

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission)	
)	
v.)	Docket No. R-2022-3031211
)	
Columbia Gas of Pennsylvania, Inc.)	

SURREBUTTAL TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

July 26, 2022

Public Version

Table of Contents

I. INTRODUCTION	1
II. OCA ADJUSTMENTS TO COLUMBIA’S COST OF SERVICE.....	2
Plant in Service	2
Materials & Supplies and Prepayments	8
Strategic O&M Safety Initiatives.....	10
Payroll Expense	12
Incentive Compensation.....	17
Additional Labor and Benefits.....	19
Outside Services Expense	20
Accumulated Deferred Income Taxes	22

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Lafayette K. Morgan, Jr. My business address is 10480 Little Patuxent
4 Parkway, Suite 300, Columbia, Maryland, 21044. I am a Public Utilities Consultant
5 working with Exeter Associates, Inc. (Exeter). Exeter is a consulting firm specializing
6 in issues pertaining to public utilities.

7 Q. ARE YOU THE SAME LAFAYETTE K. MORGAN, JR. WHO SUBMITTED
8 PRE-FILED DIRECT TESTIMONY ON JUNE 6, 2022 IN THIS
9 PROCEEDING?

10 A. Yes, I am.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A. The purpose of my surrebuttal testimony is to address the issues discussed in the
13 rebuttal testimonies of Columbia Gas of Pennsylvania (Columbia or the Company)
14 witnesses Mark Kempic, Kelley K. Miller, Raymond A. Brumley, Nicole M. Paloney,
15 Jennifer Harding, Julie E. Covert, C.J. Anstead, and Kimberly Cartella, that were filed
16 on July 6, 2022.

17 Q. ARE YOU INCLUDING UPDATED SCHEDULES SUMMARIZING THE
18 OCA'S CURRENT REVENUE REQUIREMENT POSITION IN THIS
19 PROCEEDING?

20 A. Yes. In its rebuttal filing, Columbia has revised certain components of the cost of
21 service filed with its application. Some of these revisions require a change in the
22 adjustments proposed in my direct testimony. Also, as I will explain later, I have
23 revised certain adjustments I recommended in my direct testimony based on additional
24 information provided in the Company's rebuttal filing. I have attached Schedules

1 LKM-1SR to LKM-13SR to this testimony which present the OCA's updated position
2 after taking the Company's rebuttal position on certain issues into account.

3 Q. PLEASE SUMMARIZE THE OCA'S UPDATED RECOMMENDATION
4 AS A RESULT OF THE CHANGES DISCUSSED IN THIS TESTIMONY.

5 A. In this testimony, I respond to Columbia witnesses' rebuttal testimonies on various
6 adjustments I recommended in my direct testimony. I have considered the issues
7 addressed in their rebuttal testimonies and, in some instances, I have modified my
8 adjustments where necessary. As a result of these changes, my revised recommended
9 total revenue requirement results in a decrease in revenues of \$15,130,764 instead of
10 the \$16,249,779 decrease that I recommended in my direct testimony.

11 To the extent that the Company has disagreed with my position on an issue
12 that I challenged in my direct testimony, but I did not address in this surrebuttal
13 testimony, it should not be construed that I agree with the Company.

14 **II. OCA ADJUSTMENTS TO COLUMBIA'S COST OF SERVICE**

15 **Plant in Service**

16 Q. PLEASE RESPOND TO THE COMPANY'S DISAGREEMENT WITH
17 YOUR ADJUSTMENT TO PLANT IN SERVICE.

18 A. In my direct testimony, I recommended an adjustment to reduce the Company's FPFTY
19 Plant in Service claim because the data provided by the Company clearly demonstrated
20 the Company's pattern of including higher capital spend amounts in its rate cases than
21 it actually incurs for the projected period. I also identified certain capital projects that
22 had either been delayed or cancelled. I reasoned that in order to remove the
23 overstatement in plant in service, it was necessary to make an adjustment to reflect a
24 6.24 percent reduction to the forecasted plant.

1 Company witness Julie E. Covert disagrees with the adjustment I
2 recommended. Despite the fact that I used data prepared and provided by the Company,
3 she indicates that the data on which I based my adjustment does not represent a full
4 view of “Columbia’s efforts to add the level of plant that it budgets.” According to Ms.
5 Covert, the data that was provided by the Company was based on cumulative balances
6 rather than net plant additions. She also stated that the 2021 rate case budget was
7 provided incorrectly. She then offers a new set of data to, in her opinion, “provide a
8 more accurate presentation.”

9 As I will explain below, I disagree with the conclusions drawn by Ms. Covert
10 with respect to the level of plant in service. Therefore, I recommend that the
11 Commission reject the claim made in her rebuttal testimony regarding the level of plant
12 in service.

13 Q. PLEASE RESPOND TO MS. COVERT’S DISAGREEMENT WITH
14 YOUR PLANT IN SERVICE ADJUSTMENT.

15 A. The first area of disagreement that Ms. Covert raises is the data that was provided by
16 the Company. She correctly states that the data on which I based my adjustment is the
17 Company’s response to OCA 5-002. The specific requested data was: “Reference
18 witness Covert’s testimony at page 4, lines 4 to 9. Please provide a similar analysis of
19 the budget and actual expenditures for calendar years 2018 through 2021.” That section
20 of Ms. Covert’s testimony compared the projected plant in service from the last rate
21 case to the actual plant additions for the same period. The data I sought was to enable
22 me to make a similar comparison to the analysis presented on page 4 of Ms. Covert’s
23 testimony. I will accept Ms. Covert’s assertion that the data provided by the company
24 in its response to my data request is based upon the gross plant additions. However, as

1 I will explain and demonstrate below, the use of plant additions net of retirements does
 2 not erase the Company's trend of projecting higher amounts in rate cases than the actual
 3 plant additions. In fact, when the net of retirement plant additions is used, the over
 4 estimation of plant in the rate cases is *higher* than when gross plant additions are used.
 5

Columbia Gas of Pennsylvania, Inc. Plant Additions - Budget to Actual Comparison								
Year	Rebuttal Exhibit JEC-1R				OCA Statement 1, Page 8			
	Net Plant Additions Projections	Net Plant Additions Actuals	(Over)/Under-Projection	(Over)/Under-Projection Percentage	Gross Plant Additions Projections	Gross Plant Additions Actuals	(Over)/Under-Projection	(Over)/Under-Projection Percentage
2016	201,484,582	212,091,161	10,606,579	5.2642	n/a	n/a	-	-
2017	241,193,780	246,180,352	4,986,572	2.0675	n/a	n/a	-	-
2018	256,289,120	209,983,896	(46,305,224)	(18.0676)	345,370,173	296,131,730	(49,238,443)	(14.2567)
2019	258,343,265	294,610,057	36,266,792	14.0382	n/a	n/a	-	-
2020	288,945,858	277,795,194	(11,150,664)	(3.8591)	377,820,871	369,198,667	(8,622,204)	(2.2821)
2021	338,558,967	322,821,714	(15,737,253)	(4.6483)	756,880,833	722,396,955	(34,483,878)	(4.5561)
2022	65,010,868	95,266,763	30,255,895	46.5397	n/a	n/a	-	-

6

7 Q. ON REBUTTAL EXHIBIT JEC-1, MS. COVERT CONCLUDES THAT
 8 THE COMPANY HAS UNDER-PROJECTED PLANT ADDITIONS BY
 9 5.95 PERCENT RATHER THAN THE OVER-PROJECTION YOU
 10 SHOW IN YOUR DIRECT TESTIMONY. IS HER REPRESENTATION
 11 ACCURATE?

12 A. No. Ms. Covert's new data adds in additional data points which skews the results, yet
 13 she claims the data she used show the Company under budgeted because of the use of
 14 plant additions net of retirement. If that were the case, the over budgeted amounts in
 15 2018, 2020 and 2021 would show a smaller over budgeted amount than I have shown
 16 in my direct testimony. Therefore, the statements she makes in her rebuttal testimony
 17 that implies that the under-budget percent of 0.867, that she calculates, is due to the net
 18 of retirement plant additions should be rejected as not accurate.

