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STATE OF INDIANA
BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

JUN 07 2004

INDIANA UTILITY
REGULATORY COMMISSION

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,)
FOR APPROVAL OF AN ALTERNATIVE)
REGULATORY PLAN WHICH WOULD)
ESTABLISH A UNIVERSAL SERVICE PROGRAM)

CAUSE NO. 42590

Cross Responsive Testimony and Exhibits

of

Roger D. Colton

On behalf of
Citizen Action Coalition of Indiana
Indianapolis, Indiana

June 7, 2004

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

3

4 Q. ARE YOU THE SAME ROGER COLTON WHO HAS PREVIOUSLY FILED
5 TESTIMONY IN THIS PROCEEDING?

6 A. Yes.

7

8 Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY TODAY.

9 A. The purpose of my testimony today is to respond to the testimony of Nicholas Phillips
10 filed on behalf of the Manufacturing and Health Providing intervenors.

11

12 Q. WHAT IS THE FIRST ASPECT OF MR. PHILLIPS' TESTIMONY TO WHICH
13 YOU WISH TO RESPOND?

14 A. At page 3 of his testimony, beginning at line 33, Mr. Phillips testifies that:

15 "Transportation customers are not involved with the problem of high utility gas

16 commodity costs charged by the utilities. . ." Again, at page 8 of his testimony, Mr.

17 Phillips asserts that "transportation customers are not involved with the problem of high

18 utility gas costs. . ." These statements by Mr. Phillips are demonstrably in error. In fact,

19 large natural gas users such as those represented by Mr. Phillips directly contribute to the

20 unaffordability problems now faced by low-income residential consumers.

21

1 Q. UPON WHAT DO YOU BASE YOUR CONCLUSION?

2 A. There is ample information available upon which to base this conclusion. Consider, for
3 example, the information presented by the U.S. Department of Energy's (DOE) Energy
4 Information Administration in its 2003 analysis of high natural gas prices during the
5 2002/2003 winter heating season in the Midwest and Northeastern areas of the nation.
6 According to this EIA/DOE analysis, one of the primary contributing factors to the high
7 gas prices faced by residential consumers, including the low-income consumers that the
8 proposed universal service program seeks to serve, was the relatively low storage
9 volumes experienced going into the heating season. Because of this low storage, natural
10 gas consumers, including low-income consumers, were subject to high and volatile spot
11 market prices needed to meet natural gas demand.

12
13 One reason for the low storage and the increasing need to rely on expensive spot market
14 gas is the surge in natural gas usage by large volume users, including industrial users and
15 electric producers.¹

16
17 Not only has this surge in natural gas usage occurred in recent years, but it is projected to
18 continue. DOE/EIA data on the increased natural gas usage by these two sectors is
19 presented in Schedule RDC-1R. DOE projects that natural gas consumption will
20 substantially increase in these sectors through the year 2025.

21
22 The continuing pressure on natural gas supply is largely driven by increases in natural gas
23 consumption by the industrial sector and electric generation sector. Schedule RDC-2R

1 presents EIA/DOE's projection of natural gas consumption by this sector of the economy
2 from 1990 through the year 2025. As can be seen, industrial customers and electric
3 generators are the primary drivers of consumption increases during that time period.
4

5 **Q. HOW DOES INCREASED NATURAL GAS USAGE BY THE INDUSTRIAL AND**
6 **ELECTRIC GENERATION SECTORS AFFECT THE PRICE PAID BY LOW-**
7 **INCOME CUSTOMERS?**

8 A. One impact that increased natural gas usage by industrial and electric generators has
9 involves the upward pressure on gas prices during the non-heating season. As DOE
10 notes, "in general, storage is filled during low utilization periods (April – October) and
11 withdrawn during high utilization periods (winter)." DOE continues, however, to note:
12 "increased demand for natural gas in the electricity generation sector during the
13 traditional off-peak period in recent years has increased competition for gas to refill
14 storage and put upward pressure on natural gas prices." DOE states:

15 In order for storage of gas to be economical in competitive markets, the cost
16 of storing generally should be less than the differential between the cost of
17 natural gas in the withdrawal period and in the refill periods. With relatively
18 high gas prices in mid-2000 (during the off-peak period), incentives to
19 rebuild inventories to levels closer to the average were diminished.²
20

21 DOE explained how the process is affected when the notion of competing off-season
22 demands for natural gas are introduced:

23 Although the industry ended the 1999 – 2000 heating season with natural gas
24 stocks slightly above average in March 2000, rising spot prices over the next
25 5 months due to continued strong demand, particularly for electricity
26 generation, inhibited gas storage refill activity.
27

¹ Electric producers, EIA/DOE says, include cogeneration facilities.

