UGI GAS STATEMENT NO. 2 – ANN P. KELLY

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2015-2518438

UGI Utilities, Inc. – Gas Division

Statement No. 2

Direct Testimony of
Ann P. Kelly

Topics Addressed: **Rate Base**
Operating Revenues and Expenses

Dated: January 19, 2016

I. INTRODUCTION

Q. Please state your name and business address.

A. Ann P. Kelly, 2525 North 12th Street, Reading, Pennsylvania 19612-2677.

Q. By whom are you employed and in what capacity?

A. I am employed by UGI Utilities, Inc. ("UGI") as Controller. UGI is a subsidiary of UGI Corporation ("UGI Corp."). UGI has two separate operating divisions: UGI Utilities, Inc. – Gas Division ("UGI Gas" or the "Company") and UGI Utilities, Inc. – Electric Division.

Q. What are your responsibilities as Controller?

A. I would note that the position of Chief Financial Officer of UGI became vacant during the preparation of this base rate case filing, and that I had taken on many of the responsibilities of that position on an interim basis, assuming overall responsibility for the finance and accounting functions for UGI and its wholly-owned subsidiaries, UGI Penn Natural Gas, Inc. ("PNG") and UGI Central Penn Gas, Inc. ("CPG"). My duties currently include accounting, accounts payable and cash remittance functions for these distribution companies and the coordination of these functions with the Chief Financial Officer of UGI Corp. I am also currently responsible for supervising the preparation and submission of financial, accounting, and related regulatory filings with the Pennsylvania Public Utility Commission ("PUC"), Federal Energy Regulatory Commission ("FERC"), the United States Securities and Exchange Commission ("SEC") and the United States Internal Revenue Service ("IRS").

Q. What is your educational background?

A. I received a Bachelor's degree in accounting with a minor in economics from Ohio Wesleyan University in 1992, and a Master's degree with a concentration in finance from Villanova University in 2000.

Q. Please describe your professional experience.

A. I began my professional career as a fund accountant for Dean Witter Intercapital and then worked as an auditor for Price Waterhouse LLC. I then spent ten years at Radnor Holdings Corporation, rising to the position of Treasurer, where I performed various finance-related functions, including consolidation and corporate reporting, external financial reporting, cash management and treasury. I then spent five years working for Exelon Corporation entities, where my positions included: Director of Financial Planning and Analysis for Exelon Generation; Director, Office of the President, for Exelon Generation's Power Team; Director of Finance Operations for PECO Energy Company; and finally Director, Risk Control for Exelon Generation. After two years away from the utility industry, I assumed my current position with UGI on December 15, 2014.

Q. Have you previously presented testimony in a proceeding before a regulatory agency?

A. Yes, I presented testimony before the PUC in *Petition of PECO Energy Company for Approval of its Smart Meter Technology Procurement and Installation Plan* at Docket No. M-2009-2123944.

Q. What is the purpose of your testimony?

A. I am providing testimony on behalf of UGI Gas. First, I will provide an overview of the principal accounting exhibits used to support UGI Gas's claims in this proceeding (Part II). Second, I will explain UGI Gas's accounting and budgeting processes (Part III). Finally, I will address UGI Gas's revenue requirement for the fully projected future test year ending September 30, 2017 ("FPFTY"), including its principal accounting exhibits, rate base claims, operating expenses claims, and certain *pro forma* adjustments (Part IV).

Q. Ms. Kelly, are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring those portions of UGI Gas Exhibit A (Fully Projected), Exhibit A (Future) and Exhibit A (Historic) addressing rate base and operating expenses. I am also sponsoring those responses to the Commission's filing requirements and standard data requests where my name is indicated as the sponsoring witness.

II. <u>OVERVIEW OF PRINCIPAL ACCOUNTING EXHIBITS</u>

Q. Please describe the principal accounting exhibits used to support UGI Gas's claims in this proceeding.

A. UGI Gas Exhibit A (Fully Projected) is the revenue requirement for the FPFTY ending September 30, 2017, including principal accounting exhibits, rate base claims, operating expenses claims, and certain *pro forma* adjustments. The FPFTY information is derived from UGI Gas's operating and capital budgets for the 12 months ending September 30, 2017. UGI Gas Exhibit A (Future) is the principal accounting exhibit for the future test year ending September 30, 2016 ("FTY"), including certain *pro forma* adjustments. The FTY information is derived from UGI Gas's operating and capital budgets for the 12-

month period ending September 30, 2016. UGI Gas Exhibit A (Historic) is the principal accounting exhibit for the historic test year ended September 30, 2015 ("HTY"), with appropriate ratemaking adjustments. The HTY information is derived from the book accounting data for the 12-months ended September 30, 2015. The FTY and HTY schedules are provided as a benchmark for comparison with the FPFTY claim, which as explained above is the basis for UGI Gas's proposed revenue increase.

Q. Please provide an overview of UGI Gas's principal accounting exhibits.

A. UGI Gas's claims in this case are based on UGI Gas Exhibit A (Fully Projected), which includes a presentation for the FPFTY ending September 30, 2017. This presentation is comprised of four sections:

Section A summarizes UGI Gas's requested rate base, revenues, and expenses at present rates and the calculation of its requested revenue increase.

Section B includes basic accounting data extracted primarily from UGI Gas's financial, accounting, operating and capital budgets, and other records. This data includes a balance sheet, a statement of net operating income and test year revenues, a schedule of expense items by cost element, and a tax expense calculation. Also included are schedules showing UGI Gas's embedded cost of debt, year-end capital structure and overall claimed rate of return.

Section C provides the elements of UGI Gas's rate base claim and how each element of that claim is derived. UGI Gas's rate base includes utility plant in service, gas storage inventory, cash working capital, materials and supplies inventory, and offsets for accumulated depreciation, accumulated deferred income taxes, and customer deposits.

Section D presents UGI Gas's revenues and expenses on a *pro forma* ratemaking basis. Necessary adjustments to budgeted levels of expense items and revenues are summarized in Schedules D-1 through D-2 and detailed in the remaining schedules. The resulting FPFTY expense and revenue levels are shown on Schedule D-3, and were used to establish UGI Gas's *pro forma* income at present and proposed rates as set forth in Schedule A-1.