19 Q. WHY DO YOU DISAGREE WITH THE ADDITIONAL DATA POINTS
 20 USED BY MS. COVERT IN HER ANALYSIS?

1 A. Beginning on page 3, line 11 of Ms. Covert's direct testimony she states:

2 Pursuant to Paragraph 28 of the approved settlement in the
3 Company's prior rate case, at Docket No. R-2021-3024296,
4 Columbia is required to provide the Commission and the statutory
5 parties, on or before April 1, 2022, an update to Columbia Exhibit
6 108, Schedule 1, which is to include actual capital expenditures, plant
7 additions and retirements by month for the twelve months ending
8 December 31, 2021. This update is attached to my testimony as
9 Exhibit JEC-1.

10 I believe that Paragraph 28 of the settlement in Docket No. R-2021-3024296 is an
11 indication that there is concern that, if not properly monitored, there is a potential for a
12 utility to over earn its return on rate base. I also believe that, unless capital additions
13 are monitored, an unintended incentive will be provided for rate base to be overstated
14 in a rate case. Given that the plant in service claim in a rate case is based on the
15 Company's budget, the actual plant addition is always going to be different than the
16 claimed plant additions in rate cases. Therefore, the means to measure whether the
17 Company has over or under-stated its investment for ratemaking purposes, is to
18 compare the plant in service additions claimed in the rate case with the actual plant
19 additions for the same time period.

20 I have also chosen to limit the review period to 2018 because the years before
21 then are too distant and not likely to be representative for purposes of this assessment.

22 Finally, the data from 2022 is not a full year's activity and should not be
23 considered as part of this analysis.

24 Q. IS THERE ANOTHER REASON WHY IT IS NECESSARY TO
25 RECOGNIZE A REDUCTION IN THE PROJECTED PLANT IN SERVICE
26 ADDITIONS?

1 A. Yes. As I pointed out in my direct testimony, the Company identified certain projects
2 that have been delayed and cancelled. Those projects will not be placed in service
3 during the fully projected future test year (FPFTY) and should be removed. Ms. Covert
4 has not proposed an adjustment to remove those projects even though I raised the issue
5 in my direct testimony. One of the reasons there are usually differences between the
6 budgeted and actual plant additions is because of delayed and cancelled plant additions.
7 I consider the delayed and cancelled projects to be part of my adjustment rather than
8 propose a separate adjustment. Hence, if my adjustment is not accepted by the
9 Commission, it would be necessary for a separate adjustment to be made to remove the
10 delayed and cancelled projects.

11 Q. IN YOUR DIRECT TESTIMONY, YOU ARGUE THAT YOUR
12 ADJUSTMENT WILL NOT CREATE A SIGNIFICANT RISK THAT THE
13 COMPANY WILL NOT BE ABLE TO RECOVER ITS CAPITAL COSTS
14 BECAUSE OF ITS PRACTICE OF FILING FREQUENT RATE CASES.
15 PLEASE RESPOND TO MS. COVERT’S DISAGREEMENT WITH YOUR
16 ARGUMENT.

17 A. According to Ms. Covert, if my adjustment is accepted, Columbia will be denied
18 recovery of allowed costs, and would be deprived of at least one year’s worth of return
19 and depreciation which it would not be able to recover in the future. However, Ms.
20 Covert has chosen to ignore Columbia’s own data. First, Columbia’s response to an
21 OCA data request indicates that projects have been cancelled and delayed, yet
22 Columbia has made no adjustment to remove those costs. Second, Columbia’s data
23 provided in the response to OCA 5-002 shows historically over-estimated budgets.
24 Therefore, the data suggest that, without my adjustment, there is a higher risk that

1 Columbia will overcharge ratepayers than it being denied cost recovery with my
2 adjustment.

3 Q. COMPANY WITNESS RAYMOND BRUMLEY ALSO DISAGREES
4 WITH YOUR ADJUSTMENT. PLEASE RESPOND.

5 A. Mr. Brumley disagrees with my adjustment stating that the three years identified in my
6 adjustment are not representative of the Company's ability to achieve its capital
7 addition budgets. He cites several incidents that he claims to have caused 2018, 2020
8 and 2021 not to be representative of the Company's ability to achieve its capital
9 addition budgets.

10 In my opinion, the premise of Mr. Brumley's argument is flawed because there
11 will never be a "perfect" year where the circumstances around all the Company's plans
12 turn out exactly as envisioned. It is for this reason that I have not chosen only one year
13 to calculate my adjustment. Mr. Brumley argues that the Company was unable to
14 achieve its budget because of unusual circumstances, however my adjustment
15 recognizes budgeting performance from the unusual circumstances. As a result, I
16 recommend that the Commission reject Mr. Brumley's rebuttal testimony on this issue.

17 Q. NOTWITHSTANDING THE FOREGOING DISCUSSION, ARE YOUR
18 REVISING YOUR ADJUSTMENT TO PLANT IN SERVICE IN THIS
19 TESTIMONY?

20 A. Based on Ms. Covert's testimony, it is necessary to revise my adjustment for two
21 reasons. First, I have revised the calculation of the over-budget percent based on the
22 use of the plant additions net of retirements provided by Ms. Covert. Second, Ms.
23 Covert indicated that the amount initially provided in the response to the OCA by the
24 Company for 2021 was incorrect. I have revised the calculation to reflect the 2021

1 numbers provided by Ms. Covert. After revising the factor, my adjustment to plant in
2 service is now a decrease of \$66,958,587 instead of the decrease of \$50,093,817
3 presented in my direct testimony.

4 **Materials & Supplies and Prepayments**

5 Q. MS. COVERT DISAGREES WITH YOUR ADJUSTMENT TO
6 REMOVE THE INFLATION ADJUSTMENT FROM MATERIAL &
7 SUPPLIES AND PREPAYMENT BALANCES INCLUDED IN RATE
8 BASE. PLEASE RESPOND TO HER REBUTTAL TESTIMONY ON
9 THIS ISSUE.

10 A. For the FPPTY, Columbia determined the monthly balances for Materials & Supplies
11 and Prepayments by escalating the previous year's balances by an inflation factor. In
12 my direct testimony, I disagreed with the use of an inflation escalation for these costs
13 primarily because the inflation escalations are overly broad and do not represent an
14 integration or alignment of Columbia's operational, regulatory, and financial plans.

15 Ms. Covert disagrees stating that the use of the actual 13-month average, as I
16 recommended, does not take into consideration the rising costs of Materials & Supplies
17 or Prepayments. She then offers the updated monthly balances for January 2022
18 through May 2022 to demonstrate that the actual amounts from this period have even
19 exceeded the Company's inflation escalation for Materials & Supplies and
20 Prepayments.

21 Ms. Covert's presentation of the updated balances proves my point that the
22 inflation escalation is overly broad and do not represent an integration or alignment of
23 Columbia's operational, regulatory, and financial plans. Specifically, actual
24 prepayment balances for March, April and May 2022 were lower than the actual 2021

1 balances for those months. If it were true that inflation would automatically increase
2 these costs as claimed by Columbia, then these balances would not be less than the
3 2021 amounts. With respect to Materials & Supplies, the balances are not only
4 inconsistent with the trend shown for prepayments, but it cannot be concluded that the
5 increase in costs is due to inflation. The supply chain disruption being experienced
6 globally has resulted in inventory stockpiling by companies. In the J.P. Morgan Chase
7 2022 Business Leaders Outlook survey, 65 percent of respondents indicate that
8 strategic stockpiling is one of the tools being used to respond to the supply chain
9 disruption. It is possible that this may be a factor in the increase in Materials & Supplies
10 balances rather than the Company's assertion that the increase is solely due to inflation.
11 Any increase caused by the supply chain disruption is not likely to be permanent and
12 should not be reflected in rate base. A general inflation factor fails to account for the
13 many reasons costs may increase during the FPFTY, and is not a known and measurable
14 indicator. Therefore, the Commission should reject the Company's claims to reflect an
15 inflation escalation of the Materials & Supplies and Prepayment balances.

16 **Strategic O&M Safety Initiatives**

17 Q. COMPANY WITNESSES KEMPIC AND ANSTEAD HAVE
18 DISAGREED WITH YOUR ADJUSTMENT TO THE STRATEGIC
19 O&M SAFETY INITIATIVES. PLEASE SUMMARIZE THESE
20 WITNESSES DISAGREEMENT WITH YOUR ADJUSTMENT.

