Pennsylvania Public Utility Commission

v.

UGI Utilities, Inc. – Gas Division

Docket No. R-2015-2518438

REBUTTAL TESTIMONY

Volume 1 6/2/16 Hoyt

Pennsylvania Public Utility Commission

v.

UGI Utilities, Inc. – Gas Division

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REBUTTAL TESTIMONY

Volume 2

6/2/16 Hby

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May 10, 2016

Honorable Susan D. Colwell
Administrative Law Judge
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105

**Re: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division**
**Docket No. R-2015-2518438**

Dear Judge Colwell:

Enclosed please find the following Rebuttal Testimony on behalf of UGI Utilities, Inc. – Gas Division, in the above-referenced proceeding:

| | |
|---|---|
| Statement No. 1-R | Paul J. Szykman |
| Statement No. 2-R | Ann P. Kelly |
| Statement No. 3-R | Paul R. Moul |
| Statement No. 4-R | Paul R. Herbert |
| Statement No. 5-R | John F. Wiedmayer |
| Statement No. 6-R | David E. Lahoff |
| Statement No. 7-R | Robert R. Stoyko |
| Statement No. 9-R (Public) | Hans G. Bell |
| Statement No. 9-R (Proprietary) | Hans G. Bell |
| Statement No. 10-R (Public) | Nicole M. McKinney |
| Statement No. 10-R (Proprietary) | Nicole M. McKinney |

| | |
|---|---|
| Statement No. 11-R | Theodore M. Love |
| Statement No. 12-R | Chris Ann Rossi |
| Statement No. 13-R | Angelina Borelli |

Enclosed in a separate binder please find UGI Gas Exhibit A – Fully Projected (REVISED).

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Christopher T. Wright

CTW/jl
Enclosures

cc: Rosemary Chiavetta, Secretary (*Letter & Certificate of Service Only*)
Certificate of Service

**CERTIFICATE OF SERVICE**
**Docket No. R-2015-2518438**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: May 10, 2016

Christopher T. Wright

UGI Utilities, Inc. – Gas Division
Docket No. R-2015-2518438
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| Ann P. Kelly | • Final Accounting Exhibit<br>• Wage-Related Expenses<br>• Incentive Compensation Expense<br>• Rate Case Expense<br>• Cash Working Capital Expense<br>• Environmental Remediation Expense<br>• Employee Activity Costs<br>• OPEB Refund<br>• Use of Average FPFTY Plant<br>• Gas Inventory<br>• Universal Service Rider Adjustments | 2-R | APK-1 through APK-5 |
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| Witness | Topics Addressed | Statement No. | Exhibits |
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**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2015-2518438**

**UGI Utilities, Inc. – Gas Division**

***Statement No. 1-R***

**Rebuttal Testimony of**
**Paul J. Szykman**

**Topics Addressed:**

**Management Effectiveness**
**Interruptible Revenues**
**Usage per Customer**
**Code of Conduct**

Dated: May 10, 2016

## I. INTRODUCTION

**Q. Please state your name and business address.**

A. My name is Paul J. Szykman. My business address is 2525 North 12th Street, Suite 360, Reading, PA 19612-2677.

**Q. Did you previously submit direct testimony in this proceeding on behalf of UGI Utilities, Inc. – Gas Division ("UGI Gas" or the "Company")?**

A. Yes. I submitted my direct testimony, UGI Gas Statement No. 1, on January 19, 2016.

**Q. What is the purpose of your rebuttal testimony?**

A. My testimony responds to certain portions of the following direct testimony submitted by other parties: the direct testimony of Rachel Maurer, Bureau of Investigation and Enforcement ("I&E") Statement No. 1; the direct testimony of Ethan H. Cline, I&E Statement No. 5; the direct testimony of David J. Effron, Office of Consumer Advocate ("OCA") Statement No. 1; the direct testimony of David C. Parcell, OCA Statement No. 2; the direct testimony of Glen A. Watkins, OCA Statement No. 3; and the direct testimony of Orlando Magnani, Retail Energy Suppliers Association ("RESA") Statement No. 1. Specifically, my rebuttal testimony responds to certain adjustment and positions raised by the parties, including: (1) management effectiveness; (2) interruptible revenues; (3) usage per customer; and (4) Code of Conduct.

**Q. Before addressing these specific issues, do you have any general comments regarding the Company's rebuttal testimony?**

A. Yes. The Company's rebuttal testimony responds in detail to each of the issues/adjustments raised by the opposing parties. As explained in the Company's rebuttal testimony, the adjustments and proposals presented by the parties are, to a very large extent, without merit and should be rejected. In reviewing these proposals, however, the Company requests that the ALJ and the Commission also keep in mind three important overarching points which, in the Company's view, provide the appropriate "framework for analysis" of the Company's rate filing.

First, I urge ALJ and Commission to conduct a "reality check" in reviewing the opposing parties' adjustments and to keep in mind the following "facts":

- Fact: UGI Gas has not filed for a base rate increase for over 20 years.
- Fact: UGI Gas has added over a billion dollars of new plant investment since its last rate case.
- Fact: Inflation has been 54.6% since our last rate case.[1]
- Fact: Even with the full requested rate increase, UGI Gas's average residential heating bill will be lower than it was 20 years ago, both nominally and in inflation adjusted dollars.

[1] http://www.usinflationcalculator.com/inflation/consumer-price-index-and-annual-percent-changes-from-1913-to-2008/ Period data of September 1995 versus January 2016.

- Fact: UGI Gas is spending $43.0 million in the fully projected future test year ending September 30, 2017 ("FPFTY"), to replace the oldest customer billing system among major utilities in the United States.
- Fact: UGI Gas has added over 100 new employees over the past 2 years, creating new jobs for office and labor professionals within the Commonwealth.
- Fact: UGI Gas is actively pursuing internal improvements in conjunction with UGI Utilities, Inc. – Electric Division ("UGI Electric"), UGI Penn Natural Gas, Inc. ("PNG") and UGI Central Penn Gas ("CPG") as part of its company-wide UGI-1 initiative.
- Fact: UGI Gas submitted a voluntarily Long Term Infrastructure Improvement Plan ("LTIIP"), which was reviewed and approved by the Commission.
- Fact: As of December 31, 2015, contemporary mains make up over 87.7% of the current UGI Gas system, the highest percentage among all natural gas distribution companies ("NGDCs") in the Commonwealth.
- Fact: UGI Gas has made very substantial investment commitments to bring gas to unserved and underserved areas through its innovative, nationally recognized, GET Gas program.
- Fact: UGI Gas has actively restructured its gas supply portfolio to maximize the benefits of, and access to, Marcellus shale gas supplies.