Q. What information is included in UGI Gas Exhibits A (Future) and A (Historic)?

A. UGI Gas Exhibits A (Historic) and A (Future) follow the format of UGI Gas Exhibit A (Fully Projected), but reflect data for the fiscal year ended September 30, 2015, and the fiscal year ending September 30, 2016, respectively. This information is provided to comply with the Commission's filing requirements, and provides a basis for comparing our FPFTY claims with actual and projected results from the HTY and FTY, respectively.

Q. What are the data sources for the UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic)?

A. This data is derived from the UGI Gas's books and records, and capital and operating budgets. UGI Gas Exhibit A (Future) is based on adjusted budgeted data for the year ending September 30, 2016. UGI Gas Exhibit A (Historic) is based on adjusted experienced data for the year ended September 30, 2015.

III. ACCOUNTING AND BUDGET PROCESS

Q. How are the accounting records of UGI Gas maintained?

A. The accounting records of UGI Gas are kept in accordance with generally accepted accounting principles ("GAAP") and the FERC's Uniform System of Accounts as required under the provisions of 52 Pa. Code § 59.42. The Company also maintains a continuing property records system in accordance with the requirements of 52 Pa. Code § 59.47.

Q. Are the books and records of UGI Gas subject to audit?

A. Yes. The books and records of UGI Gas are audited by its internal auditors and its external auditor, Ernst & Young, LLP. They are also subject to audit by the PUC.

Q. Do the continuing property records of UGI Gas reflect the original cost value of property?

A. Yes, they do. UGI Gas's plant in service, plant additions, retirements, and book adjustments have been recorded on an original cost basis in accordance with GAAP and the Uniform System of Accounts requirements.

Q. What process does UGI Gas follow to assure that property reflected in its plant accounts is used and useful?

A. UGI Gas requires field personnel to create a record when property is placed into service or retired. The information from these records is then transferred through accounting entries into the appropriate UGI Gas plant property accounts, subject to review by authorized individuals, who must approve the entries. The process employed by UGI

Gas is the same as that employed by PNG and CPG, and its integrity has been reviewed by internal and external auditors.

Q. Please explain UGI Gas's budgetary preparation and approval process.

A. UGI Gas's fiscal year begins on October 1 and ends on September 30 of the following year. Preparation of the UGI Gas Operating Budget for the subsequent fiscal year begins during the spring, *i.e.*, the budget for the October 1, 2015 through September 30, 2016 fiscal year was prepared in the spring of 2015.

The revenue portion of the budget is a joint effort between the Marketing and Rates Departments. The Marketing Department provides customer growth and attrition information by customer class along with specific large commercial and industrial sales and revenue budget projections. The Rates Department develops normalized usage per customer for core customer classes, annualized sales and total revenues. The number of customers by customer class is determined using a wide range of factors, including trends in usage, the level of applications and inquiries for service from existing customers, new construction, the cost of competing fuels, and shifts in type of residence and customer mix. Usage per customer is developed by reviewing the most recent year's usage trends adjusted to normal weather conditions, the price of competitive fuels relative to natural gas, and current and anticipated levels of operation. The budgeted number of customers and usage per customer are combined to produce monthly budgeted sales. The revenue budget is calculated by applying tariff rates for each customer class to budgeted sales, plus an adjustment for unbilled revenue. The sales and revenue budget is then reviewed with and approved by senior management.

Concurrently, the expense portion of the Operating Budget is prepared. Employee levels are reviewed and appropriate staffing levels are set for the upcoming fiscal year. Operating and maintenance expenses are developed by each functional manager based upon review of trends, monthly expenditure patterns, new or changed programs, and inflation. They are submitted for review and approval by senior management. UGI Gas expenses are then consolidated with allocated expenses from affiliated companies to develop the budgeted Statement of Operations. Allocated expenses in the Statement of Operations include functions such as accounting, rates, gas supply, human resources, information systems, payroll, and remittance processing, which are performed in accordance with PUC-approved affiliated interest arrangements or agreements.

The final Operating Budget is then submitted to the President of the Company for his review and approval, and to the Board of Directors for its review and approval. Each element of the UGI Gas Operating Budget is formulated by personnel responsible for that aspect of the operation and who will be held accountable for the accuracy of their forecasts. The first and primary use of the Operating Budget is as a working tool for the management and planning of the business.

The UGI Gas Capital Budget is prepared in conjunction with the Operating Budget. Operating personnel in each functional area prepare a detailed list of capital projects. Each project is identified, described and justified along with a breakdown of the costs associated with it. These projects are presented to senior management, which reviews them in terms of priorities, capital availability, and strategic alignment with the operating budget. After due consideration, the Capital Budget is set and presented, along with the Operating Budget, to senior management in a series of review meetings. Additional information concerning the factors considered in establishing the UGI Gas Capital Budget is provided in the direct testimony of Hans G. Bell (UGI Gas Statement No. 9).

With the passage of Act 11 of 2012, UGI Gas has also instituted a process for establishing an Operating Budget and Capital Budget for an additional fiscal year in the future, *i.e.*, the FPFTY. This process is the same as outlined above; however, the starting point for the additional year is the FTY budget. Since the FTY budget is based on normalized weather conditions, no additional revenue normalizing adjustments are made. FTY amounts are then adjusted for salary and personnel increases, known incremental programs and expense needs, and inflation. For the capital budget, known capital projects are included based on the process described above, and also described in the direct testimony of Hans G. Bell (UGI Gas Statement No. 9). Additional assumptions also are made for emergent new business and other capital expenditures based on past experience and current trends.

Q. Please explain how expenses from affiliated companies are allocated to develop the budgeted Statement of Operations.

A. UGI Gas incurs costs for services provided by UGI Corporation, UGI Utilities, and other affiliated companies, in accordance with affiliated interest arrangements authorized by the Commission. All costs which can be identified as pertaining exclusively to an operating unit are billed directly to that unit. Those costs which cannot be directly associated with the operation of an individual operating unit are allocated to the various companies benefiting from the service by a formula internally referred to as the Modified Wisconsin Formula ("MWF"). The MWF achieves an equitable distribution of common expenses based on the relative activity and size of each operating unit to the total of all operating units. Activity is measured by total revenues and total operating expenses and size is measured by tangible net assets employed (excluding acquisition goodwill).