21 A. In my direct testimony, I recommended an adjustment to remove the strategic O&M
22 safety initiatives of \$14,200,000 from the cost of service because these costs were not
23 part of the approved budget on which the FPFTY cost of service is derived, and the
24 Company has provided no evidence that the budget on which the FPFTY is based has

1 been amended to include the strategic O&M safety expenses. The Company admits that
2 these costs are not included in the budgets.¹

3 Mr. Kempic disagrees with my adjustment. He justifies the inclusion of these
4 costs based upon his title as the President and COO of Columbia Gas of Pennsylvania
5 and his personal involvement in the development of the costs associated with
6 supporting and implementing the Picarro data collection system, accelerating the cross
7 bore program and the other safety plan efforts. He states in his rebuttal testimony that
8 he personally made the decision on the inclusion of the Picarro costs used in the rate
9 case.

10 Mr. Anstead, in his rebuttal testimony, makes a similar claim. He states that as
11 Vice President of Gas Operations for Columbia, he participated in reviewing and
12 approving the safety initiatives and the associated costs for inclusion in the rate case.
13 According to Mr. Anstead, Columbia believes that these initiatives, and the associated
14 costs, are justified and prudent to continue to improve the safety of the system.

15 The gist of the rebuttal testimonies of the two witnesses is that, as officers of
16 the Company, their approval of the projects and their decision to include the related
17 costs in the cost of service means that the costs are eligible for recovery. I disagree with
18 this contention for the development and setting of rates, as I will explain below.

19 Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. KEMPIC AND
20 MR. ANSTEAD ON THE ELIGIBILITY OF COST RECOVERY OF
21 THESE PROJECTS IN THIS PROCEEDING.

22 A. According to Columbia witnesses Paloney and Bly, the cost of service used in this
23 proceeding is based upon the Company's budget. There is a process that is followed

¹ Columbia Statement No. 14, beginning at Page 26, line 17.

1 from development to approval and adoption of the budget by the Company's Board of
2 Directors. Once approved, the budget serves as the guardrails with respect to
3 expenditures.

4 The basis for my belief that these costs are not eligible for recovery is that the
5 Company has been unable to demonstrate that the costs will be incurred during the
6 FPFTY. It should be noted that these are expenditures that came about after the budget
7 was prepared, and that the Company admits were not included in the budget. The result
8 is an increase in the FPFTY cost of service of \$14,800,000 that occurred after the 2023
9 budget had already been approved. Such a significant change should only be accepted
10 in the FPFTY cost of service, and included in rates, if the budget is amended. In my
11 experience, it is unusual such significant deviations from a utility budget to be approved
12 outside standard budgeting procedures.

13 I do not question Mr. Kempic or Mr. Anstead's authority to approve the safety
14 programs. However, approval of the program costs of this magnitude should be
15 included in the same budgeting review process that the Company has claimed is the
16 basis of the FPFTY cost of service.

17 Q. MR. ANSTEAD STATES THAT IT HAS NEVER BEEN THE
18 COMPANY'S PRACTICE TO CREATE FORMAL DOCUMENTATION
19 NOTING APPROVAL OF SAFETY INITIATIVES (OR OTHER SORTS
20 OF INITIATIVES) FOR THE PURPOSE OF INCLUDING THOSE
21 INITIATIVES AND ASSOCIATED COSTS INTO THE COMPANY'S
22 RATE CASE FILING, AND THAT HE IS NOT AWARE OF ANY
23 COMMISSION REQUIREMENT THAT THE COMPANY DO SO.
24 PLEASE RESPOND.

1 A. Because this documentation has not been requested in the past, does not mean that it is
2 not appropriate to request it in this proceeding. The circumstance in this proceeding
3 requires the Company to demonstrate that the budget for the FPFTY has been amended
4 to increase the approved level of expenditures. Clearly, as I have explained, substantial
5 costs of this nature should only be included in rates if they are part of the normal
6 budgeting procedures utilized to develop the FPFTY cost of service.

7 **Payroll Expense**

8 Q. PLEASE RESPOND TO COLUMBIA WITNESS MILLER'S
9 DISAGREEMENT TO YOUR LABOR ADJUSTMENT.

10 A. In my direct testimony, I explained that I am recommending an adjustment to payroll
11 expense to remove the post-FPFTY wage rate increases from the payroll expense that
12 is included in the cost of service because the post-FPFTY costs are not eligible for
13 recovery in this proceeding. I explained that the Company's payroll expense was
14 composed of two components. One component included the wage rate increases to be
15 granted during 2023 (the FPFTY) and the other component was to annualize the effect
16 of the wage rate increases that were granted during the FPFTY.

17 The Bureau of Investigation & Enforcement (I&E) recommended a similar
18 adjustment based upon the same rationale I used for my adjustment.

19 Ms. Miller disagrees with my (and I&E's) adjustment. In her rebuttal testimony,
20 she states:

21 I&E misrepresents the annualization of Labor Expenses at the
22 FPFTY level as being increases that are outside of the FPFTY. This
23 is inaccurate. The annualization adjustment is a long-standing
24 ratemaking adjustment and merely raises the level of payroll expense
25 for all months in the FPFTY to the level of wage rates expected to be
26 paid *during* the FPFTY. For example, pay increases for Exempt
27 Employees are anticipated to be paid during the FPFTY starting
28 March 1, 2023; the annualization adjustment for these employees

1 effectively increases the expense to reflect this wage increase to be
2 effective January 1, and thus reflecting the entire test year at the level
3 of wages that would be in effect at the end of the test period.
4 Revenues at current rates are also reflective of annualized and
5 normalized levels for the same period and a revenue deficiency (or
6 sufficiency) is revealed by comparing these revenues to annualized
7 expenses (at the determined rate of return on rate base, also valued at
8 the end of the test period).

9 Ms. Miller has misunderstood the annualization concept and how it applies to the
10 FPFTY. Below, I will explain why the Company's cost annualization effectively results
11 in the inclusion of post-test year expenses and show how the Company has included
12 post-test year costs in the cost of service.

13 Since Pennsylvania has adopted the use of a fully projected future test year, in
14 proceedings before this Commission, the determination of costs allowed in the test year
15 should be guided by the Commission's implementation of the law that allows the use
16 of the FPFTY. According to the Commission's Implementation of Act 11 of 2012
17 Order in Docket No. M-2012-2293611, at page 5:

18 Section 315 of the Code, 66 Pa. C.S. § 315, contains the burden of
19 proof a utility has in various proceedings before the Commission.
20 With the enactment of Act 11, the burden of proof standard for
21 utilities in rate proceedings has been amended to permit use of either
22 a future test year or a "fully-projected future test year" in rate cases.
23 See 66 Pa. C.S. § 1308(d). Under this approach, the risks associated
24 with regulatory lag will be substantially reduced because the new
25 rates will be consistent with the test year used to establish those rates
26 for at least the first year.

27 Also, in the Advance Notice of Proposed Rulemaking Order in Docket No. L-
28 2012-2317273, at page 3, the Commission stated:

29 The FPFTY is a ratemaking mechanism that allows a utility to project
30 capital investment and correspondingly to include that projected
31 investment in the utility's claimed revenue requirement throughout
32 the twelve-month period beginning with the first month that the new
33 rates would be placed in effect. 66 Pa. C.S. §§315, 1350-1360; Pa.