² Energy Information Administration (May 2001). *U.S. Natural Gas Markets: Recent Trends and Prospects for the Future*, at 13, U.S. Department of Energy: Washington D.C.

1 * * *

2 As the refill season began in April 2000, spot prices exceeded \$3 per million
3 Btu—levels seen only briefly in the fall of 1999. Gas demand continued to
4 strengthen, and prices jumped to over \$4 per million Btu by the end of May
5 2000, then declined slightly in July and took off again in August. Although
6 supply adjusted to the increasing prices, the adjustment occurred at a slower
7 pace, and additional supplies were readily absorbed by a growing market. By
8 the middle of September, spot prices had crossed the \$5 per million Btu
9 threshold. Undoubtedly, the high prices contributed to 5 consecutive months
10 of lower than average storage injections.³ (emphasis added).
11

12 Q. IS THE PURPOSE OF YOUR TESTIMONY TO ESTABLISH THAT LARGE
13 INDUSTRIAL USERS EXCLUSIVELY (OR EVEN PRIMARILY) CAUSED
14 HIGH NATURAL GAS PRICES FACED BY PETITIONERS' LOW-INCOME
15 CUSTOMERS?

16 A. My testimony today need not go that far in drawing a line of causation. I do conclude,
17 however, that the increasing reliance on natural gas by large industrial natural gas users
18 was at least one significant contributing factor to the fly-up in natural gas prices in recent
19 years. Their contribution came not only through their increased industrial uses of natural
20 gas as a fuel, but in their continuing switch to natural gas fired co-generation facilities.
21 At a more fundamental level, I conclude that Mr. Phillips errs when he testifies that the
22 large users which he represents are, in his words, “not involved with” the affordability
23 problems which Petitioners’ proposals seek to address.
24

³ Id.

1 **Q. WHAT IS THE SECOND ASPECT OF MR. PHILLIPS TESTIMONY TO**
2 **WHICH YOU WISH TO RESPOND?**

3 A. Mr. Phillips testifies at page 9 that having a program, under which the transportation
4 customers he represents make even the proposed minimal contribution, is unfair because,
5 in his words, “these customers are under extreme cost pressures and intense competition
6 to remain in business and employ people of the State of Indiana.” (Phillips, at page 8).
7 Mr. Phillips testimony that the universal service program will harm the competitive basis
8 of Indiana business and threaten the employment of Indiana residents is demonstrably in
9 error.

10
11 **Q. UPON WHAT DO YOU BASE THIS CONCLUSION?**

12 A. Consider the fact that Mr. Phillips testimony is at odds with the *Competitive Assessment*
13 of the Indiana economy prepared by Market Street Services for the Indiana Department
14 of Commerce. According to the final report, released in January 2002, the purpose of
15 that Department of Commerce sponsored study was “to help the State clearly assess its
16 competitive position both in relation to other states and the nation.” Among the findings
17 made by that Indiana Department of Commerce report were as follows:

18 1. “The Corporation for Enterprise Development (CFED) identified several
19 key challenges that must be overcome at the state level in particular, to
20 achieve successful economic development in the near future. The *primary*
21 *barriers or problems that exist today* include sprawl and unmanaged
22 growth, the negative impacts of globalization, such as fragmenting

1 markets and global competitors, *and income inequality from unequal*
2 *earnings.*” (*Indiana Competitive Assessment*, at 8). (emphasis added).

3 2. In presenting ratings on various aspects of the competitiveness of the
4 Indiana economy, the *Indiana Competitive Assessment* reported that
5 “Indiana has worked hard to develop policies that promote Equity,
6 receiving an “A”, as Indiana had the 2nd best income distribution and the
7 4th best change in income distribution, meaning fewer people are being left
8 behind.” (*Indiana Competitive Assessment*, at 10).

9 3. The *Indiana Competitive Assessment* reported that “cost of living is a
10 common consideration for employers making expansion and relocation
11 decisions as they attempt to retain and recruit qualified employees.” The
12 Department of Commerce’s report then found: “Regional meeting
13 participants stated time and again that they feel Indiana is a very
14 affordable place to live *for people of all income levels*. Participants felt
15 that the moderate cost of living *helps their competitive* [posture] with
16 other Midwestern states as well as places around the country.” (emphasis
17 added). Referring back to the affordability of living “for people of all
18 income levels,” the report did not view this as a barrier to competitiveness,
19 but instead concluded by stating that “participants felt very strongly about
20 this *economic asset* of the State.” (emphasis added).