Q. Do you believe that the charges incurred by UGI Gas under these agreements are reasonably determined?

A. Yes. These arrangements and the methods used to allocate the costs to the companies receiving service have been reviewed by the Commission in various management audits of UGI Gas, the most recent of which was the Focused Management and Operations Audit of UGI Utilities, Inc., prepared by the PUC's Bureau of Audits, issued in April of 2012, at Docket No. D-2011-2221061 ("Audit Report"). The Audit Report found UGI Corporation's and UGI Utilities' cost allocation methods to be reasonable and appropriate. Audit Report at p. 26.

Q. How is this budget information used to support UGI Gas's claims in this proceeding?

A. This budget information is the starting point for UGI Gas's claims, and is adjusted as appropriate to reflect new information gained since the completion of the budgeting process and through application of other appropriate ratemaking principles.

IV. FULLY PROJECTED FUTURE TEST YEAR

Q. How is your discussion of UGI Gas's FPFTY revenue requirement presentation organized?

A. In Section IV.A, I present a summary of UGI Gas's FPFTY revenue requirement. In Section IV.B, I discuss UGI Gas's proposed rate base. In Section IV.C, I explain the determination of UGI Gas's revenues and operating expenses, depreciation, and income taxes.

A. FULLY PROJECTED FUTURE TEST YEAR REVENUE REQUIREMENT

Q. How were the *pro forma* revenue increase and revenues at proposed rates established?

A. This calculation is shown at a summary level on Schedule A-1, column 4 of UGI Gas Exhibit A (Fully Projected). Lines 1-9 summarize the *pro forma* measure of value (rate base). Lines 10-20 show *pro forma* revenues at present rates, *pro forma* expenses, taxes at present rates, *pro forma* net operating income at present rates, and the calculated rate of return at present rates. Lines 21-23 show the increase in net operating income required to permit UGI Gas to earn its required overall rate of return of 8.17%. Application of the Gross Revenue Conversion Factor ("GRCF") on line 24 establishes the revenue increase shown on line 25 needed to generate that net operating income. Column 5 of Schedule A-1 shows the level of the revenue increase and the increase in expenses associated with the revenue increase. Column 6 of Schedule A-1 shows the revenue, expenses, and rate base at proposed rates, as well as the resulting rate of return of 8.17%.

Q. What is the overall requested increase in revenue?

A. The overall requested increase in revenue is $58.56 million. This represents the difference between the *pro forma* FPFTY revenue requirement of $393.2 million and the annual level of operating revenues of $334.7 million under existing rates. These figures are shown on line 13 of Schedule A-1 of UGI Gas Exhibit A (Fully Projected).

B. RATE BASE

Q. With reference to UGI Gas Exhibit A (Fully Projected), please explain how UGI Gas's rate base was determined.

A. UGI Gas's rate base presentation is shown in UGI Gas Exhibit A (Fully Projected), Schedule C-1. Schedule C-1 summarizes the UGI Gas rate base values for the FPFTY. Column 2 indicates the schedule upon which the calculation of each of the rate base elements is found. Columns 4-6 show the amounts at present and proposed rates, respectively. UGI Gas's total FPFTY rate base claim -- net of deductions for accumulated deferred income taxes, customer deposits, and customer advances -- is $923.7 million. Except where otherwise noted, I will describe each of these rate base elements in greater detail below.

1. Utility Plant in Service

Q. Please explain how UGI Gas determined its rate base value for plant in service.

A. UGI Gas's claim for utility plant in service represents the sum of the closing plant balances as of September 30, 2015, and budgeted plant additions for the years ending

September 30, 2016 and September 30, 2017, less budgeted FTY and FPFTY plant retirements.

Q. Please describe Schedule C-2 to UGI Gas Exhibit A (Fully Projected).

A. This schedule includes 9 pages and presents UGI Gas's FPFTY claim of $1.65 billion for gas utility plant in service on page 2, column 2, line 64. Gas utility plant enables UGI Gas to provide gas service to its customers.

Q. How was the gas utility plant in service amount of $1.65 billion, shown on Schedule C-2, page 2, column 2, line 64 determined?

A. As noted above, this amount is based on the *pro forma* balance as of September 30, 2017. The amount includes: (1) utility plant in service as of September 30, 2015 and (2) budgeted capital expenditures expected to close to plant for the 12-month periods ending September 30, 2016 and 2017, less plant retirements during the same period.

Q. Please describe what information is shown on Schedule C-2, page 3.

A. This information provides a summary of UGI Gas's *pro forma* claim for utility plant in service by service category. Column 2 shows the FPFTY ending balances based on the budget; column 3 shows the net effect of the various plant adjustments; and column 4 provides the adjusted FPFTY plant in service.

Q. What information is included on Schedule C-2, pages 4-7?

A. Columns 2 and 3 on these pages show the gas plant in service balances for 2016 and 2017 based on the budget, plus the amount of plant additions budgeted as of the end of the FPFTY. Column 4 represents various plant adjustments and column 5 provides the adjusted FPFTY plant balance.

Q. Please explain the nature of the adjustments in column 4 on schedule C-2, pages 4-5.

A. For budgeting purposes, all common plant is recorded on the records of UGI Gas. However, common plant is also used for UGI Electric, PNG and CPG. The adjustment reduces common plant assets by the amount allocated to affiliated companies.

Q. Where is the information for FPFTY and FTY retirements shown?

A. Pages 8-9 of Schedule C-2 provide actual and projected plant retirements. Retirements for most plant accounts were projected by plant account by applying the average retirement rate, as a percent of additions, for the five years 2010 through 2015, to the FPFTY and FTY plant additions. For certain General Plant accounts subject to amortization accounting, retirements are recorded when a vintage is fully amortized. For these accounts, all units are retired per books when the age of the vintage reaches the amortization period.

2. Accumulated Depreciation

Q. Please explain how UGI Gas determined its rate base value for accumulated depreciation.

A. UGI Gas started with accumulated depreciation as of September 30, 2015, added the budgeted level of depreciation expense for the FTY and FPFTY, and calculated the impact of the FTY and FPFTY plant retirements and a provision for net salvage as shown on Schedule C-3. The depreciation rates and test year expense levels are discussed in the direct testimony of John F. Weidmayer (UGI Gas Statement No. 5), with the underlying FPFTY depreciation analysis provided in UGI Gas Exhibit A (Fully Projected).

Q. Please describe UGI Gas's accumulated depreciation claim.

A. UGI Gas's accumulated depreciation claim is shown on Schedule C-3 of UGI Gas Exhibit A (Fully Projected). This schedule, containing 11 pages, presents the accumulated provision for depreciation as of September 30, 2017, distributed among the various FERC accounts. The total amount for accumulated depreciation, $448.7 million, is summarized on pages 1-2 to this schedule. That amount is reflected on line 2 of the measure of value summary on Schedule C-1.