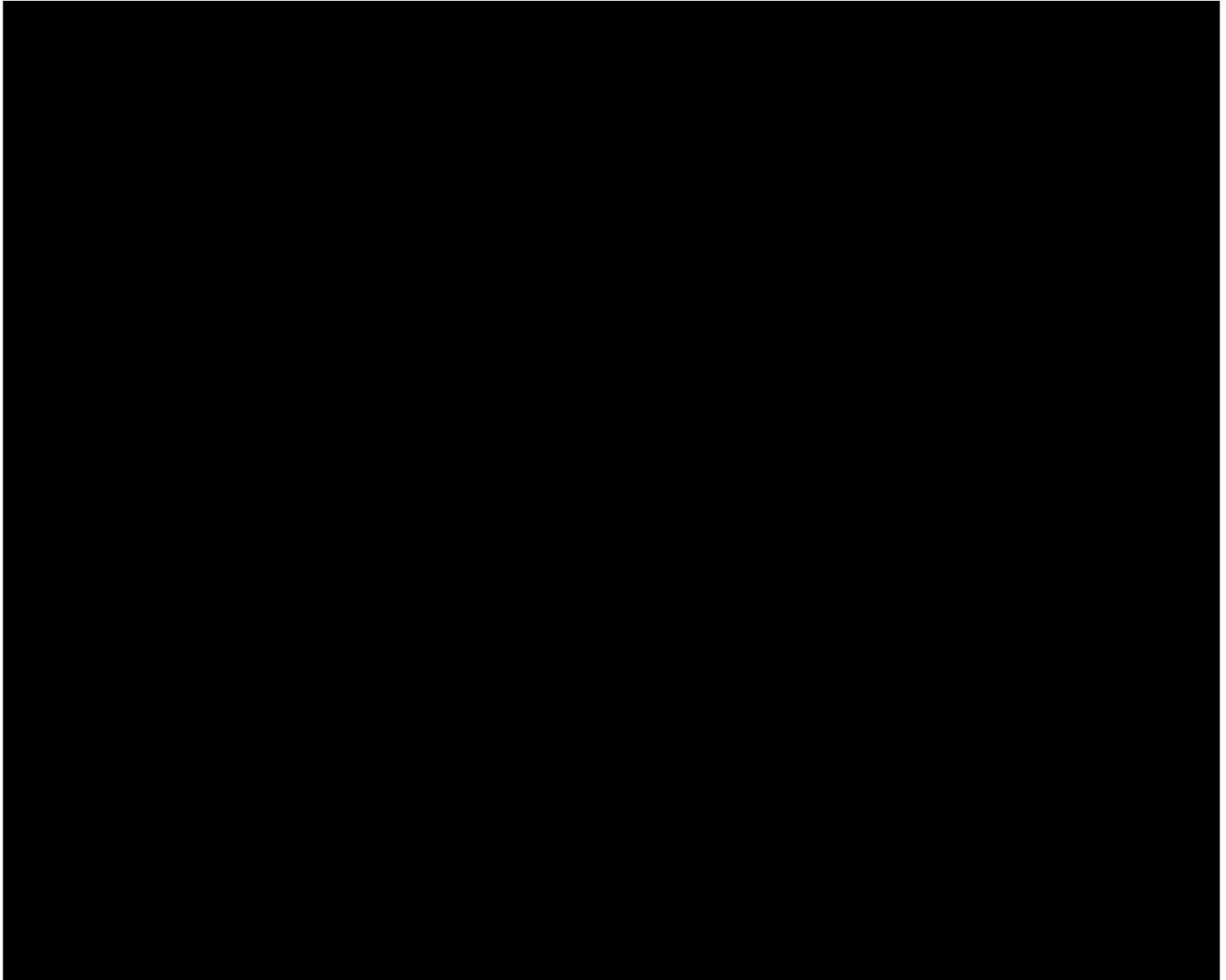
1 Public Utility Commission v. Columbia Gas of PA Inc., Docket No.
2 R-2012-2321748, 2013 WL 2420877 (Pa. PUC). A public utility can
3 also use the FPFTY mechanism to project other revenue requirement
4 and ratemaking components such as operating revenues, operating
5 expenses, depreciation, interest expense, taxes, and return.

6 Prior to Act 11 of 2012, utilities were allowed to use either a historical test year (HTY)
7 or a future test year (FTY). The historical test year was typically a 12-month period
8 that was in the past, and the future test year was a hybrid 12-month period that was
9 composed of some historical months and some forecasted months. When the HTY or
10 FTY were used, rates were set based on costs to be incurred during the rate effective
11 period, which was the period after either the HTY or FTY. Therefore, cost
12 annualizations were used to reflect cost increases that were partially reflected during
13 the HTY or FTY. The rationale was that since the full cost increase would be
14 experienced during the rate effective period, an annualization was necessary to
15 recognize the full effect of the cost increase.

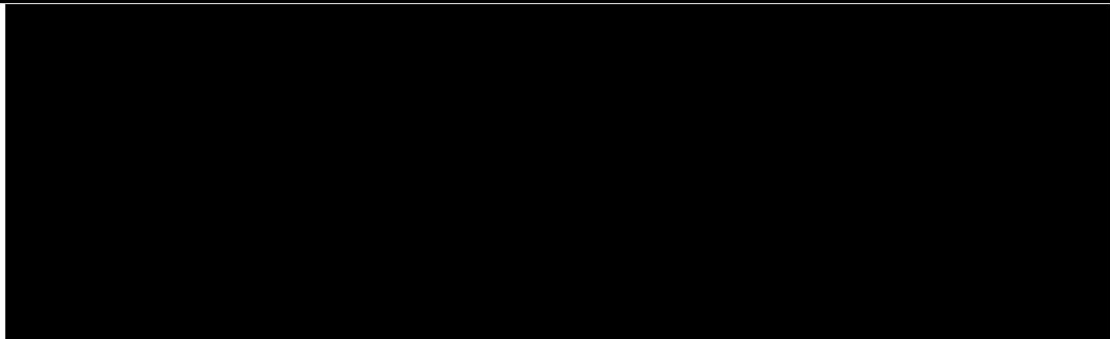
16 However, with the use of the FPFTY, the Commission's Implementation Order
17 of Act 11 plainly states: "The fully-projected test year is defined as the 12-month period
18 that begins with the first month that the new rates will be placed into effect, after
19 application of the full suspension period permitted under Section 1308(d)." Hence, the
20 rate effective period and the test year are now the same. Therefore, any annualization
21 of costs that are included in the cost of service should not be costs that will be incurred
22 after the FPFTY. A portion of the Company's payroll costs include costs that will be
23 incurred after the test year, and should be rejected by the Commission.

24 Q. PLEASE SHOW WHERE IN THE COST OF SERVICE, THE COMPANY
25 HAS INCLUDED POST-TEST YEAR PAYROLL COSTS.

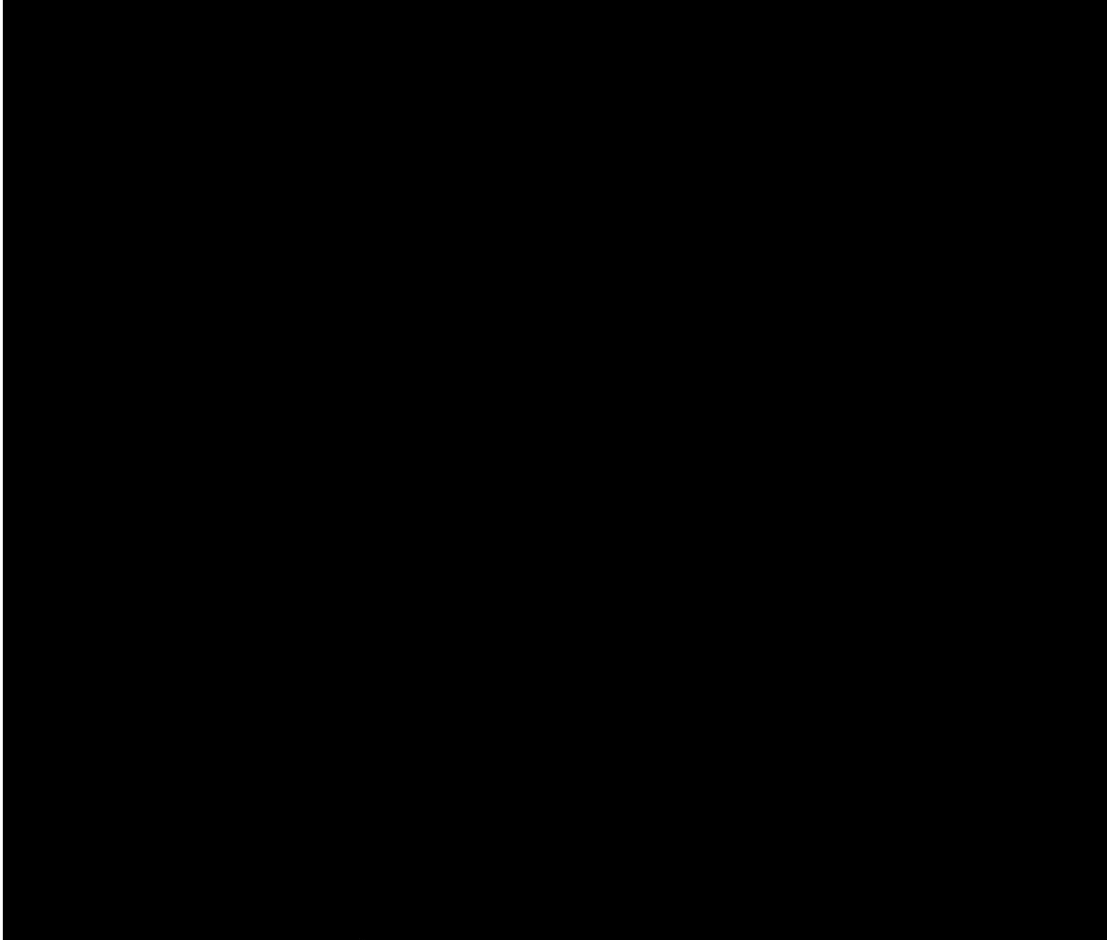
1 A. The chart below is a confidential workpaper supporting the Company's labor
2 adjustment which I will use to show the inclusion of the post-test year costs. **BEGIN**
3 **CONFIDENTIAL**