- Fact: UGI Gas is and has been a leader in the support of expanded use of natural gas in the Commonwealth, and has added more than 120,000 customers over the last 20 years, has experienced record customer additions in recent years, and projects to be serving nearly 390,000 customers by the end of the FPFTY.
- Fact: The addition of tens of thousands of new natural gas customers also represents a substantial conversion from less environmentally-friendly fuels, which results in substantial carbon emission reductions and helps enable the Commonwealth to develop local natural gas resources for the benefit of its citizens in addition to the tens of millions of dollars of financial benefits experienced by the conversion customers.
- Fact: UGI Gas has joined with its other UGI affiliates to voluntarily enter into an agreement with the Pennsylvania Department of Environmental Protection to evaluate and, where necessary, to remediate the site of retired manufactured gas plants that formerly supplied the needs of its customers, an action which will benefit the environment for future generations.
- Fact. UGI Gas has been rated #1 in customer satisfaction seven times over the past dozen years by JD Power and Associates, including back-to-back awards in 2013 and 2014. More recently, the Company was named a "Most Trusted Brand", as well as one of 36 utility

company "Environmental Champions" by Cogent Reports in 2015.

- Fact: UGI Gas is recognized for its support of education improvement initiatives. As an example, 2016 marks the 25th anniversary of UGI Gas and Reading Is Fundamental ("RIF") partnering to promote improved child literacy across the UGI Gas service territory. On May 5, 2016, RIF recognized UGI Gas with a national partnership award for the Company's outstanding efforts to promote child literacy, which includes the distribution of over 1.2 million books to more than 400,000 first-grade students in hundreds of schools across our service territory, as well as acknowledging the many UGI Gas employees who volunteered over 15,000 hours of personal time to distribute these books and to read to children.
- Fact: Each year UGI Gas invests more than $1 million in retained earnings to support education improvement programs across the Company's service territory. UGI Gas supports enhanced "STEM" (science, technology, engineering and math) curriculum in elementary schools; funding for technical training programs for high school students; and programs that provide support and mentoring for women and minority engineering school students.
- Fact: UGI Gas employees also commit significant personal time and resources to support community initiatives. In 2015, 625 UGI Gas employees donated more than 48,000 hours to assist their

communities. UGI Gas employees also donated personal funds to better their communities. For example, some $281,000 was contributed by UGI Gas employees as part of the Company's 2015 United Way campaign. Combined with Corporate contributions, total support provided to United Way agencies serving communities in the UGI Gas service territory in 2015 totaled some $590,000.

- Fact: UGI Gas has supported the growth of the competitive natural gas marketplace in the Commonwealth and has offered transportation services to its customers for over 30 years.
- Fact: UGI Gas maintains a comprehensive suite of Universal Service Program offerings for its low-income customers.
- Fact: UGI Gas has voluntarily proposed a comprehensive Energy Efficiency and Conservation program as part of this proceeding that will assist customers in deploying energy and cost saving measures, which are also environmentally beneficial.
- Fact: UGI Gas has made a unique rate proposal in this proceeding designed to provide flexibility to support new technologies and economic development – the Technology and Economic Development ("TED") Rider.

All of the above facts demonstrate that UGI Gas is a well-managed, innovative and responsive public utility worthy of being recognized by the PUC as such in its assessment of the ratemaking issues in this case. In the face of these facts, I&E

and OCA not only conclude that UGI Gas is entitled to no rate increase, but go further and propose substantial rate decreases. These recommendations simply ignore reality, contain critical errors, and if adopted, would cause great harm to UGI Gas, its shareholders, its customers and its ability to provide safe and reliable service to its customers at reasonable rates.

Second, it is critical for the ALJ and the Commission to recognize that natural gas utilities are fundamentally different from electric and water utilities for one simple reason – there is always a substitute for natural gas. As a result, and as the Commission has consistently recognized, there is always a competitive alternative to natural gas, and monopoly cost of service ratemaking principles, which can be generally applied to water and electric utilities, cannot be rigidly applied to natural gas utilities. Therefore, it is important for the ALJ and the Commission to consider both cost of service and value of service principles in setting rates in this proceeding.

Perhaps the best example of the need to recognize this fundamental competitive difference in this proceeding is the ratemaking treatment of interruptible customers. These customers all have "dual fuel" capability and can switch from natural gas to an alternative fuel on short notice or, in some cases, have the ability to interconnect with alternative sources of supply for gas, whether an interstate pipeline or a landfill gas pipeline. By employing value of service pricing and having appropriate incentives, the Company has been able to retain and grow these customers who provide a substantial revenue contribution to the

benefit of the Company and all of its customers. I&E and OCA simply refuse to acknowledge the competitive reality imposed on natural gas by alternate fuels and propose to rigidly rely on cost of service principles (or as in OCA's case, an allocation method not based on cost causation) in setting rates. If adopted, these proposals would result in the loss of interruptible load, higher rates to other customers, more frequent rate cases and a higher cost of capital for the Company.

Over the past 20 years, the Company has relied on interruptible revenues to help offset funding needs related to its substantial capital improvement program, offset inflation and other attrition of earnings, and avoid base rate filings. These past successes can be continued into the future through the continued approval and support for value of service pricing for "dual fuel" or "bypass alternative" customers in accordance with the Company's proposal.

Third, UGI Gas is in the midst of an unprecedented, major capital expenditure cycle that is not only focused on system modernization, but also focused on the continued expansion of its system. UGI Gas's system modernization and expansion efforts will serve to further expand access to the benefits of local Marcellus shale gas resources within the Commonwealth. The Company has added over one billion dollars in new plant since its last base rate case and continues to add new plant to serve customers. These plant additions include: replacing the nation's oldest customer billing system as part of UGI Gas's UNITE project; continued replacement of aging infrastructure; expanding

service to unserved and underserved areas as part of its GET Gas Program; improving access to Marcellus shale supplies as part of portfolio restructuring; adopting an environmental remediation program as part of a Pennsylvania Department of Environmental Protection ("PA DEP") Consent Order Agreement ("COA"); moving meters outside in accordance with new Commission regulations; and reinforcing system capacity to ensure continued service reliability for the growing needs of its customers.