Page 3 shows the *pro forma* FPFTY level of accumulated depreciation distributed to the various plant categories. Pages 4-5 show the details of the accumulated depreciation by FERC account for 2016 and 2017 based on budget plus adjustments to arrive at the FPFTY balance. Pages 8-9 show the negative net salvage amortization by FERC account. Pages 10-11 include the salvage amounts for the FPFTY. All of these amounts are included in the FPFTY accumulated depreciation calculations. The amortization of negative net salvage was calculated using a 5-year amortization schedule in accordance with Commission precedent.

Q. Are there adjustments to the budgeted amounts for accumulated depreciation?

A. Yes. Similar to the plant assets shown on Schedule C-2, the accumulated depreciation must also be reduced by the accumulated depreciation on common assets allocated to affiliated companies. These adjustments are shown in column 3 on Schedule C-3, page 3 and column 4 on Schedule C-3, pages 4 and 5.

3. Cash Working Capital

Q. Please explain how UGI Gas determined its rate base value for cash working capital ("CWC").

A. CWC is the capital requirement arising from the difference between (1) the lag in the receipt of revenue for rendering service and (2) the lag in the payment of cash expenses incurred to provide that service, as shown in Schedule C-1. A detailed analysis of UGI Gas's CWC requirements is provided in Schedule C-4.

Q. What data is shown on page 2 of Schedule C-4?

A. Page 2 summarizes the derivation of UGI Gas's revenue collection lag and overall expense payment lag. The revenue lag days are shown on line 1 and the expense lag days are shown for each component on lines 3-5. The net lag in the collection of revenue is 25.48 days as shown on line 8. This number is then multiplied by the average daily operating expense balance on line 9 to arrive at a base CWC amount of $15.723 million. The average daily expense balance of $617,000 shown on line 9 is determined by dividing the total *pro forma* annual operating expenses, excluding uncollectible accounts expenses of $225.361 million, as shown on line 6 of column 2, by the number of days in a year, or 365. I will describe the other components of the CWC claim when I discuss the related schedules.

Q. Please describe the revenue lag calculation shown on Schedule C-4, page 3.

A. The total revenue lag days (line 23) were determined by dividing the annual revenue billed during the year (line 18, column 3) by the average month-end accounts receivable balances for the thirteen months ended September 30, 2015 (line 17, column 2). This results in an accounts receivable turnover rate of 9.82 (line 19, column 4), which is equivalent to 37.17 lag days (line 20, column 5) (365 divided by 9.82 accounts receivable turnover rate). As shown on lines 20-23, the payment portion of the revenue lag is added to (1) the 2.69 day lag between the meter reading day and the day bills are sent out and recorded as revenue and accounts receivable by the Company and (2) the 15.21 day service lag, which is the time from the mid-point of the service period until the meter reading date. This calculation results in a total revenue lag of 55.07 days.

Q. How was the mid-point of the service period calculated?

A. The mid-point of the service period is equal to the number of days in an average service month (365 days divided by 12, or 30.42 days) divided by two (15.21 days).

Q. How are the payroll expense lags for the CWC claim calculated?

A. This calculation is shown on page 4 of Schedule C-4, lines 1-6. The payroll amounts shown there reflect the payroll for the FPFTY, which is shown on Schedule D-7. The lag periods for union and non-union payroll are shown separately on page 4 of Schedule C-4, lines 1-2 with the same bi-weekly pay period.

Q. How were the lag days associated with the purchased gas costs shown on Schedule C-4, page 4, line 8 calculated?

A. This calculation is shown on page 6 of Schedule C-4, and is based on a review of gas purchases during the 12-month period of October 2014 through September 2015. The total dollar amount of gas purchased during this period was $6.977 million, and the average payment lag equaled 36.71 days. The payment lag was determined using the midpoint of the service payment for each of the payments and the payment date for each, averaged over the 12-month study period.

Q. How was the Other Expense payment lag, shown on Schedule C-4, page 4, line 14, calculated?

A. The calculation of this lag is shown on page 5 of Schedule C-4. The average payment lag for all remaining expenses was derived from data over four months, as shown in more detail on page 5 of Schedule C-4. A list of all cash disbursements during each of these months was used in a format that shows the payee, the invoice date, the amount of the disbursement, the date the payment was made, the account to which the disbursement was charged and other data associated with the disbursements. As shown on page 5, lines

1-8, each month's listing contained numerous cash disbursements. Once the raw payment data was assembled, the dollar days were determined by multiplying the amount of the disbursement by either (i) the number of days from invoice date until bank clearance for wire payments, or (ii) the number of days from the invoice date until check date, plus seven days for payments made by check. Disbursements were eliminated if they were included in another calculation (*e.g.*, gas commodity purchases), capital items, and other non-expense amounts. After these adjustments, the average of the expense lag days for each month shown on Schedule C-4, page 5, column 4, line 9 resulted in a payment lag for general expenses of 27.44 days. The 27.44 day lag for Other Disbursements is then brought forward to Schedule C-4, page 4, line 14 and Schedule C-4, page 2, column 3, line 5.

Q. Please explain how the interest payment amount included on line 2 of Schedule C-4, page 1 was determined.

A. The calculation of this amount is shown on Schedule C-4, page 7. This calculation measures the lag associated with the payment of interest on outstanding debt. The *pro forma* annual interest expense shown on line 4 is divided by 365 to obtain the daily interest expense of $52,000 shown on line 5. That amount is then multiplied by the net payment lag, resulting in a reduction to the working capital allowance of $1.871 million, as shown on line 9. This amount is then included on page 1, line 2 of Schedule C-4.

Q. How was the working capital requirement for tax payments shown on line 3 of Schedule C-4, page 1 determined?

A. This calculation is shown on page 8 to Schedule C-4. Separate calculations are made for federal income tax, state income tax, PA Property Tax and PURTA. Each of these calculations is based on anticipated FPFTY tax payments and an April 1 mid-point of annual service. The result for each of these components is shown and summed in column 10 to derive the net working capital allowance for tax payments.

Q. How was the working capital allowance for pre-payments derived?

A. That amount is calculated on page 9 of Schedule C-4 and represents the thirteen-month average of actual pre-paid amounts for each month ended from September 2014 through September 2015.