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END CONFIDENTIAL

16 **Incentive Compensation**

17 Q. PLEASE RESPOND TO MS. CARTELLA’S DISAGREEMENT WITH
18 YOUR ADJUSTMENT TO INCENTIVE COMPENSATION.

19 A. In my direct testimony, I recommended an adjustment to remove the portion of the
20 incentive compensation that is related to achieving earnings goals from the cost of
21 service. I removed 70 percent of the Company’s Cash-Based Award Programs costs
22 since the incentive plans stated that 70 percent of payout is tied to achieving a NOEPS
23 target. I removed the amount related to the NiSource Omnibus Incentive Plan because

1 the stated objective of that plan primarily targets enhancing the interests of
2 shareholders.

3 Ms. Cartella disagrees with my adjustments. She argues that incentive
4 compensation and the Long-Term Incentive (LTI) (or stock rewards) are designed by
5 the Company to remain competitive with other employers, retain employees, and to
6 provide safe, reliable and cost-effective service to its customers. According to her, LTI
7 rewards are a common element of compensation and that those costs should be
8 recovered in rates. Ms. Cartella states that if the Commission disallows recovery of
9 stock rewards, it would send a message that variable incentive compensation is not
10 valued as a viable tool to encourage company efficiencies and promote customer
11 service and safety goals, and that denial of recovery of LTI rewards means that fixed
12 base pay without incentives would become the preferable means to attract, motivate,
13 and retain talented employees while retaining a reasonable opportunity for full recovery
14 of that compensation.

15 Q. DO YOU BELIEVE THAT INCENTIVE COMPENSATION OR THE
16 LTI SHOULD BE ELIMINATED?

17 A. No, I do not. As I stated in my direct testimony, the purpose of an incentive plan is to
18 provide rewards for achieving a goal that would not easily be attained absent the
19 reward. The Company recognizes this as a feature of its plan:

20 The NOEPS [Net Operating Earnings Per Share] measure is based
21 on the Corporation's achievement of net operating earnings per
22 share, after accounting for the cost of payments under the Program.

23 In other words, the Company's plan recognizes that the earnings goal should be high
24 enough that after payment of incentive rewards the Company realizes the desired
25 earnings. My recommendation is consistent with the Company's plan.

1 To be clear, my adjustment is not about the design of the plan, nor is it about
2 how employee compensation should be structured to retain employees. I am also not
3 recommending that the Commission instruct Columbia how to structure its employee
4 compensation plans as Ms. Cartella contends nor would the Commission's acceptance
5 of my adjustment mean that the Commission is sending a message that variable
6 compensation is not valued. Nowhere in my recommended adjustment do I comment
7 on an alternative design of the Company's compensation plan. Instead, I am
8 recommending that the plan pays for itself rather than ratepayers paying for the plan.

9 Q. DO YOU AGREE WITH MS. CARTELLA THAT THE LTI
10 CONSIDERS ACHIEVEMENT OF CUSTOMER SERVICE IN ITS
11 REWARD?

12 A. No, I do not. If the LTI considered customer service as part of its reward, there would
13 be a provision to measure customer service in the determination of the reward. In this
14 proceeding, the Company has not presented any documentation that shows customer
15 service being used as part of determining LTI rewards.

16 **Additional Labor and Benefits**

17 Q. MS. PALONEY DISAGREES WITH SEVERAL ASPECTS OF YOUR
18 ADJUSTMENT TO ADDITIONAL LABOR AND BENEFITS. PLEASE
19 RESPOND.

20 A. In my direct testimony, I made adjustments to several elements of the Company's
21 additional labor and benefits adjustments. In my adjustment, I applied the Company's
22 claimed \$.50 increase to UWUA 475 and 479 instead of all five unions. I removed the
23 Company's claim for ½ percent increase to merit adjustments. I removed the one-time
24 signing bonus of \$1,200 from the United Steel Worker Local 13836. I reduced the

1 incentive compensation plan claim by 70 percent consistent with my incentive
2 compensation adjustment. Finally, I removed 20 percent associated with the benefits to
3 labor expense ratio.

4 While Ms. Paloney states she disagrees with my adjustment, she has modified
5 some of her adjustments in response to my direct testimony. With respect to the \$.50
6 increase, Ms. Paloney now applies the increase to 3 unions rather than all 5 as presented
7 in the direct filing. Regarding the Company's claim for ½ percent increase to merit
8 adjustments, Ms. Paloney adequately explained why the adjustment was necessary.
9 Regarding the one-time signing bonus, Ms. Paloney has adequately explained the
10 removal of that cost. Regarding the benefits to labor ratio, Ms. Paloney has modified
11 the Company's initial claim in response to the explanation I gave in making my
12 adjustment.

13 Q. ARE YOU AND MS. PALONEY IN AGREEMENT WITH RESPECT
14 TO SOME OF THE COST COMPONENTS OF THE ADDITIONAL
15 LABOR AND BENEFITS CLAIM?

16 A. Yes. The only area of difference between Ms. Paloney and me is the incentive
17 compensation claim relating to the additional labor costs. That issue is addressed above
18 in the incentive compensation discussion.

19 **Outside Services Expense**

20 Q. PLEASE RESPOND TO THE COMPANY'S DISAGREEMENT WITH
21 YOUR ADJUSTMENT TO OUTSIDE SERVICES EXPENSE.

22 A. In my direct testimony I proposed an adjustment which was intended to decrease
23 outside services expense to remove the effect of inflation that was included in the

1 Company's adjustment. I calculated an adjustment of \$2,414,867 based on data
2 supplied by the Company.

3 Ms. Paloney disagrees with my adjustment citing two reasons. First, she
4 indicates that my description of the Company's budget for outside services being based
5 upon historical spend escalated by inflation is not an accurate statement. Second, she
6 states that my position, that adjusting some O&M expenses by inflation to reflect future
7 year expenses is not a reasonable method of budget development, is not logical.

8 The fact is, as the Company admits in the response to OCA 4-031 and which
9 she defends in her rebuttal, the Company does develop its outside services expense
10 based upon applying an inflation factor to historical spend. Perhaps, to be clearer, I
11 should have stated "in addition to the inclusion of the costs associated with certain
12 specific projects." However, as Ms. Paloney admits in her testimony, I did not attempt
13 to remove the costs related to the specific projects. Given, the focus of my adjustment
14 is the inflation escalation component of the Company's claim, I believe it is necessary
15 to make clear that my statement was accurate.

16 The second reason Ms. Paloney gives for disagreement with my testimony is
17 my discussion on inflation escalation, which she termed "not logical". While Ms.
18 Paloney found it convenient to dismiss my testimony, she offered no statements to
19 demonstrate that my position was illogical.

20 Q. WHY DID YOU RECALCULATE THE INFLATION COMPONENT OF
21 THE OUTSIDE SERVICES ADJUSTMENT IN YOUR SCHEDULE LKM-
22 11 RATHER THAN USE THE AMOUNT PRESENTED IN THE
23 ATTACHMENT A TO OCA 4-031?