Other companies facing these or similar capital demands have elected to file frequent rate cases, with substantial increases to customer rates. UGI Gas has adopted and hopes to continue a different approach. A combination of proposals—including an end of FPFTY rate base, value of service pricing for interruptible and bypass customers along with commensurate incentive rate treatment, implementation of a distribution system improvement charge ("DSIC") and increase in the DSIC cap (filed in separate proceedings), reasonable estimates of customer usage that reflect the realities of natural gas conservation and the Company's proposed EE&C Plan, a flexible rate proposal (TED Rider) which will attract and retain new gas technology installations and economic development expansions, and continued normalization of the IRS repairs allowance—will provide revenues that can be used to fund critical capital expenditures without the need to follow the short-term cycle of regularly filing base rate cases. Adoption of these proposals will provide UGI Gas with the opportunity to continue the success it has achieved in providing excellent service

to customers at just and reasonable rates.

All of the specific adjustments proposed by parties are addressed in the Company's rebuttal testimony. As explained therein, the other parties' adjustments fall into several categories (some in more than one category): (1) factually wrong; (2) inconsistent with long-standing Commission precedent; (3) failure to recognize value of service issues; (4) poor public policy; and/or (5) beyond the reasonable scope of this proceeding.

In conclusion, I urge the Commission to approve UGI Gas's proposed rate filing and the many benefits it will provide to customers.

## II. MANAGEMENT EFFECTIVENESS

**Q. I&E and OCA both recommend that any adjustment for management effectiveness be rejected. Please summarize the reasons for I&E's and OCA's recommendation.**

A. Both I&E and OCA recommend no adjustment to the rate of return to recognize the Company's management effectiveness. See I&E Statement No. 1, page 48, line 25 through page 49, line 20; OCA Statement No. 2, pages 48, line 12 through page 49, line 3. Both I&E and OCA criticize Company witness Mr. Moul's reliance on my direct testimony in recommending an adjustment for management effectiveness, and also criticize that Mr. Moul did not identify a specific basis point adjustment to his proposed rate of return. I&E also contends that UGI Gas's EE&C proposal and pipeline replacement efforts fail to support a

management performance adjustment. I&E is also critical of the Company's performance under its federally mandated Distribution Integrity Management Program ("DIMP"). Further, the OCA is critical of Mr. Moul's recommended adjustment for management effectiveness because Mr. Moul has recommended similar adjustments in other Pennsylvania utility rate cases.

**Q. Do you have a response to I&E's and OCA's recommendation that any adjustment for management effectiveness be rejected?**

A. Yes. In my direct testimony, UGI Gas Statement No. 1 as well as this rebuttal testimony, in the direct and rebuttal testimony of Robert Stoyko as to customer service, UGI Statement Nos. 7 and. 7-R, in the direct testimony of Thomas N. Lord as to the UNITE project, UGI Statement No. 8, and in the direct testimony of Hans G. Bell as to field operations and DIMP effectiveness, UGI Statement Nos. 9 and 9-R, the Company has provided extensive support for, and examples of, UGI Gas's management effectiveness. The OCA essentially ignores all of the Company's direct testimony, so no detailed response is required. Moreover, the fact that Mr. Moul has recommended adjustments to the cost of equity for management effectiveness in other utility rate cases is irrelevant to the issue of whether UGI Gas should receive such an adjustment on the facts of this case. As Mr. Moul notes in his Rebuttal Testimony, UGI Gas Statement No. 3-R, the Commission has approved adjustments for management effectiveness in recent fully litigated rate case orders. To the extent that the Commission does not adopt

Mr. Moul's proposed 11.0% market based cost of equity, it should review the evidence on management effectiveness in this proceeding and make an appropriate upward adjustment to the cost of equity.

In support of I&E's recommendation that any adjustment for management effectiveness be rejected, I&E first cites the direct testimony of witness Lisa Gumby, I&E Statement No. 2, regarding the Company's proposed EE&C Plan. I&E's argument is premised almost exclusively on the fact that Ms. Gumby opposes our EE&C Plan as unnecessary. As fully explained in the direct and rebuttal testimony of Mr. Love, UGI Gas Statement Nos. 11 and 11-R, EE&C Plans provide several important benefits to customers and the public and should be encouraged, not discouraged. Moreover, the Commission has encouraged utilities not covered by Act 129 to voluntarily adopt EE&C Plans, and the Commission has approved EE&C Plans for other gas utilities. In addition, historically, some utilities have reportedly been reluctant to propose conservation plans because conservation may result in reduced revenues and reduced earnings. In this context, I find it difficult to understand why UGI Gas's proposed EE&C Plan is an example of poor management. On the contrary, I believe it is strong example of the Company's management effectiveness and willingness to pursue service offerings that would be welcomed by many customers.

I&E also cites the direct testimonies of Sunil Patel, I&E Statement No. 7, and Robert Horensky, I&E Statement No. 8, regarding UGI Gas's pipeline replacement programs and costs, as well as gas safety programs as evidence

against the Company's management effectiveness. These issues are fully addressed in the rebuttal testimony of Hans Bell, UGI Gas Statement No. 9-R. As demonstrated therein, UGI Gas has substantially reduced system risk through its main replacement program and its substantial portfolio of additional and accelerated non-replacement based risk-reduction activities, and I&E's testimony provides no basis to reject UGI Gas's request for an adjustment to the cost of equity for management effectiveness.

**Q. What level of equity adjustment do you believe is appropriate for Commission consideration regarding management effectiveness?**

A. The Company's filing in this case is based on a proposed 11.0% cost of common equity, which as explained in Mr. Moul's direct testimony, UGI Gas Statement No. 3, is market based and contains only minimal recognition of good management. In order to limit the amount of the proposed rate increase, the Company did not include an additional separate claim for an increase to the cost of common equity for management effectiveness. However, if the Commission determines a market based cost of equity less than the Company's claimed 11%, I believe a specific adjustment would be appropriate. Given the strong evidence of management effectiveness presented in this proceeding, it would be entirely appropriate for the Commission to consider such adjustment. As Mr. Moul notes in his rebuttal, UGI Gas Statement No. 3-R, an adjustment of at least 20 basis points would be appropriate.