Q. What is the total amount of the Company's cash working capital claim?

A. UGI Gas's claim for CWC is $18.648 million. This amount is shown on Schedule C-4, page 1, line 5; Schedule C-1, line 4; and on Schedule A-1, column 4, line 4.

4. Gas Storage Inventory

Q. Please explain how the rate base value for gas storage inventory was determined.

A. Gas stored underground represents gas volumes stored in facilities or in storage fields owned by interstate pipeline or storage companies with whom UGI Gas contracts for capacity. As is typical for most natural gas distribution systems, UGI Gas purchases storage gas throughout the year for use primarily during the winter heating season. UGI Gas's claim for gas storage inventory is based on a 13-month historical average book value as shown on Schedule C-5. The average monthly gas inventory balance for the FPFTY is $21.730 million, as shown on Schedule C-5, line 16, column 4. This amount is also used in Schedule C-1, line 5 and Schedule A-1, column 4, line 5.

5. Accumulated Deferred Income Taxes (ADIT)

Q. Please explain how the rate base value for ADIT was calculated.

A. The Company's determination of its rate base value for ADIT is shown on Schedule C-6 and is discussed in the direct testimony of Nicole McKinney (UGI Gas Statement No. 10).

6. Customer Deposits/Advances for Construction

Q. Please explain how the rate base value for customer deposits and advances for construction were determined.

A. Customer deposits and advances for construction are customer-sourced funds that offset the need for UGI Gas to provide capital. UGI Gas's claim for customer deposits is based on the September 30, 2015 month-end balance as shown on Schedule C-7. Act 155 of 2014 became effective December 22, 2014, and no longer permits the Company to collect deposits for customers who qualify for low income programs. As a result, the Company has experienced a declining balance in customer deposits. For this reason, the balance at the end of the FTY was used to determine the rate base offset for customer deposits.

Q. What is the rate base offset for customer deposits?

A. The customer deposit offset is $14.517 million as shown on Schedule C-1, line 7 and on Schedule A-1, line 7.

Q. What is the rate base claim for Customer Advances In Aid of Construction?

A. The offset claim for customer advances in aid of construction is $0 since the Company did not have any such balances for the 13-month period ending September 30, 2015.

7. Materials and Supplies Inventory

Q. **What is the rate base claim for materials and supplies inventory?**

A. UGI Gas maintains various materials and supplies in inventory for use in its operations. Its claim for those items is $4.212 million, as shown on Schedule C-1, line 8. This amount represents the balance at the end of the HTY as shown on Schedule C-8. This value is also shown on Schedule A-1, line 8.

Q. Why is the HTY balance an appropriate measure of materials and supplies for the FPFTY?

A. The balance at the end of the HTY is appropriate for two reasons. First, as a result of the 2011 Management Audit, the Commission recommended that UGI Gas increase its levels of emergency stock. Second, the Company's increasing capital expenditure plans have increased the need to stock longer lead time items, such as certain sizes of pipe, to ensure it is on hand when needed. These two factors have contributed to an increasing amount of materials and supplies inventory, and is the reason for why a HTY-end balance is an appropriate basis for the claim.

C. REVENUES AND EXPENSES

Q. How were revenues at present rates determined?

A. Revenues at present rates were determined by adjusting the budgeted revenues to reflect the anticipated change in the number of customers, the projected change in existing customer usage, changes in heating degree days from that used in the budget and other *pro forma* adjustments. The net effect of these adjustments is shown in UGI Gas Exhibit A (Fully Projected), Schedule D-5, and is discussed in the direct testimony of David E. Lahoff (UGI Gas Statement No. 6).

Q. Please provide an overview of UGI Gas's principal accounting exhibits relative to operating expense claims.

A. UGI Gas's principal accounting exhibit is UGI Gas Exhibit A (Fully Projected), which includes a presentation for the FPFTY ending September 30, 2017. Section D of UGI Gas Exhibit A (Fully Projected) presents UGI Gas's claims and necessary adjustments to budgeted levels of expense items and revenues. The *pro forma* adjustments related to expense are summarized in Schedules D-3 and D-6 through D-34. These expense adjustments are used, in part, to derive UGI Gas's *pro forma* income at present and proposed rates as set forth in Schedule D-1.

UGI Gas Exhibits A (Historic) and A (Future) follow the format of UGI Gas Exhibit A (Fully Projected), but reflect data for the appropriate test years ending September 30, 2015 and 2016. This information is provided in an effort to comply with the Commission's filing requirements and provides a basis for comparing our FPFTY claims with prior results.

1. Summary

Q. Please describe Schedule D-1 of UGI Gas Exhibit A (Fully Projected).

A. Schedule D-1 presents a summary income statement that includes UGI Gas's claimed gas revenues, expenses, and taxes at present and proposed rate levels. The direct testimony of David E. Lahoff (UGI Gas Statement No. 6) addresses the presentation of *pro forma* revenues, adjustments thereto, and the supporting schedules. Schedule D-1 also shows the proposed revenue increase of $58.564 million on line 5 in column 2.

Q. What is the level of net income at proposed rates?

A. As shown on column 3, line 20, this amount is $75.467 million. This represents a $33.692 million increase from the level under current rates ($41.775 million), as shown on line 20 in column 1 of Schedule D-1.

Q. Please describe Schedule D-2.

A. Schedule D-2 shows the development of the various line items found on Schedule D-1. Column 2 contains the Company's budgeted level of revenues and expenses for the 12 month period ending September 30, 2017. Column 3 shows adjustments to the column 2 figures, where applicable, to reflect various annualization and/or normalization adjustments. Column 4 is the sum of columns 2-3. The amount of the revenue increase and related expenses are shown in column 5 with the resulting revenues and expenses at proposed rates shown in column 6.

Q. Are there schedules showing the derivation of the adjustments shown in Schedule D-2, column 3?

A. Yes. The derivation of the various column 3 revenue adjustments are included in UGI Gas Exhibit A (Fully Projected) in summary fashion on Schedule D-3, page 1, lines 1-14, and then listed by individual adjustment on Schedule D-5. Customer charge and distribution rate revenue adjustments for each customer class are shown on lines 1-5. Gas Cost revenue adjustments for each customer class are shown on lines 6-10 and details of other revenue adjustments are shown on lines 11-14. Details for each revenue adjustment are shown in Schedules D-5 (including supporting schedules D-5a and D-5b) and D-6 and discussed in the direct testimony of witness David E. Lahoff (UGI Gas Statement No. 6). Regarding *pro forma* expenses, the derivation of the various adjustments are summarized individually on pages 1-2 of Schedule D-3, lines 17-55. The details for these adjustments are found in Schedules D-4 through D-31.

