPORTANT THAT ALL CUSTOMER CLASSES PARTICIPATE IN THIS PROGRAM?

A: Yes. In order to optimize the level of program funding and benefits to recipients, it is necessary that all classes of ratepayers contribute to the universal service program. While program benefits will be realized directly by recipients, neighbors, co-workers, employers, and businesses in all rate classes will benefit indirectly.

Q: DO STATES TYPICALLY REQUIRE INDUSTRIAL CUSTOMERS TO CONTRIBUTE TO FUNDING THE PROGRAM?

A: Most states require that all rate classes support the universal service program. Industrial customers' contributions are capped in most programs. Similarly, the proposed Stipulation and Settlement Agreement for Vectren caps the per-dekatherm charges at \$0.02 for industrial and transportation customers, while the residential class is capped at the much higher rate of \$0.07 per dekatherm. The Citizens program is funded through the CBD rather than incremental charges.

Conclusion

Q: HAVE YOU REVIEWED THE TESTIMONY FILED BY MR. DOUGLAS PETITT OF VECTREN AND MR. GREGORY SAWYERS OF CITIZENS GAS IN SUPPORT OF THE RESPECTIVE SETTLEMENT AGREEMENTS IN THIS CAUSE?

A: Yes, I have, and I agree with their conclusion that the creation of pilot USF

programs, as provided in the settlement agreements, is reasonable and consistent with the public interest.

Q: DOES THE OUCC SUPPORT COMMISSION APPROVAL OF THE SETTLEMENT AGREEMENTS AND THE CREATION OF THE PILOT UNIVERSAL SERVICE PROGRAMS CREATED THEREIN?

A: Yes. The OUCC recognizes the serious problems created by today's high and volatile energy prices, especially for low-income customers vulnerable to service disconnections. The settlement agreements respond to these public interest concerns by creating pilot programs that will provide much needed additional assistance to low-income customers and allow Indiana to gain experience with the operation and administration of such programs. The settlements provide the Commission with the opportunity to review the results and performance of the pilot programs before making any further decisions about the long term future of these or other similar universal service programs.

I recommend that the Commission approve the settlement agreements in this Cause and the establishment of the pilot USF programs provided therein.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

CERTIFICATE OF SERVICE


This is to certify that a copy of the foregoing **Public's Exhibit No. 1 In Support of Settlement** has been served upon the following counsel of record in the captioned proceeding by depositing a copy of same in the United States mail, first class postage prepaid, on April 30, 2004.

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