## III. INTERRUPTIBLE REVENUES

**Q. I&E and OCA both propose substantial adjustments to the Company's proposed ratemaking treatment of revenues from interruptible customers. Can you summarize these adjustments?**

A. Yes. Both I&E and OCA propose to apply traditional cost of service principles (and in OCA's case, principles not based on valid cost of service principles) to determine the ratemaking treatment of revenues from interruptible customers. I&E witness Mr. Cline recommends that the Company's claim for interruptible revenues be increased from $4,900,000 to $20,379,000 under present rates for the FPFTY based on interruptible revenue experienced in the historic test year ended September 30, 2015 ("HTY"). See I&E Statement No. 5, page 19, lines 8-15. The OCA recommends that the Company's claim for interruptible revenues be increased from $4,900,000 to $20,621,000 under present rates for the FPFTY based on historical experience and the OCA's contention that there is no real possibility that interruptible customers will switch to alternative fuels. See OCA Statement No. 1, page 19, line 20 through page 20, line 2; OCA Statement No. 3, page 7, line 11 through page 8, line 11. In short, both I&E and OCA propose to reflect all historical revenue from interruptible customers in establishing UGI's revenue requirement, performing cost allocation studies, and setting rates. This proposal would effectively place all of the risk associated with interruptible revenues on the Company with no corresponding recognition for this risk in the

allowed return on common equity. These proposals are completely inconsistent with the Commission's treatment of interruptible revenues for the Company over the past 35 years, reflect a fundamental misunderstanding of the gas utility industry, and would result in unjust and unreasonable rates.

**Q. Please provide some background on the interruptible revenues issue and the Company's approach in setting rates for this class of customers.**

A. As explained in my direct testimony, UGI Gas Statement No. 1, and in the direct testimony of Robert Stoyko, UGI Statement No. 7, and in the summary of rebuttal provided in this testimony, the natural gas utility business is significantly different from other fixed utilities, *e.g.*, electric and water, in that there is always a substitute for natural gas. As a result, the traditional monopoly utility cost of service model cannot and should not be rigidly applied to natural gas utilities. Under the traditional utility regulatory model, the government determines that certain industries are "natural monopolies" and that competition is not effective or in the public interest. In these instances, the government creates a monopoly for a single supplier through the issuance of certificates of public convenience and then regulates the rates of this state created monopolist on a cost of service basis as a substitute for competition. While natural gas companies have some aspects of natural monopolies, *i.e.*, high fixed costs and transportation constraints, there are always competitive substitutes for all uses of natural gas service, *i.e.*, electricity, fuel oil, propane, etc. If the rates for natural gas utilities

were regulated purely on a cost of service basis without regard for these competitive alternatives, natural gas utilities, in certain instances, *e.g.*, a customer with "dual fuel" capability or demonstrated bypass alternatives, would lose business to these competitive alternatives. This scenario results in higher rates to the natural gas utility's remaining customers to recover its fixed cost of operations.

**Q. Can you provide examples where the Commission has recognized this difference in natural gas service?**

A. Yes. First, the Commission has recognized this difference in establishing main extension policies. *See, e.g., Re Line Extensions*, Docket No. L-930089, 1996 Pa. PUC LEXIS 162, at *8-11 (order entered Oct. 7, 1996); *Investigation Into The Bypass of Gas Utilities by Gas Suppliers*, Docket No. I-880078, 1988 Pa. PUC LEXIS 139, at *3 (order entered Feb. 25, 1988).

Second, the Commission has recognized this difference in setting rates for gas customers who have readily available competitive alternatives. *See, e.g., Pa. PUC, Office of Consumer Advocate, Office of Small Business Advocate v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2014-2407345, C-2014-2410197, C-2014-2415136, 2014 Pa. PUC LEXIS 691, at *28-32 (order entered Oct. 23, 2014) (discussing the differences between natural gas and water services, and accepting the position that it is unfair to compare water service to natural gas service as water is a basic human need, without alternatives). For

UGI Gas itself, along with UGI PNG and UGI CPG, the Commission has approved negotiated rate capability under the terms and conditions of Rate XD contained in each tariff, as well as for its interruptible rate schedules.

**Q. Has this difference been recognized by other state regulatory commissions?**

A. Yes. I have been advised by legal counsel that many states, in addition to Pennsylvania, have recognized that the natural gas utility business is significantly different from other fixed utilities. *See, e.g., In the Matter of Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy, Omaha, seeking a General Rate Increase for Black Hills Energy's Rate Areas One, Two and Three (Consolidated)*, Application No. NG-0061, 2010 Neb. PUC LEXIS 206, at *10-11 (order entered July 13, 2010) ("Gas and electric utility distribution companies are fundamentally different entities and face different risks and uncertainties."); *In the Matter of the Application of San Jose Water Company (U168W) for Authority to Determine its Cost of Capital and to Apply that Cost of Capital in Rates for the Period From January 1, 2010 through December 31, 2012; And Related Matters*, Decision 10-10-035; Applications 09-05-001 et seq., 2010 Cal. PUC LEXIS 433, at *16 (dated Oct. 28, 2010) (discussing differences between gas and water utilities); *Application of Connecticut Natural Gas Corporation For A Rate Increase – Phase III Rate Design Application of Connecticut Natural Gas Corporation For A Rate Increase – Rate Design*, Docket No. 99-09-03PH03, 2001 Conn. PUC

LEXIS 399, at *72-75 (order entered Aug. 31, 2001) (permitting the company to continue its negotiated rates for interruptible customers on the basis that it is necessary for the gas utility to compete in a market place where the customers have alternative fuel sources); *The City of Long Beach in its Proprietary Capacity and as Trustee for the State of California, Complainant, vs. Unocal California Pipeline Company, a Unocal Company Defendant*, Decision No. 96-04-061, Case No. 91-12-028, 1996 Cal. PUC LEXIS 280, at *16 (dated April 10, 1996) ("Telephone utilities, water utilities, natural gas utilities and electric utilities are not the same, and are regulated differently.").

**Q. Has this difference been recognized in any academic literature?**

A. Yes. Academic literature has recognized that the natural gas utility business is significantly different from other fixed utilities. *See, e.g.*, Kenneth W. Costello, *Exploiting the Abundance of U.S. Shale Gas: Overcoming Obstacles to Fuel Switching*, 34 Energy L. J. 541, 558 (2013) ("Natural gas service presents a unique challenge for utilities because, unlike other forms of utility service, consumers have alternatives to natural gas for meeting their end-use needs"); Fang-Yu Liang, et al., *The role of natural gas as a primary fuel in the near future, including comparisons of acquisition, transmission and waste handling costs of as with competitive alternatives*, 6 Chemistry Cent. J. (Suppl. 1), available at http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3332260/ (pub'd online Apr. 23, 2012) ("There is no exclusive end-user market in which natural gas dominates.