2. Operating Expense

Q. How were the claimed operating expenses for the FPFTY determined?

A. *Pro forma* FPFTY expenses are based on the budgeted level of expenses as a starting point. The budgeted data, by FERC account, was then adjusted in accordance with Commission precedent and generally accepted ratemaking principles to reflect a normal, ongoing level of operations. Schedules supporting those adjustments are found in UGI Gas Exhibit A (Fully Projected), Section D.

Q. Does UGI Gas budget its operating expenses by FERC account?

A. Yes, it does. UGI Gas budgets its operating expenses both by FERC account and by cost element, such as payroll, employee benefits, rent, etc. UGI Gas uses historic data as a basis for the distribution of expenses to each FERC account. This is shown in Schedule B-4 and is the starting point to determine the FPFTY adjusted operating expenses shown on Schedule D-3.

Q. Were each of the *pro forma* adjustments reflected on Schedule D also charged to an appropriate FERC account?

A. Yes. Each *pro forma* adjustment was calculated based on the appropriate cost element and then distributed to FERC accounts directly or by using the ratio used to distribute the budgeted cost for that element.

Q. Does Schedule D-3 depict the *pro forma* expense adjustments using FERC accounts?

A. These pro forma expense adjustments are presented by major FERC account category. These adjustments are also shown in the Section D summary schedules.

Q. Schedule D-3 to UGI Gas Exhibit A (Fully Projected) shows an adjustment to Gas Costs in column 2. Please discuss this adjustment.

A. The detail for this adjustment is shown in Schedule D-6. This adjustment is designed to reduce purchased gas cost expense by the same amount of the gas cost revenue adjustment recommended in the direct testimony of David E. Lahoff (UGI Gas Statement No. 6) and as shown on Schedule D-5, column 3, lines 7-12. UGI Gas recovers its gas costs on a dollar for dollar basis with no profit through an automatic adjustment clause mechanism pursuant to Section 1307(f) of the Public Utility Code. Therefore, the reduction in purchased gas costs of $34.331 million equals the reduction in gas cost revenue as recommended by Mr. Lahoff. Thus, the purchased gas cost expense has no effect on net operating income.

Q. Please discuss the Company Use of Fuel adjustment shown on Schedule D-4.

A. Schedule D-4 removes the cost of fuel used in operations. This consists of the cost of gas used in Company operations, including that used to heat buildings and operate city gate station heaters. This cost is being removed since it is recovered through Purchased Gas Cost rates and retainage rates charged to transportation customers.

Q. Please discuss the Salaries and Wages ("S&W") adjustment shown on Schedule D-7.

A. Schedule D-7 shows a $379,000 increase to budgeted salaries and wages to reflect end of FPFTY operating conditions. This adjustment annualizes payroll expense and is distributed among the various cost accounts. Page 2 shows the development of this adjustment.

Q. Please describe the annualization adjustment.

A. This adjustment annualizes the effect of wage increases for unionized, exempt and non-exempt employees that will take place during the FPFTY. Schedule D-7, page 2, line 2 reflects the increase percentages for each classification of employee. Lines 3 through 6 indicate the percentage of the year for which the salaries and wages increases are not reflected in the budget.

Q. How did you determine the split of the budgeted salaries among the various employee classifications shown on Schedule D-7?

A. The split of the budgeted salaries among the various classifications shown on Schedule D-7, page 1 was determined using the allocations of labor for Operating and Maintenance expense in the budget. These employee groupings are the same groupings utilized in developing the labor budget. These categories were used in UGI Gas's budgeting process for the operating expense portion of salaries and wages.

Q. Please explain the Environmental expense adjustment shown on Schedule D-8.

A. As explained in the direct testimony of Hans G. Bell (UGI Gas Statement No. 9), UGI Gas historically has accounted for its environmental remediation expenses associated with the remediation of Pennsylvania manufactured gas plants as a component of its annual cost of removal. As such, these expenses were recorded in UGI Gas's accumulated reserve for depreciation and reversed through the annual calculation of the amortization of net salvage. However, UGI Gas is now proposing to include such expenses in its projected expenses and remove them from its accumulated reserve for depreciation. Since the UGI Gas budget did not include this expense, an adjustment is necessary. This will align the recovery of such expenses with the method of cost recovery previously adopted for CPG and PNG and other Pennsylvania gas utilities.

Q. How does UGI Gas propose to account for in-state manufactured gas plant remediation cost going forward?

A. Since these costs can vary significantly from year-to-year, UGI Gas is requesting permission in this proceeding to record on its books the difference between the expense allowance for in-state manufactured gas plant remediation costs authorized in this proceeding, and actual expense incurred for this purpose, as a regulatory asset or liability, subject to recovery or refund in future base rate proceedings where the prudency of actual expenditures can be reviewed. This treatment should protect customers from over-recoveries and the Company from under-recoveries for this non-revenue producing and non-expense reducing category of expense.

Q. Please discuss Schedule D-9, which shows an adjustment for additional employees.

A. The adjustment for employee additions shown in Schedule D-9 is made up of four parts. The first is to add \$0.735 million representing the salaries for seventeen incremental positions in UGI's IT department to support UGI's new customer information system ("CIS") described in the direct testimony of Thomas N. Lord (UGI Gas Statement No. 8). The total salary for these positions was multiplied by the allocation factor attributable to UGI Gas using the Modified Wisconsin Formula as these positions will support the CIS for the gas and electric divisions of UGI Utilities, Inc., and its two gas utility subsidiaries. The second adjustment is to add \$0.696 million representing the salaries of ten new supervisors for UGI Gas. Based on a recent span of control analysis it was determined the ten new supervisor positions are required to appropriately support the field division. The third adjustment is to add \$170,000 to increase field wages due to increased competition in UGI Gas's area for qualified utility field resources. The final adjustment in the amount of $0.317 million is to add five additional security management resources and cyber security support positions. The salaries for these security resources were also multiplied by the UGI Gas allocation factor since these positions will support all of UGI Utilities, Inc. Each of these adjustments represents changes made since the FPFTY budget was completed.