1 A. I believed it was necessary to make a separate calculation because the Company
2 provided conflicting data in its responses to I&E and the OCA's data requests. In I&E
3 RE-021-D, the Company was asked to provide the basis and calculation for the FTY
4 budgeted adjustment of \$3,398,969 for outside services. The Company responded
5 stating:

6 The increase in Outside Services between HTY and FTY of
7 \$3,398,969 is primarily driven by using an inflation factor of 3 %
8 between the two periods with the exception of the following
9 programs.

10 Then in I&E RE-022-D, the Company was asked to provide the basis and calculation
11 for the FPFTY budgeted adjustment of \$1,110,056 for outside services. The Company
12 responded stating:

13 The increase between FTY and FPFTY of \$1,110,056 is primarily
14 driven by using an inflation factor of 3% between the two periods.

15 These statements were not consistent with the response to OCA 4-031. In OCA 4-031,
16 the Company was asked to provide supporting workpapers and documentation showing
17 the derivation and application of the inflation escalation to determine the FPFTY
18 amount. The Company responded stating:

19 As demonstrated within Attachment A, when the planned activities
20 that are driving the budget increase are subtracted from the remaining
21 net outside service balances from HTY to FTY, the inflationary
22 growth percentage in the FTY is 3.3 percent, which is consistent with
23 the inflationary growth percentage calculated for non-labor expenses
24 in OCA 4-030. The inflationary growth percentage computed in the
25 FPFTY for outside services is 4.0 percent, which is also consistent
26 with the inflationary growth percentage calculated in OCA 4-030 for
27 non-labor expenses. Please see attachment A.

1 Q. ARE YOU PROPOSING TO REVISE YOUR ADJUSTMENT TO OUTSIDE
2 SERVICES IN THIS SURREBUTTAL TESTIMONY?

3 A. After re-assessing the data related to outside services, I am revising my adjustment to
4 reflect a \$1,861,925 reduction in outside services expense instead of \$2,414,867 that I
5 presented in my direct testimony. The \$1,861,925 amount is taken from the Company's
6 response to OCA 4-031.

7 **Accumulated Deferred Income Taxes**

8 Q. PLEASE RESPOND TO MS. HARDING'S REBUTTAL TESTIMONY
9 RELATING TO ACCUMULATED DEFERRED INCOME TAXES.

10 A. In her testimony, Ms. Harding indicates that when I made my adjustment to the
11 forecasted plant additions, I did not include a corresponding adjustment to
12 Accumulated Deferred Income Taxes (ADIT). Ms. Harding indicates that she disagrees
13 with my adjustment because I did not present the adjustment to ADIT related to my
14 adjustment to plant in service.

15 Unfortunately, during the preparation of my testimony, I inadvertently failed to
16 include the ADIT effect of my adjustment to plant in service. I agree with Ms. Harding
17 and have revised my adjustment to plant in service to reflect the corresponding effect
18 of my adjustment to plant in service on ADIT.

19 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

20 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission)	
)	
v.)	Docket No. R-2022-3031211
)	
Columbia Gas of Pennsylvania, Inc.)	

SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

July 26, 2022

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Operating Income
For the Test Year Ending December 31, 2023

Line No.	Description	Company Amounts at Present Rates	OCA Adjustments	Amounts After OCA Adjustments	Change in Revenues	Amounts After Change in Revenues
1	Total Operating Revenues	\$ 814,505,439	\$ -	\$ 814,505,439	\$ (15,130,764)	\$ 799,374,675
2						
3	<u>Operating Revenue Deductions</u>					
4	Gas Supply Expense	\$ 235,166,198	\$ -	\$ 235,166,198	\$ -	\$ 235,166,198
5	Off System Sales Expense	-	-	-	-	-
6	Gas Used in Company Operations	-	-	-	-	-
7	Operating and Maintenance Expense	246,958,501	(23,481,957)	223,476,544	(189,744)	223,286,800
8	Depreciation and Amortization Exp.	111,589,933	(1,609,133)	109,980,800	-	109,980,800
9	Net Salvage Amortized	5,134,298	-	5,134,298	-	5,134,298
10	Taxes Other Than Income	3,580,973	(32,964)	3,548,009	-	3,548,009
11	Total Operating Revenue Deductions	602,429,903	(25,124,053)	577,305,850	(189,744)	577,116,106
12						
13	Operating Income Before Income Taxes	212,075,536	25,124,053	237,199,589	(14,941,020)	222,258,569
14						
15	Income Taxes	31,905,693	5,682,828	37,588,521	(4,316,774)	33,271,746
16	Investment Tax Credit	(221,354)	-	(221,354)	-	(221,354)
17						
18	Net Operating Income	\$ 180,391,197	\$ 19,441,226	\$ 199,832,423	\$ (10,624,246)	\$ 189,208,177
19						
20	Rate Base	\$ 2,958,295,014		\$ 2,897,521,852		\$ 2,897,521,852
21						
22	Return On Rate Base	6.10%		6.90%		6.53%

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Revenue Increase at OCA Rate of Return
For the Test Year Ending December 31, 2023

Line No.	Description	Amount	
1	Adjusted Rate Base	\$ 2,897,521,852	Schedule LKM-2, Page 2
2	Required Rate of Return	6.53%	
3			
4	Net Operating Income Required	\$ 189,208,177	
5	Net Operating Income at Present Rates	199,832,423	Schedule LKM-1, Page 1
6			
7	Income Deficiency/(Surplus)	\$ (10,624,246)	
8	Revenue Multiplier	1.42417301	
9			
10	Required Change in Company Revenue	\$ (15,130,764)	
11			
12	Proposed Revenue Change	\$ (15,130,764)	
13	Less: Uncollectibles	(189,744)	
14	Income Before State Taxes	\$ (14,941,020)	
15	Less: State Income Tax @ 9.99%	(1,492,608)	
16			
17	Income Before Federal Taxes	\$ (13,448,412)	
18	Federal Income Tax @ 21.0%	(2,824,167)	
19			
20	Net Income (Surplus)/Deficiency	\$ (10,624,246)	

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Rate Base
For the Test Year Ending December 31, 2023

Description	Amount per Company Filing	OCA Rate Base Adjustments	Amount After OCA Adjustments
<u>Property Plant and Equipment</u>			
Gas Plant in Service	\$ 4,061,081,498	\$ (66,958,587)	\$ 3,994,122,911
Construction Work in Progress	-	-	-
Gas Stored Underground - Non Current	3,794,693	-	3,794,693
Depreciation Reserve	(708,267,711)	3,430,719	(704,836,992)
Accumulated Provision Gas - Underground Storage	(163,467)	-	(163,467)
Net Plant in Service	<u>\$ 3,356,445,013</u>	<u>\$ (63,527,868)</u>	<u>\$ 3,292,917,145</u>
<u>Working Capital</u>			
Materials & Supplies	\$ 1,332,307	\$ (49,094)	\$ 1,283,213
Prepayments	4,065,141	(269,071)	3,796,070
Gas Stored Underground	40,836,689	-	40,836,689
Cash Allowance	-	-	-
Total Working Capital	<u>\$ 46,234,137</u>	<u>\$ (318,165)</u>	<u>\$ 45,915,972</u>
<u>Deferred Income Taxes</u>			
Income Taxes	\$ 67,706,185	\$ -	\$ 67,706,185
Depreciation	(508,547,561)	3,072,871	(505,474,690)
Other	-	-	-
Total Deferred Income Taxes	<u>\$ (440,841,376)</u>	<u>\$ 3,072,871</u>	<u>\$ (437,768,505)</u>
Customer Deposits	(3,554,025)	-	(3,554,025)
Customer Advances for Construction	<u>11,265</u>	<u>-</u>	<u>11,265</u>
Total Rate Base	<u>\$ 2,958,295,014</u>	<u>\$ (60,773,162)</u>	<u>\$ 2,897,521,852</u>

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Rate Base Adjustments
For the Test Year Ending December 31, 2023