Instead, it competes in every main use with other fuels, be it power generation, domestic heating, industrial, petrochemical, etc."); Allegheny Institute for Public Policy, Staff Report: Expanding Natural Gas Competition in Pennsylvania 4 (1999), available at https://www.heartland.org/sites/all/modules/custom/heartland_migration/files/pdfs/4714.pdf ("There is no residential, commercial or industrial use for natural gas that cannot instead be served with an alternative fuel source"); Joe Stanislaw, *The Measurement of Demand for Natural Gas in* The Economics of Natural Gas in Developing Countries 170-71 (John C. Gault ed., 1985) ("In estimating future gas penetration potential, the key issue is the choice between gas and other fuels for interfuel substitution and competition...In general, natural gas must be priced to compete with alternative fuels").

**Q. Does OCA witness Watkins acknowledge bypass as a threat for UGI Gas?**

A. No, he does not. Mr. Watkins suggests a number of the Company's Rate XD customers "have no legitimate threat of bypassing UGI's distribution system." See OCA Statement No. 3, page 27, lines 21-23.

**Q. How does OCA witness Watkins support his position?**

A. Mr. Watkins points to an example of a customer who is 20 miles from an interstate pipeline and suggests it is "inconceivable that a private firm with no powers of eminent domain could secure rights of way over a 20-mile path in order to build its own natural gas pipeline." See OCA Statement No. 3, page 27,

lines 24-27. He further continues that "it is frankly implausible that these individual customers could possibly secure rights-of-way or economically justify the cost of a stand-alone pipeline." See OCA Statement No. 3, page 28, lines 3-5. However, Mr. Watkins is entirely incorrect.

Just over the past several years, hundreds of miles of private gathering and transmission pipelines have been built across private lands in the Commonwealth, where rights-of-way have been secured in order to move shale gas supplies to market, without any powers of eminent domain. Moreover, UGI Gas's midstream affiliate has constructed more than 40 miles of pipeline which accesses Marcellus shale gas supplies without the use of eminent domain.

In addition, bypass to interstate pipelines is not the only alternative customers may have; they may also have access to alternative fuels including LNG and CNG, to landfill pipelines, gathering lines that may be built across UGI Gas's service territory and, in an increasingly globalized economy, access to alternative production sites. For example, the Company is aware of several large customers that have bypassed UGI Gas's system for landfill gas using the Granger line. The estimated lost annual usage from these customers is about 654,000 Mcf (comparing historic usage vs. current usage for these customers). Applying the average Rate LFD unit margin from the Company's Proof of Revenue ($1.77/mcf), this translates to approximately $1.16 million of lost annual revenues due to these customers bypass for landfill gas supplied by the Granger line.

For these reasons, Mr. Watkins statements should be rejected.

**Q. Does the above discussion provide justification and support for the *Company's proposed treatment of revenues from interruptible customers?***

A. I believe it does. The interruptible customers at issue here all have "dual fuel" or "physical bypass" capability. In other words, to qualify for interruptible service each interruptible customer must have the verified ability to employ an alternative fuel, usually fuel oil, to supply their operations. This capability includes the ability to effectuate a switch to such alternative fuel upon two hours' notice, in accordance with tariff terms and conditions.

This ability of these customers to switch to an alternative fuel on short notice is the classic example of why natural gas is different from other fixed utility services. It also aptly demonstrates why it is not possible or desirable to rigidly apply cost of service principles in setting rates for these customers. The rates for these customers must be based, at least in part, on the value of service to the customer, *i.e.*, the cost of their alternative fuel source. If not, they will simply switch to their alternative fuel when it is economic to do so, and the Company will lose this revenue stream.

**Q. Would this loss of revenue harm other customers?**

A. Absolutely. The Company receives substantial revenue from interruptible customers. If these revenues were lost, the Company would need to replace that

source of cash through higher rates for remaining firm customers or additional borrowing with an ensuing higher cost of capital (as discussed by UGI witness Moul in his rebuttal testimony, UGI Gas Statement No. 3-R). As long as revenues from competitive customers exceed the marginal costs of service, all customers are better off than if the sales to interruptible customers are lost.

**Q. How else does the Company reflect value of service principles in setting interruptible rates?**

A. Since these customers are interruptible and have dual fuel capability that allows them to switch to another supply at any time, the Company does not plan or design its system to provide service to these customers. In planning and designing its system, the Company excludes the interruptible portion of these customers' loads and, therefore, does not install plant needed to serve these customers on peak days; nor does the Company reserve system capacity on non-peak days to the extent firm customer requirements grow into such capacity. As a result, the Company has avoided many millions of dollars of plant investment to serve these customers. In rare circumstances, the Company will build facilities for interruptible customers, but only if the customer either makes a contribution that offsets the cost of the construction, agrees to a contract that requires the customer to pay a minimum bill that offsets the cost of the investment over the course of the contract, or a combination of both. And so, if the Company designed and modified its system to provide firm service to all

interruptible customers or did not assess contributions in aid of construction or minimum bills to these interruptible customers, its plant in service would increase significantly, by hundreds of millions of dollars.

**Q. *Based on the above principles, please summarize the Company's approach to setting interruptible rates.***

A. The Company proposes to establish its revenue requirement based on the cost to serve the interruptible class. Under the Company's cost of service studies, this cost to serve is $4.9 million. For ratemaking purposes, this is treated as both the revenue received and the cost incurred to provide service to the interruptible class. The Company then is at-risk if the actual level of interruptible revenue falls below $4.9 million. And conversely, if the actual level of interruptible revenue is above $4.9 million, the Company retains the excess amount and can use it for capital projects to provide service to customers or use it to offset inflation and attrition between rate cases, and thereby avoid or delay future rate cases.

**Q. Does this approach provide value to all customers?**

A. Yes. This approach has helped UGI Gas avoid the need to file for rate relief, has helped fund capital improvements, and has reduced the Company's cost of capital. As explained in Mr. Moul's rebuttal testimony, UGI Gas Statement No. 3-R, his 11.0% recommended cost of common equity assumes continuation of the Company's ratemaking method for interruptible customers. Any change to this

method would increase volatility, increase risk and raise the Company's required rate of return in this proceeding. Accordingly, all else being equal, UGI Gas's approach to interruptible revenues results in lower rates to all customers.

**Q. Is it particularly important to continue this approach in this proceeding?**

A. Yes. As I explained above, the Company needs a great deal of capital over the next several years to continue to provide safe and reliable service to customers at reasonable rates. Any revenue received above the cost of service to interruptible customers can be used to fund substantial portions of these projects, which will reduce the Company's need to go to the capital markets and avoid or delay future rate filings.

**Q. Please address I&E and OCA objections to the Company's proposal.**

A. I&E and OCA raise two basic arguments regarding the Company's proposal. First, they contend that the Company's proposed cost allocation assigns too few costs to the interruptible class, and that the cost of serving this class substantially exceeds the $4.9 million proposed by the Company. Second, they do not believe that there is any substantial risk that interruptible customers will turn to their alternative fuel. As a result, both I&E and OCA propose to reflect the full level of historic interruptible revenues, approximately $20 million, to determine UGI Gas's revenue requirement, cost allocation and rate design in this proceeding.