Q. Please discuss Schedule D-10, which shows an adjustment to Rate Case Expense.

A. Lines 1 through 3 show the total amount of the $1.256 million rate case expense UGI Gas expects to incur in this case. That amount is then normalized over the anticipated two-year period between the filing of rate cases to establish a normal level of rate case expense of $628,000. Since the rate case expense will be incurred in the FTY, no amount for rate case expense is included in the FPFTY budget. The FPFTY budget therefore was increased by $628,000 to reflect a normal level of rate case expense. We believe that UGI will make regular rate case filings every two years going forward given the significant capital investments it has committed to make in accordance with its PUC-approved Long-Term Infrastructure Improvement Program.

Q. What is the nature of the adjustment being shown in Schedule D-11 for Uncollectible Accounts Expense?

A. Schedule D-11 adjusts the budgeted uncollectible accounts expense. Lines 1 through 4 of Schedule D-11 develop this adjustment by showing a ratio that represents the three-year average rate of uncollectible accounts expense for the fiscal years 2013 to 2015. This ratio is used to adjust the amount of uncollectible expense in the budget to conform to the three-year average for the charge-offs. The resulting 1.669% percent ratio shown on line 4 in column 5 is applied on line 7 to the *pro forma* revenues at present rates to calculate the *pro forma* uncollectible accounts expense of $5.561 million shown in column 4 on line 7. This results in a decrease in the level of uncollectibles for the FPFTY from the budgeted amount as shown on line 5. The 1.669% percent figure is then applied to determine the level of uncollectible accounts expense at *pro forma* proposed rates through the gross revenue conversion factor, as shown in column 3, line 2 of Schedule D-35.

Q. What is the adjustment for the UNITE Project that is shown on Schedule D-13

A. The adjustments on Schedule D-13 relate to UGI's Next Information Technology Enterprise ("UNITE") system replacement project, as described in the direct testimony of Thomas N. Lord (UGI Gas Statement No. 8), and are broken into three parts. Part one on lines 1-5 represents preliminary-stage project costs and business and technology reengineering costs including internal labor, external consulting expense and other expenses related to the preparation of the vendor and system integrator requests for proposal, current state assessment, and costs to reengineer the business processes to adapt to the new system, as well as data conversion, migration and pre-implementation training costs. These costs have been recorded as expenses in accordance with US GAAP accounting standards, specifically ASC-350-40 *'Internal Use Software'*. However, under the FERC Uniform System of Accounts, these costs fit the definition of costs that should be capitalized once placed in service. The costs in lines 1-4 on Schedule D-13 represent the costs related to these expenses that were included as expenses in the UGI Gas 2017 budget. The company is proposing an adjustment to reduce expenses by $1.040 million on line 5 of Schedule D-13 since these costs are included in the plant additions listed on Schedule C-2.

Q. Is the $1.040 million adjustment calculated on Schedule D-13 the total amount of these types of costs that are included in Plant Additions?

A. No, the $1.040 million adjustment only represents the costs that were included in the 2017 budget for UGI Gas. There are additional preliminary stage and business reengineering costs that were incurred in 2014 and 2015 and are expected to be incurred in 2016 that will also be included in plant additions. The total amount of these costs is $6.7 million. Of this amount $3.1 million is related to the Company's new CIS and the portion of these costs allocated to UGI Gas is included in plant additions.

Q. What is the second part of the adjustment on Schedule D-13?

A. The second part of the adjustment related to the UNITE project reflects additional call center resources that will be required to maintain the Company's level of customer service during the conversion to UGI's new CIS. The amount of $1.034 million in column 2 line 6 of Schedule D-13 represents the total cost to UGI Utilities, multiplied by the allocation factor to determine the costs attributable to UGI Gas. UGI Gas proposes to amortize and recover these costs over three years.

Q. What is the third part of the adjustment on Schedule D-13?

A. The third part of the adjustment on Schedule D-13 relates to the difference in annual licensing and maintenance fees for the new CIS system and the existing CIS systems. Line 7 of Schedule D-13 represents the portion of the estimated licensing and maintenance fees of the new CIS system based on vendor quotes that will be allocated to UGI Gas. The amount on line 8 is the projected maintenance fees for the existing CIS system which is included in the 2017 budget. The difference between these amounts, shown on line 9, is the adjustment to reflect the new CIS system licensing and maintenance costs.

Q. Please explain the adjustment for Post-Retirement expense that is shown on Schedule D-14.

A. As shown in Schedule D-14, this adjustment is made up of two components. The first part of the Other Post-Employment Benefits ("OPEB") adjustment on lines 1-2 removes the current budgeted expenses for OPEB of $2.374 million. This is the amount that UGI Gas is collecting in current rates. In accordance with regulatory accounting standards, this amount is reflected as an expense to eliminate any profit or loss resulting from the difference between OPEB expenditures and the amounts recovered in rates. The difference between the amount collected and the expense incurred is recorded as a regulatory asset or liability to later be collected from or returned to ratepayers. UGI Gas currently funds its OPEB expenditures through a voluntary employees' beneficiary association ("VEBA") trust that is in an overfunded status. Due to the overfunded status, no contributions are expected to be made and therefore the Company is not including any amount of the OPEB expenditures in its claim. Since there is no claim for OPEB, the amount in the budget should be removed.

Q. What is the second component of the OPEB adjustment on Schedule D-14?

A. The second component of the OPEB adjustment on lines 3-5 relates to the over collection of OPEB expenses since the last UGI Gas rate case. The Company has accumulated an over collection in the amount of $10.399 million over the 22 years since its last rate case, net of the PUC-approved re-direction of certain OPEB funding to fund a portion of CAP program costs, as described in the direct testimony of Robert R. Stoyko (UGI Gas Statement No. 4). UGI Gas proposes to return this overcollection to customers over 20 years, *i.e.*, to return $0.520 million annually to customers over a similar time period that the current recovery mechanism has been in place.

Q. Why is 20 years an appropriate amount of time over which to refund these costs to the ratepayers?

A. This refund period is consistent with the 20-year time period established in the Commission's Policy Statement at 52 Pa. Code § 69.351 regarding recovery of the OPEB costs that investor-owned utilities deferred after the adoption of Statement of Financial Account Standards (SFAS) No. 106.