21
22 **Q. DID THE COMPETITIVE ASSESSMENT OF INDIANA’S ECONOMY DIRECTLY**
23 **ADDRESS THE NEED FOR AFFORDABLE HOME ENERGY?**

1 No. The *Competitive Assessment* was completed in January 2002, and thus predated the
2 major concerns about natural gas prices. It is instructive, however, how the Department
3 of Commerce's *Competitive Assessment* addressed the issue of universal service within
4 the context of telecommunications. It noted that "there is frequent public discussion
5 about the gap between rural and urban America in terms of advanced technologies and
6 telecommunications. While the gap is lessening almost daily, the reality is that those
7 areas that are being left behind will eventually not be able to 'catch up.'" The report then
8 noted:

9 In relation to the State's overall competitiveness and business climate, these
10 issues may seem minor since many of the under-served areas are not, and will
11 not become, competitive markets. The question becomes, though, whether
12 these areas will be "left behind" completely, keeping in mind that pockets of
13 poverty –whether the businesses locate there or no—is not a business climate
14 asset overall.

15
16 While this assessment was made with respect to telecommunications, it is consistent with
17 the continuing statements throughout the Indiana *Competitive Assessment* report.

18 Contrary to Mr. Phillips sweeping statements about the anti-competitive impacts of
19 Petitioners' proposed universal service program, the Petitioners' proposal is far more
20 consistent with the state's objective, third-party assessment of the competitiveness of the
21 Indiana economy, and what it takes to keep the Indiana economy competitive, than is Mr.
22 Phillips' approach.

23
24 **Q. IS THERE OTHER INFORMATION THAT DOCUMENTS THAT A**
25 **UNIVERSAL SERVICE PROGRAM SUCH AS THAT PROPOSED BY**
26 **PETITIONERS WILL BE SUPPORTIVE OF ECONOMIC DEVELOPMENT?**

1 A. Yes. Mr. Phillips testimony about how the proposed universal service program will harm
2 the competitive posture of Indiana business, and threaten the ability of Indiana's
3 businesses to maintain employment levels, is also at direct odds with the four regional
4 economic development strategies prepared by the Indiana Economic Development
5 Council. Given the Competitive Assessment provided by the Indiana Department of
6 Commerce, I reviewed the following four economic development strategies:

- 7 ➤ *The Southwest Indiana, 2000 Comprehensive Economic Development*
8 *Strategy;*
- 9 ➤ *The East Central Indiana, 2000 Comprehensive Economic Development*
10 *Strategy;*
- 11 ➤ *The North Central Indiana, 2000 Comprehensive Economic Development*
12 *Strategy; and*
- 13 ➤ *The Comprehensive Economic Development Strategy for Central Indiana*
14 *(2002).*

15 These plans addressed long-term economic development strategies for 26 Indiana
16 counties. Each of these plans identified issues such as low wages for small business,
17 inadequate supplies of affordable housing, and related issues, as barriers to economic
18 development that must be addressed. Contrary to Mr. Phillips testimony, the universal
19 service proposal advanced by Petitioners is consistent with each of these four
20 comprehensive economic development strategy documents.