**Q. How do you respond to these arguments?**

A. The first argument, *i.e.*, proper cost allocation, is more fully addressed in Mr. Herbert's rebuttal testimony, UGI Gas Statement No. 4-R. In general, however, this argument simply ignores the fact that the Company does not plan or design its system to serve interruptible customers. This fundamental fact must, in my opinion, be reflected in any rational cost allocation study. While it can be argued that the more appropriate Cost of Service Study applicable to the interruptible class is the one wherein no main costs are allocated to the class (UGI Gas Exhibit D-1) – as there is no system planning or design related to mains for service to interruptible customers – the Company's proposal did not base its case on that study alone. Rather, in order to achieve an equitable balance among all customers, the Company presented a second Cost of Service Study which did allocate main costs to the interruptible class (UGI Gas Exhibit D) and then averaged the results of the two studies (UGI Gas Exhibit D-2). The resulting $4,900,000 cost of service is, accordingly, a reasonable and proper approach that has been fundamentally ignored by both I&E and the OCA.

As to the second point, *i.e.*, no substantial risk that interruptible customers will turn to their alternative fuel, neither I&E or OCA offer any hard evidence or support for this position except to note that actual interruptible revenues have been fairly steady in the $20 million range for the past 10 years. See OCA Statement No. 3, page 6, Table 1 & line 14. I have several points in response.

First, the Company has significant incentive today to maximize the value

achieved from the interruptible market, in the interest of the Company and all of its customers. In order to do so, careful management of interruptible customers on an individual basis is required. Should the Company negotiate a pricing arrangement which is too high, the interruptible customer will be incented to fuel switch and revenue will be lost. Should the Company negotiate a pricing arrangement which is too low, the interruptible customer will burn gas, but revenue will be lost. Effectively, the pricing terms for each interruptible customer are reviewed individually to maximize overall value. Should the I&E and OCA position of allocating over $20 million in interruptible revenue be adopted in this case, no incentive would exist for the Company to continue this approach toward optimizing value and, if interruptible revenues decline, the Company would be back in for a subsequent rate case sooner, all else being equal. This is a significant consideration for the Commission in determining a final disposition of this interruptible revenue issue in this case. This Commission has supported incentive ratemaking approaches such as revenue sharing mechanisms applicable to purchased gas activities, timely return on certain investments (GET Gas, DSIC) and has provided incentive returns for good management. The Company's proposal in this case is no different and should be deemed reasonable and appropriate.

Next, in contrast, the OCA asserts that the cost to serve interruptible customers is $29.3 million per year. See OCA Statement No. 3, page 34, lines 27-30. As discussed in Ms. Borelli's rebuttal testimony, UGI Gas Statement No.

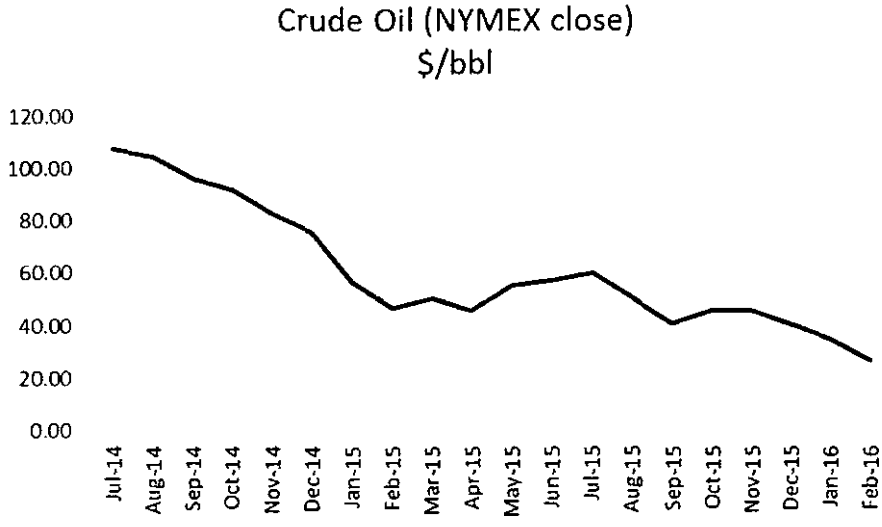
13-R, Mr. Watkins's determination of $29.3 million is based on a flawed interpretation of an annual experienced "peak day", as compared to a "design peak day", resulting in a "proxy for interruptible load during peak day conditions" of 80,000 Mcf, or an effective peak day allocation of cost to interruptible customers that equates to treating 76.7% of interruptible customer load as the same as if that load was comparable to firm service on a cost causation basis. See OCA Statement No. 3, page 33. The reality is that interruptible customers are entitled to zero firm service on a design peak day, as design peak day conditions are anticipated to result in all of UGI Gas's interruptible customers being interrupted fully. Stated another way, Mr. Watkins's approach to assign 76.7% of firm cost to the interruptible market should result in 76.7% of interruptible customers receiving service during design peak day conditions, or 76.7% truly receiving firm service. This is neither a practical or desired result, and adopting Mr. Watkins's recommendation would result in significant additional infrastructure costs to the Company and significant additional risks that the interruptible market will leave the system. If the Company had historically priced interruptible service based on Mr. Watkins's traditional cost of service analysis and a 76.7% equivalent firm allocation, it would have had to invest hundreds of millions of dollars in additional infrastructure costs over a number of years to serve these customers. The effect of these investments would be to not only drive up costs for interruptible customers, but also firm customers, as a significant portion of these new investments would have also been allocated to all

firm customers. In reality, this would have resulted in the Company filing for rate relief much sooner than 2016, numerous times, and the impact of such resulting increased costs to the interruptible market would be to drive down, if not eliminate, interruptible revenues. In short, it would not be beneficial to UGI Gas's current firm customers to adopt an approach that would effectively eliminate the interruptible class in the manner described above.