Q. Please explain the adjustment to pension expense on Schedule D-14.

A. This adjustment is needed to increase the pension expense from budgeted levels. The budgeted pension expense was determined on prior period estimates. The updated estimate is based on a more recent actuarial calculation and reflects the cash to be contributed to the plan, reduced by the percentage of pension expenses that have historically been capitalized. The amounts reflected in the calculation for the pension adjustment include those directly attributable to the UGI Gas pension in addition to the portion of the UGI Corporate pension expense that is included in the corporate expenses allocated to UGI Gas.

Q. Please discuss the *pro forma* adjustment on Schedule D-15 for Injuries and Damages.

A. The amount of expense incurred for injuries and damages in any one year can vary based on the quantity and severity of the claims. The budgeted amount for injuries and damages is shown on line 5 of Schedule D-15. This amount is compared to the three-year average injuries and damages expenses of $2.821 million calculated on lines 1-4 to arrive at a reduction in injuries and damages expense of $93,000 on line 6.

Q. **Please discuss the *pro forma* adjustment on Schedule D-15 for Membership Fees.**

A. The Company budgeted the full amount of the anticipated expenses for the American Gas Association and the Energy Association of Pennsylvania in membership expenses. A portion of these expense relate to lobbying activities and should not be included in UGI Gas's membership expense claim. The amounts on lines 7 and 8 of Schedule D-15 represent the percentage of expenses for lobbying activities based on the HTY applied to the budgeted expenses for each organization. Line 9 on Schedule D-15 shows the total adjustment to remove lobbying expenses in the amount of $16,000.

Q. Please explain the adjustment for Licensing of New Software shown on Schedule D-15.

A. Since the budget was developed for 2017, the Company has determined that there is a need for two new software systems to support the business. Both of these systems will be cloud-based and incur annual licensing fees. The first system is a contractor management system for $350,000 per year and the second is a customer relationship management software for $262,000 per year. These systems are expected to be implemented during the FTY and costs are based on vendor supplied quotes.

Q. Please explain the adjustment for insurance premiums on Schedule D-15.

A. Subsequent to preparation of the budget, UGI Corporation obtained cyber security insurance for all of its subsidiaries effective for the FTY. The $83,000 shown on line 13 of Schedule D-15 is the portion of this insurance that is allocated to UGI Gas. It is anticipated that UGI Corporation will continue to procure this insurance each year beyond the FTY, so an adjustment to FPFTY expenses also is appropriate.

Q. What adjustment is shown on Schedule D-15?

A. The Company is in the process of implementing additional corrosion control activities at an annual cost of $300,000, which was not included in the 2016 or 2017 budgets. These programs are necessary to ensure compliance with all regulations and to ensure proper system integrity is maintained. The adjustment on line 14 of Schedule D-15 will add these expenses to the FPFTY.

Q. Please discuss the *pro forma* adjustment on Schedule D-16 for Universal Service expense.

A. This adjustment is needed to reflect the expense related to UGI Gas's Universal Service programs previously subject to recovery through UGI Gas base rates, as described in the direct testimony of Robert R. Stoyko (UGI Gas Statement No. 7), but which will be recovered through UGI Gas's Universal Service Surcharge on a prospective basis, consistent with the recovery method for such expenses approved for PNG and CPG.

Q. Please explain the adjustment for Energy Efficiency and Conservation ("EE&C") Programs shown on Schedule D-19.

A. This adjustment is needed to reflect the incremental expense related to the Company's EE&C Program, which is discussed in the direct testimony of Theodore M. Love (UGI Statement No. 11). The expenses are divided into two categories: rebate costs and the costs of administering the program. As the EE&C Program is dependent on receiving authorization from the PUC in this proceeding, it was not included in the FPFTY budget. As shown in Schedule D-19, the total for these two cost categories is $2.659 million. The derivation of this amount is discussed in Mr. Love's direct testimony.

3. Depreciation Expense

Q. How was the level of depreciation expense for the FPFTY determined?

A. UGI Gas's depreciation study is set forth in UGI Gas Exhibit A (Fully Projected) and shows the determination of *pro forma* depreciation expense. This study uses the FPFTY ending September 30, 2017 plant in service and the applicable depreciation rates, service lives, and procedures. A summary of the budgeted depreciation expense and adjustments thereto is found in UGI Gas Exhibit A (Fully Projected), Schedule D-21, and is further explained in the direct testimony of John F. Wiedmayer (UGI Gas Statement No. 5).

Q. Please describe the depreciation expense adjustments shown on Schedule D-21.

A. UGI Gas witness Wiedmayer presents the depreciation analysis that serves as the foundation of the depreciation adjustment. The adjustment for depreciation expense of $1.119 million set forth on Schedule D-21, page 2, column 3, is designed to annualize budgeted FPFTY depreciation expense in order to calculate an entire year's worth of depreciation on plant in service as of the end of the FPFTY, ending September 30, 2017. This schedule also shows an increase to the net negative salvage amortization of $1.183 million. The total annualized depreciation expense for the FPFTY, net of costs charged to clearing accounts and net salvage amortization, is $43.190 million. The total adjustment for depreciation expense, net of the increase to the negative salvage amortization of $1.674 million, is shown on Schedule D-3, page 2, column 10, line 54.

4. Payroll Taxes

Q. Please describe the taxes other than income adjustments shown on Schedule D-31.

A. Schedule D-31 contains the details for taxes other than income adjustments. The adjustment on line 2 removes the capital stock tax in the amount of $316,000 as the capital stock tax is set to phase out by the end of the FPFTY. The adjustments to the payroll tax expenses on lines 4-6 are calculated by multiplying the ratio of tax expense to payroll expense included in the FPFTY budget by the amount of the payroll adjustment derived in Schedule D-7 to produce an adjustment to the amount of social security, Federal Unemployment Tax (FUTA) and State Unemployment Tax (SUTA) expense in the amount of $178,000. The calculation of these adjustments is shown in more detail on Schedule D-32.

Q. What is the purpose of Schedule D-35?

A. Schedule D-35 shows the calculation of the Gross Revenue Conversion Factor used on Schedule A-1 to calculate the level of revenues required to achieve the net operating income required to generate the rate of return supported by the direct testimony of Paul R. Moul (UGI Gas Statement No. 3). These additional revenues are required to recognize that uncollectible accounts expense vary with the level of revenue, and to recognize the additional state and federal income taxes attributable to the proposed rate increase.

Q. Does this conclude your direct testimony?

A. Yes, it does.