21

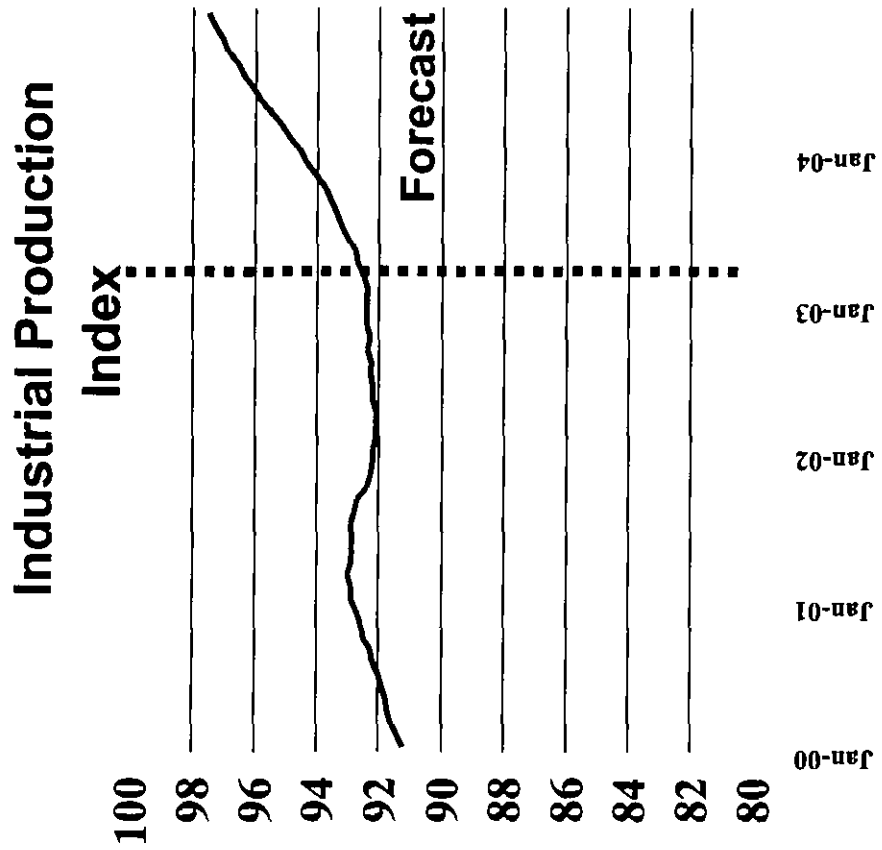
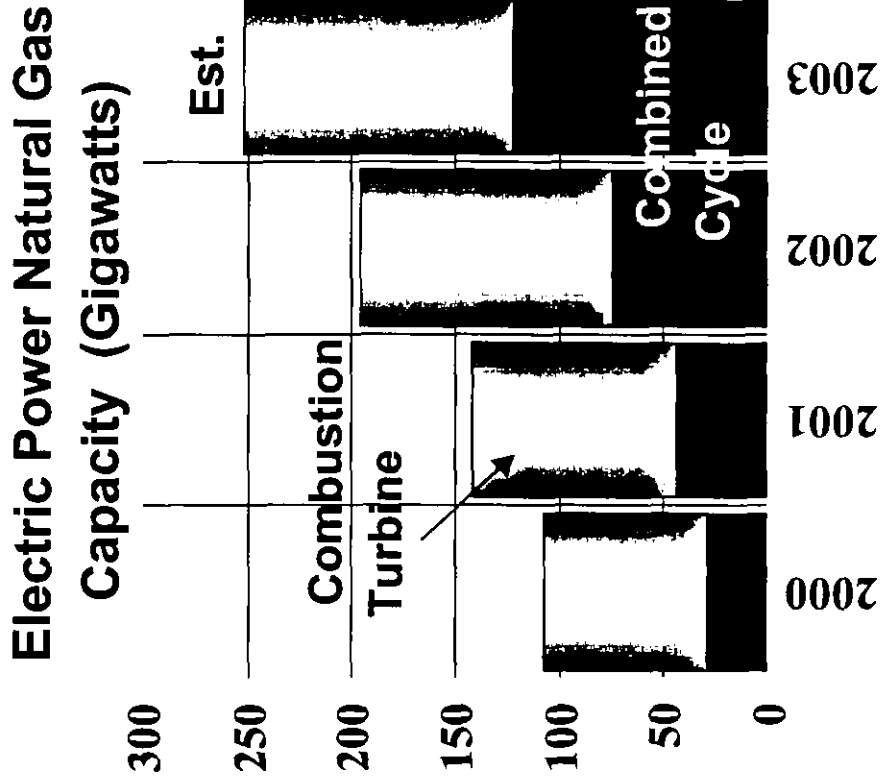
1 **Q. CAN YOU SUMMARIZE THIS SECTION OF YOUR TESTIMONY?**

2 A. Yes. Mr. Phillips testified that approval of the Petitioners' proposed universal service
3 program would be at odds with maintaining the competitiveness of Indiana business. He
4 testified that approval of the proposed universal service program would threaten the
5 ability of Indiana business to maintain employment for Indiana residents. I conclude that
6 his testimony is at fundamental odds with existing economic development planning in the
7 State of Indiana. His testimony is in direct conflict with multiple components of the
8 *Competitive Assessment* of the Indiana economy commissioned by the Indiana
9 Department of Commerce. In fact, approval of the proposed universal service programs is
10 the action most consistent with that *Competitive Assessment* and the regional
11 comprehensive economic development strategies that have been adopted throughout the
12 state.