Next, Mr. Watkins dismisses the risk realities for load lost to alternate fuels on the UGI Gas system by alleging interruptible customers only require the ability to utilize alternate fuels for "short periods of time." See OCA Statement No. 3, page 5, lines 1-3. There are no such stated requirements either in UGI Gas's current tariff or proposed tariff (UGI Gas Exhibit F). In fact, should the need arise, interruptible customers can be restricted indefinitely in accordance with tariff and contract terms. Mr. Watkins also suggests that interruptible customers "will not permanently replace all of their natural gas requirements with oil or propane simply due to the operational constraints and problems associated with oil and propane." See OCA Statement No. 3, page 5, lines 3-6. In support, he suggests that customers would need to have "tremendous storage capacity" for these alternative fuels. See OCA Statement No. 3, page 5, lines 6-8. However, the reality is that retail suppliers of these alternate fuels already have "tremendous storage capacity" in place to service their customers along with readily available fleets of delivery vehicles.

Mr. Watkins's last point in support of his position relate to cost (cost of

maintenance, emissions and commodity), suggesting alternate fuels cannot compete on price. Mr. Watkins's statement must, however, be considered in context. As shown below, during the 20 month period ending February 2016, crude oil prices tumbled over 75%, as shown below.




Thus, while current pricing favors natural gas, the price risk realities of the interruptible market are real and highly volatile. There is no guarantee that oil prices will not fall to levels below comparable natural gas economics in the near future. While Mr. Watkins would like one to believe that "it is implausible to believe that the Company's interruptible business will be substantially reduced anytime in the near future," see OCA Statement No. 3, page 8, lines 2-3, a look at the recent history, as I have shown above, demonstrates that market risk and volatility are indeed very plausible and real factors.

Lastly, it must be remembered that alternate fuel customers, either with

on-site storage or access to storage capacity through an alternate fuel supplier, do have the ability to purchase low-cost alternate fuel inventories when prices are low and utilize these inventories when natural gas prices rise. For example, the current spot price for No. 2 fuel oil is $8.38/dth equivalent. Comparably, during the entire month of February 2015, natural gas prices in the UGI Gas market area averaged $10.84/dth. Thus, assuming similar natural gas prices for next February, an alternate fuel customer could purchase fuel oil inventory today and save over 20% on energy costs during periods of seasonal natural gas price increases.

For these reasons, I&E's and OCA's reliance on historic interruptible revenues is not persuasive and should be rejected.

**Q. Is there an alternative approach that could be considered if the Commission is not comfortable with the Company's long-standing and highly successful hybrid cost/value of service approach?**

A. Such a mechanism could be structured in several different ways and could include a sharing mechanism with annual adjustments to reflect actual results. In general, the Company's as filed proposal is one which provides significant value to firm customers and insulates them from risk of losing interruptible revenues. It also provides appropriate incentive to the Company for undertaking the risks associated with the interruptible class. An alternative could be an equal sharing of the risks between the Company and all firm customers.

**Q. How could such an alternative be structured?**

A. In order to equally share the risks, sharing would be 50/50, with half of the interruptible revenues being retained by the Company and half being returned to firm customers. However, to properly share these revenues over time – as they can vary significantly year to year – an adjustable rate mechanism for the firm customers would be appropriate. Such mechanism would be best structured as a non-reconcilable mechanism, and in order to best track actual revenues and not be subject to weather risk, which could cause significant over/under sharing, it would be appropriate to structure it as a component to the customer charge. UGI Gas Exhibit PJS-2 provides an example of this Interruptible Adjustment Mechanism ("IAM") structure. In the example shown, sharing percentages (column 3) are based on the class-share of cost of service revenue allocation for firm service customers only (column 2). Thus, each year, 50% of the actual interruptible revenues would be allocated to firm rate classes using the allocation percentages that are ultimately established in this proceeding. Each class's share (column 4) would then be returned by a customer charge component rate (column 5), derived by dividing the class share by the number of customers (column 1) represented for the FPFTY. In applying this amount as a customer charge element, which is ultimately established in this proceeding (column 6), the net customer charge is then established (column 7). The IAM amounts would be recalculated annually, based on actual interruptible revenues for the 12-month

*period ending each September, and be made effective each December 1. Thus,* as interruptible revenues move up or down on a forward basis, the risk – or reward – of such change is tracked and shared equally between the Company and all firm customers.

**Q. Does either the I&E or OCA proposal reflect a sharing of risks related to the interruptible market?**

A. No. In short, they impute interruptible demand characteristics into their cost of service studies as if interruptible customers were firm service customers, and treat interruptible revenues as if they are not subject to competitive forces. Such an approach cannot be considered to be just and reasonable ratemaking because it disregards the competitive risks associated with the interruptible market and the fact that interruptible demand does not cause UGI Gas to incur fixed distribution mains costs. Accordingly, I believe if the Commission has qualms about the Company's original proposal, that it should adopt the IAM structure I outlined above, as it equally balances the interests of all customers, provides a fair sharing with the Company and creates an incentive for the Company to continue to maximize interruptible revenues for the benefit of all customers.

## IV. USAGE PER CUSTOMER

**Q. Both I&E witness Mr. Cline and OCA witness Mr. Effron propose major adjustments to the Company's proposed usage per customer. Please summarize these adjustments.**

A. Both I&E and OCA criticize UGI Gas's use of a 21-year regression analysis. I&E proposes to annualize residential usage per customer based on a five-year average, and recommends that the commercial usage not be changed from the level experienced at the end of the HTY. See I&E Statement No. 5, pages 4-16. The OCA recommends that the Company's proposed adjustment to usage per customer be rejected based on five years of weather normalized data that suggests increasing usage trends. See OCA Statement No. 1, page 15-19. These proposals each result in major adjustment to the Company's present revenues and are summarized in the table immediately below.

FPFTY Present Rate Revenues
Rates R/RT and N/NT

| UGI Gas | I&E | OCA |
|---|---|---|
| $273,836,014 | $330,668,948 | $308,714,014 |

For the reasons explained below, as well as those more fully explained in the Rebuttal Testimony of Mr. Lahoff, UGI Gas Statement No. 6-R, and Theodore M. Love, UGI Gas Statement No. 11-R, these adjustments are fundamentally flawed and should be rejected.

**Q. Is there a significant error in I&E's adjustments that needs to be corrected?**

A. Yes. With regard to the $24.241 million adjustment to commercial revenues, Mr. Cline's adjustment contains an error representing $17,965,145 of this amount. In summary, Mr. Cline calculated usage per customer for all Rates N and NT customers, commercial and industrial, based on the average usage per commercial customer for Rates N, NT and DS. However, the average Rate DS commercial customer is substantially larger than the average customer on Rate N or NT, and the average industrial customer is likewise larger than the average commercial customer. This error results in a gross overstatement of usage per customer for Rates N and NT. Mr. Lahoff provides a more detailed explanation of this error in his rebuttal testimony, UGI Gas Statement No. 6-R.