<u>Description</u>	<u>Source</u>	<u>Amount</u>
Rate Base per Company Filing	Schedule LKM-2, Page 1	<u>\$ 2,958,295,014</u>
<u>OCA Adjustments:</u>		
Plant In Service	Schedule LKM-5	\$ (60,454,997)
Materials & Supplies	Schedule LKM-6	(49,094)
Prepayments	Schedule LKM-7	(269,071)
		<hr/>
Total Ratemaking Adjustments		<u>\$ (60,773,162)</u>
Adjusted Rate Base per OCA		<u><u>\$ 2,897,521,852</u></u>

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Adjustments to Operating Income
For the Test Year Ending December 31, 2023

Line No.	Description	Amount	Source
1	Operating Income Before Income Taxes per Company	<u>\$ 180,391,197</u>	Exhibit No. 102, Schedule 3, Page 3
2			
3	<u>OCA Adjustments:</u>		
4	Adjustment to Annualize Payroll Expense	\$ 344,630	Schedule LKM-8
5	Adjustment to Incentive Compensation Expense	4,941,288	Schedule LKM-9
6	Adjustment to Reflect Additional Labor & Benefits	13,751	Schedule LKM-10
7	Adjustment to Outside Services Expense	1,323,976	Schedule LKM-11
8	Adjustment to Strategic Initiatives Expense	10,097,322	Schedule LKM-12
9	Adjustment to Depreciation Expense	1,144,220	Schedule LKM-5
10	Interest Synchronization	<u>1,576,039</u>	Schedule LKM-13
11	Total OCA Adjustments	<u>\$ 19,441,226</u>	
12			
13	Operating Income Before Income Taxes per OCA	<u>\$ 199,832,423</u>	

COLUMBIA GAS OF PENNSYLVANIA INC.

Summary of Adjustments to Net Operating Income
For the Test Year Ending December 31, 2023

Line No.	Description	Operating Revenues	O&M Expenses	Depreciation & Amortization	Taxes Other Than Income	Income Taxes	Operating Income Before Income Taxes
1	Amount per Company	\$ 814,505,439	\$ 482,124,699	\$ 116,724,231	\$ 3,580,973	\$ 31,684,339	\$ 180,391,197
2							
3	<u>OCA Adjustments:</u>						
4	Adjustment to Annualize Payroll Expense	\$ -	\$ (451,694)	\$ -	\$ (32,964)	\$ 140,028	\$ 344,630
5	Adjustment to Incentive Compensation Expense	-	(6,949,000)	-	-	2,007,712	4,941,288
6	Adjustment to Reflect Additional Labor & Benefits	-	(19,338)	-	-	5,587	13,751
7	Adjustment to Outside Services Expense	-	(1,861,925)	-	-	537,949	1,323,976
8	Adjustment to Strategic Initiatives Expense	-	(14,200,000)	-	-	4,102,678	10,097,322
9	Adjustment to Depreciation Expense	-	-	(1,609,133)	-	464,912	1,144,220
10	Interest Synchronization	-	-	-	-	(1,576,039)	1,576,039
11							
12	Total OCA Adjustments	\$ -	\$ (23,481,957)	\$ (1,609,133)	\$ (32,964)	\$ 5,682,828	\$ 19,441,226
13							
14	Total Adjusted Income Before Income Taxes	\$ 814,505,439	\$ 458,642,742	\$ 115,115,098	\$ 3,548,009	\$ 37,367,167	\$ 199,832,423

COLUMBIA GAS OF PENNSYLVANIA INC.

Calculation of Federal Income Taxes
For the Test Year Ending December 31, 2023

Line No.	Description	Amount Per Company at present rates	OCA Adjustments	OCA Adjusted Amounts at Present Rates	Pro Forma Change in Revenues	Amounts After Change in Revenues
1	Net Operating Income Before Income Taxes	212,075,536	25,124,053	237,199,589	(14,941,020)	222,258,569
2	Pennsylvania Corporate Net Income Tax Deductible	(1,293,517)	(1,964,947)	(3,258,464)	1,492,608	(1,765,856)
3					-	
4	Statutory Adjustments					
	<u>Flow Through Adjustment</u>					
5	Book/ Tax Depreciation, Net	8,977,675	-	8,977,675	-	8,977,675
6	Book Depreciation- Net Salvage Amts	5,134,298	-	5,134,298	-	5,134,298
7	Property Removal Costs - ADR Property	(499,515)	-	(499,515)	-	(499,515)
8	Loss on Retirement - ACRS/MACRS Removal Costs	(5,256,466)	-	(5,256,466)	-	(5,256,466)
9	Interest on Debt	(58,870,071)	(5,454,914)	(64,324,985)	-	(64,324,985)
10	Employee Business Expense Disallowance	232,142	-	232,142	-	232,142
11	AFUDC Equity	-	-	-	-	-
12	Employee Stock Purchase Plan	45,029	-	45,029	-	45,029
13	NCS Allocation- Perm Taxes	-	-	-	-	-
14	Parking	23,493	-	23,493	-	23,493
15	Total Flow Through Adjustments	(50,213,415)	(5,454,914)	(55,668,329)	-	(55,668,329)
16						
17	<u>Deferred Adjustment</u>					
18	Excess Tax Depreciation Over Book	(32,057,651)	-	(32,057,651)	-	(32,057,651)
19	Repairs on Gas Pipeline	(76,263,053)	-	(76,263,053)	-	(76,263,053)
20	Bonus Depreciation	-	-	-	-	-
21	Sec 263A Mixed Service Costs	(1,654,603)	-	(1,654,603)	-	(1,654,603)
22	Loss on Retirement - ACRS/MACRS Property Basis	(4,365,396)	-	(4,365,396)	-	(4,365,396)
23	Avoided Cost Interest	(84,072)	-	(84,072)	-	(84,072)
24	Builder Incentives Capitalized	-	-	-	-	-
25	Stored Gas Losses	-	-	-	-	-
26	Contributions In Aid of Construction	1,593,344	-	1,593,344	-	1,593,344
27	Tax Inventory Adj	-	-	-	-	-
28	Capitalized Inventory	-	-	-	-	-
29	Customer Advances	(873,929)	-	(873,929)	-	(873,929)
30	Total Deferred Adjustment	(113,705,360)	-	(113,705,360)	-	(113,705,360)
31						
32	Taxable Income	46,863,244	17,704,192	64,567,437	(13,448,412)	51,119,024
33	Federal Income Tax Payable	9,841,281	3,717,880	13,559,162	(2,824,167)	10,734,995
34	Deferred Income Taxes	23,878,126	-	23,878,126	-	23,878,126
35	Tax Refund Amortization	-	-	-	-	-
36	Flow Back Of Excess Deferred Taxes	(3,107,233)	-	(3,107,233)	-	(3,107,233)
37	Effect of CNIT Deferred Tax on FIT	-	-	-	-	-
	Amortization of Investment Tax Credits	(221,354)	-	(221,354)	-	(221,354)
38	Net Federal Income Tax Expense	30,390,820	3,717,880	34,108,700	(2,824,167)	31,284,534
39	State Income Tax Expense	1,293,517	1,964,947	3,258,464	(1,492,608)	1,765,856
40	Total Income Tax Expense	31,684,337	5,682,827	37,367,164	(4,316,774)	33,050,390

COLUMBIA GAS OF PENNSYLVANIA INC.