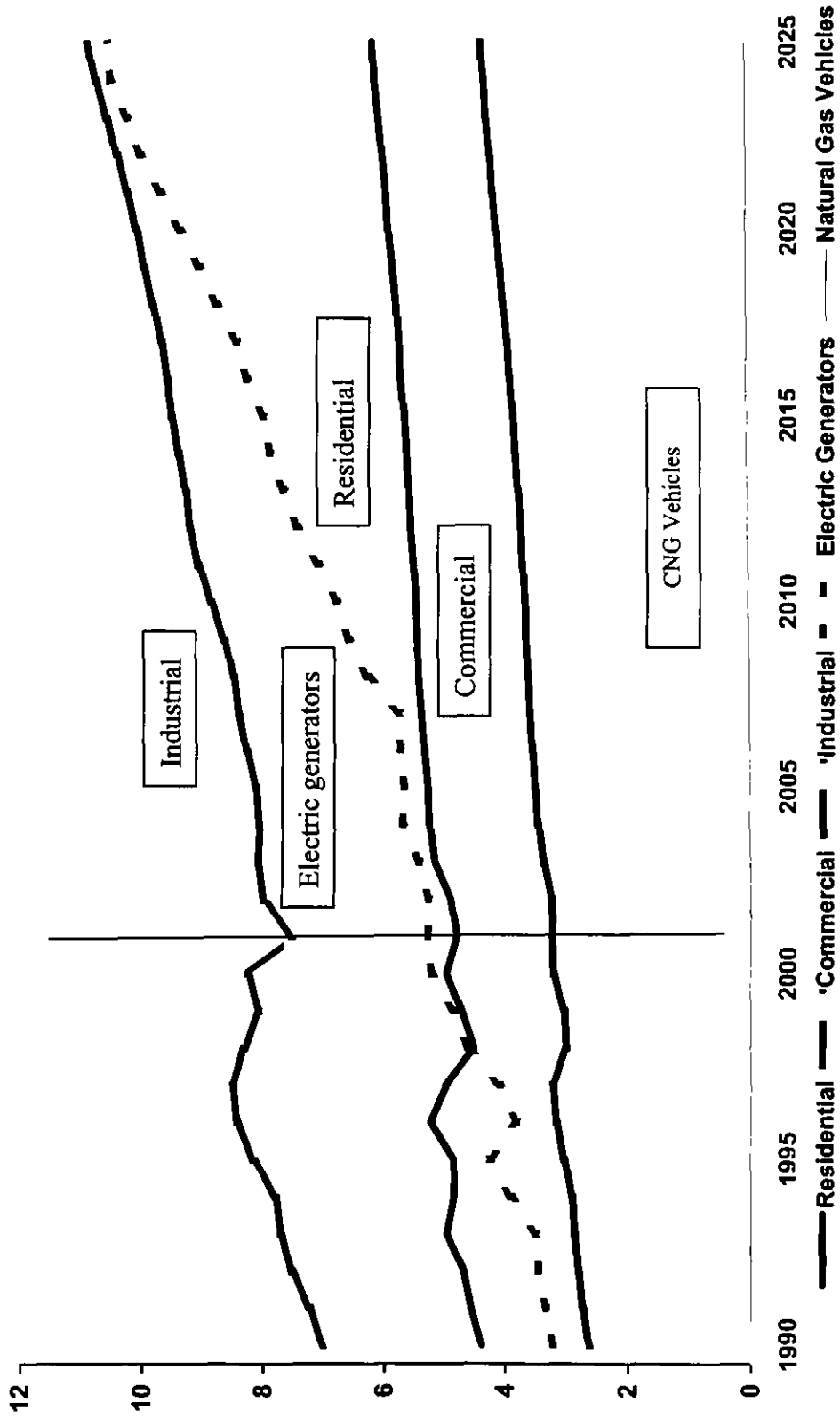
13

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.



Schedule RDC-2
US Natural Gas Consumption by Sector, 1990-2025
 (trillion cubic feet)



CERTIFICATE OF SERVICE

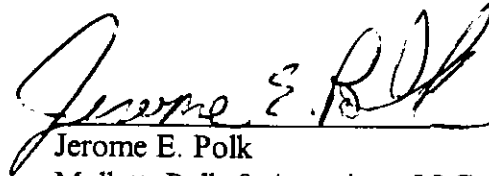
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