**Q. Are there also other updates and corrections to be recognized related to I&E's adjustments?**

A. Yes. Again, Mr. Lahoff's testimony addresses these in detail, however, the table below summarizes the significant magnitude of both the error I just referenced as well as the other updates that are related to I&E's use per customer adjustment for commercial classes within Rates N, NT and DS—specifically CH (Commercial Heating) and CG (Commercial General) customer groups. In total, the error correction and updates show that Mr. Cline has overstated I&E's sales adjustments by 5.7 Bcf and non-gas revenue adjustments by $21.9 million. This results in a material change in I&E's proposed revenue requirement in this

proceeding.

| Summary of I&E Error, Corrections and Updates | Sales (Mcf) | Non-Gas Revenue | Source |
|---|---|---|---|
| Original I&E Commercial (CH + CG) Adjustment | 6,415,000 | $24,241,644 | Per I&E Exhibit No. 5, Schedule 9 |
| Corrected and Updated Adjustment | 681,710 | $2,346,181 | Per UGI Gas Statement No. 6-R |
| Overstated Adjustment Amount | 5,733,290 | $21,895,463 | Per UGI Gas Statement No. 6-R |

**Q. Both Mr. Cline and Mr. Effron say that 21 years is too long a period and cite to five year periods to support their opposition to the Company's adjustments. Does the Company agree?**

A. No. Mr. Lahoff's rebuttal testimony, UGI Gas Statement No. 6-R, addresses the flaws associated with both Mr. Cline's and Mr. Effron's proposals. In general, the Company has presented a statistically valid method for projecting FPFTY use per customer and, comparatively, the OCA and I&E proposals have proven to be statistically invalid or simply incorrect. The declines which the Company has experienced in use per customer can be readily observed on UGI Gas Exhibit DEL-2. As Mr. Love also shows in his rebuttal testimony, UGI Gas Statement No. 11-R, a Department of Energy analysis for Pennsylvania also indicates a decline in usage per customer. Accordingly there is no reason to think, in particular, that continued customer conservation actions, efficiency-improving construction standards, and equipment efficiency improvements will not serve to

continue the downward trend in consumption patterns. Note that this is not to suggest that at some future point that use per customer will reach zero, but rather that no inflection point has yet been observed, and there is no reason that the Company should abandon its use of a 21-year statistical regression approach to establish usage per customer forecasts.

**Q. If the Commission were to decide that 21 years is too long a period for analysis, do you have an alternative proposal?**

A. As with any analysis, the inputs – in the case here, 21 years of data utilized in the Company's analysis – are appropriately reviewed in the context of how well they support the intent of the analysis. The Company's intent in this case is to quantify what is the most reasonable expectation of annualized usage per customer at the end of the FPFTY. In general, however, should the Commission determine that a shorter period would be more appropriate in determining use per customer, the use of a 15-year period could be considered. I suggest 15 years as an alternative as it is the same period used by the Company for purposes of weather normalization and because both I&E and OCA have accepted this time period for weather normalization.

**Q. What are the resulting usage per customer values using a 15-year approach as compared to the Company's 21-year approach for the residential heating and commercial heating classes?**

A. Comparatively, the 15-year value for residential heating would be 71.5 Mcf (versus 69.3 Mcf for the 21-year approach) and for commercial heating the 15-year value would be 523.4 Mcf (versus 503.6 Mcf).

## V. CODE OF CONDUCT

**Q. On page 15 of RESA Statement No. 1, Mr. Magnani recommends that UGI Gas's code of conduct training be revised. Do you have a response?**

A. UGI Gas is always willing to entertain recommendations that its Code of Conduct training materials be improved. The Company has a vigorous regulatory compliance program, including its robust existing training program.

**Q. *On page 16 of RESA Statement No. 1, Mr. Magnani recommends that the* Commission initiate a management audit within 180 days. Do you have a response?**

A. Yes. First, this base rate case is the wrong forum for Mr. Magnani to request that the Commission initiate a management audit related to code of conduct issues. Indeed, Mr. Magnani concedes that this rate case is not a suitable vehicle to address these issues. See RESA Statement No. 1, pages 15-16. Second, Mr. Magnani has presented no evidence that the Company has in any way violated the Commission's Code of Conduct requirement. Rather, Mr. Magnani relies on hypothetical scenarios of potential Code of Conduct violations, which are all speculative and completely unsupported by any facts. Indeed, the only facts

alleged by Mr. Magnani pertain to UGI Energy Services' website, which is anecdotal at best. Nonetheless, UGI Gas did inform UGI Energy Services of Mr. Magnani's concerns and UGI Energy Services has indicated that they will review their website for appropriate disclosure content and, if necessary, make any associated updates. For these reasons, Mr. Magnani's recommendation should be rejected.

**Q. Does this conclude your rebuttal testimony?**

A. Yes, it does.

# UGI Gas Exhibit PJS-2

## UGI Utilities, Inc. - Gas Division
## Interruptible Adjustment Mechanism ("IAM") - Example Calculation

| | [1] | [2] | [3] | [4] | [5] | [6] | [7] |
|---|---|---|---|---|---|---|---|
| Rate Class | Customers | Before IAM Non-Gas Revenue | Percentage of Total | IAM Amount | IAM Adjustment to Customer Charge | Customer Charge | Net Customer Charge |
| R/RT | 348,120 | $ 143,875,367 | 55.19% | $ (5,518,517) | $ (1.32) | $ 17.50 | $ 16.18 |
| N/NT | 38,394 | $ 67,202,383 | 25.78% | $ (2,577,630) | $ (5.56) | $ 32.00 | $ 26.44 |
| DS | 592 | $ 11,493,533 | 4.41% | $ (440,849) | $ (62.05) | $ 290.00 | $ 227.95 |
| LFD | 464 | $ 26,357,058 | 10.11% | $ (1,010,957) | $ (181.55) | $ 700.00 | $ 518.45 |
| XD-Firm | 27 | $ 11,785,496 | 4.52% | $ (452,047) | $ (1,395.19) | $ 26,702.00 | $ 25,306.81 |
| Grand Total | 387,597 | $ 260,713,838 | 100.00% | $ (10,000,000) | | | |

Notes:
$10,000,000 IAM example amount represents a 50/50 sharing of $20,000,000 in interruptible revenues
IAM will offset customer charge amount for Rates R/RT, N/NT, DS and LFD. Customer charge will be shown on bill net of IAM.
IAM for Rate XD-Firm customers will be shown as a monthly bill credit.
IAM will be adjusted annually, effective December 1, based on 12 months ending September interruptible revenues