Calculation of State Income Taxes
For the Test Year Ending December 31, 2023

Line No.	Description	Amount Per Company at present rates	OCA Adjustments	OCA Adjusted Amounts at Present Rates	Pro Forma Change in Revenues	Amounts After Change in Revenues
1	Net Operating Income Before Income Taxes	\$ 212,075,536	\$ 25,124,053	\$ 237,199,589	\$ (14,941,020)	\$ 222,258,569
2						
3	Statutory Adjustments	(163,918,775)	(5,454,914)	(169,373,689)	-	(169,373,689)
4	Pennsylvania Bonus Depreciation	(27,410,719)	-	(27,410,719)	-	(27,410,719)
5						
6	CNIT Taxable Income	20,746,042	19,669,139	40,415,181	(14,941,020)	25,474,161
7						
8	Net Operating Loss Deduction	7,797,926	-	7,797,926	-	7,797,926
9						
10	Pennsylvania Taxable Income	12,948,116	19,669,139	32,617,255	(14,941,020)	17,676,235
11						
12	Pennsylvania Income Tax Payable @ 9.99%	1,293,517	1,964,947	3,258,464	(1,492,608)	1,765,856
13						
14	Deferred Tax on Net Operating Loss Deduction	-	-	-	-	-
15						
16	Deferred Tax on Inventory Adj	-	-	-	-	-
17						
18	Deferred Tax on Capitalized Inventory	-	-	-	-	-
19						
20	Deferred Taxes Customer Advances	-	-	-	-	-
21						
22	Pennsylvania Corporate Income Tax Expense	<u>\$ 1,293,517</u>	<u>\$ 1,964,947</u>	<u>\$ 3,258,464</u>	<u>\$ (1,492,608)</u>	<u>\$ 1,765,856</u>

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Plant in Service
 For the Test Year Ending December 31, 2023

Line No.	Description	Amount Per Company at 12/31/23	Amount per OCA	OCA Adjustment
1	Plant In Service	\$ 4,061,081,498	\$ 3,994,122,911	\$ (66,958,587)
2				
3	Accumulated Depreciation	<u>(708,267,711)</u>	<u>(704,836,992)</u>	<u>3,430,719</u>
4				
5	Net Plant	\$ 3,352,813,787	\$ 3,289,285,919	\$ (63,527,868)
6				
7	Accumulated Deferred Income Taxes	<u>(440,841,376)</u>	<u>(440,841,376)</u>	<u>3,072,871</u>
8				
9	Net Balance	<u>\$ 2,911,972,411</u>	<u>\$ 2,848,444,543</u>	<u>\$ (60,454,997)</u>
	Depreciation Expense	<u>\$ 111,589,933</u>	<u>\$ 109,980,800</u>	<u>\$ (1,609,133)</u>

COLUMBIA GAS OF PENNSYLVANIA INC.

Calculation of the Adjustment to ADIT
For the Test Year Ending December 31, 2023
\$000

Line No.	Description	Ref	2022 (1)	2023 (2)	Total (3)
1	Plant Additions, per OCA		\$ 336,475	\$ 405,080	\$ 741,554
2	Plant Additions, per Company		366,857	441,656	808,513
3	Adjustment to Plant in Service	OCA LKM - 5	(30,382)	(36,576)	(66,959)
4	Adjustment to Depreciation Reserve	OCA LKM - 5	1,557	1,874	3,431
5					
6	Net Rate Base Adjustment	OCA LKM - 5	(31,939)	(38,451)	(70,389)
7	Reduction in Plant in Service	= Line 3	(30,382)	(36,576)	(66,959)
8	Bonus Depre	= Line 28	-	-	-
9	Plant in Service Basis after Bonus		(30,382)	(36,576)	(66,959)
10	Repairs Deduction	= Line 27	(4,560)	(6,316)	(8,136)
11	Plant in Service Basis after Repairs		(25,823)	(30,261)	(58,823)
12	MSC Deduction	= Line 29	(104)	(113)	(162)
13	Plant in Service Basis after MSC		(25,719)	(30,147)	(58,661)
14	MACRS Depreciation (20yr) - 1st Year	3.75%	(964)	(1,131)	(1,567)
15	Plant in Service Basis after MSC		(24,754)	(29,017)	(57,094)
16	MACRS Depreciation (20yr) - 2nd Year	7.22%	(1,787)	-	(1,337)
17	Remaining Plant in Service Basis		(22,967)	(29,017)	(55,757)
18	Total Tax Deduction	= Sum Lines 8, 10, 12, 14, 16	(7,415)	(7,560)	(11,202)
19	Total Book Depreciation Addback	= Line 4	1,557	1,874	3,431
20	Net Book/Tax Difference	= Sum Line 18 and 19	(8,972)	(9,434)	(14,633)
21	Federal Tax Rate		21.00%	21.00%	21.00%
22	Reduction in ADIT	= Line 20 * Line 21	\$ (1,884)	\$ (1,981)	\$ (3,073)
23	Adjustment to ADIT				\$ (3,072,871)
	Computation of Repairs and MCS %				
24	Repairs on Gas Pipeline	Exhibit 107, Page 16, Line 18	(55,057)	(76,263)	
25	Bonus Depreciation	Exhibit 107, Page 16, Line 19	-	-	
26	Sec 263A Mixed Service Costs	Exhibit 107, Page 16, Line 20	(1,475)	(1,655)	
27	Repairs on Gas Pipeline	= Line 24 / Line 2	15.01%	17.27%	
28	Bonus Depreciation	= Line 25 / Line 2	0.00%	0.00%	
29	Sec 263A Mixed Service Costs	= Line 26 / Line 2	0.40%	0.37%	

Notes:
Based on Schedule JH-10R

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Reflect 13-Month Average
Materials & Supplies Balances
For the Test Year Ending December 31, 2023

Line No.	Month	Amount
	April 30, 2021	\$ 1,234,152
1	May 31, 2021	1,238,999
2	June 30, 2021	1,235,039
3	July 31, 2021	1,238,512
4	August 31, 2021	1,183,201
5	September 30, 2021	1,190,666
6	October 31, 2021	1,354,351
7	November 30, 2021	1,315,943
8	December 31, 2021	1,341,498
9	January 31, 2022	1,342,789
10	February 28, 2022	1,321,170
11	March 31, 2022	1,328,397
12	April 30, 2022	<u>1,357,051</u>
13	Average of Most Recent Actual Balances	1,283,213
14	13-Month Average per Company	<u>1,332,307</u>
15	Total	<u><u>\$ (49,094)</u></u>

Notes:

^{1/} Response to OCA 05-010.

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Reflect 13-Month Average
 Prepayment Balances
 For the Test Year Ending December 31, 2023

Line No.	Month	Prepaid Leases 16500000	Corp. Ins. 16521000	Prepaid Ins. I/C 16520000	PUC,OCA, OSBA Fees 16503600	Prepaid Permits 16503700	Total
1	April 30, 2021	\$ 52,043	\$ 1,194,397	\$ 897,905	\$ 334,799	\$ 215,000	\$ 2,694,144
2	May 31, 2021	141,189	770,304	647,369	167,399	224,370	1,950,632
3	June 30, 2021	146,002	520,031	419,731	-	241,135	1,326,900
4	July 31, 2021	155,377	2,224,622	602,315	-	247,857	3,230,171
5	August 31, 2021	187,029	3,124,379	1,588,115	-	239,997	5,139,520
6	September 30, 2021	215,510	2,758,122	1,391,713	-	190,065	4,555,411
7	October 31, 2021	219,702	2,382,558	1,192,055	1,591,211	29,076	5,414,602
8	November 30, 2021	177,660	2,777,962	992,398	1,392,309	-	5,340,329
9	December 31, 2021	187,509	2,387,275	792,740	1,193,408	-	4,560,932
10	January 31, 2022	198,416	2,569,583	1,197,498	994,507	-	4,960,004
11	February 28, 2022	207,782	2,007,050	1,132,679	795,605	-	4,143,116
12	March 31, 2022	223,772	1,637,983	950,971	596,704	100	3,409,531
13	April 30, 2022	224,081	1,244,944	756,794	397,803	-	2,623,622
14							
15		179,698	1,969,170	966,330	574,134	106,739	
16							
17							13-Month Average Balance
18							3,796,070
19							13-Month Average Balance per Company
20							4,065,141
							Adjustment to Rate Base
							\$ (269,071)

Data Source:
 Response to OCA-5-011

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Annualize Payroll Expense
For the Test Year Ending December 31, 2023

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Adjustment to Reverse Company Post- FPFTY Pay Increases	\$ 451,694 ^{1/}
2		
3	Adjustment to O&M Expenses	\$ (451,694)
4		
5	FICA Tax on Post-FPFTY pay Increase	\$ 32,964 ^{2/}
6		
7	Adjustment to Payroll Taxes	\$ (32,964)

Notes:

^{1/} Exhibit No. 104, Schedule No. 2, page 1

^{2/} Based FICA HTY Experience Factor of 7.2978% See Company Exhibit 6, Schedule 2, Page 3, Line 3

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Incentive Compensation Expense
For the Test Year Ending December 31, 2023

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Columbia Pennsylvania FPFTY Corporate Incentive Plan	\$ 2,570,000 ^{1/}
2	NCSC FPFTY Corporate Incentive Plan	<u>3,500,000</u> ^{2/}
3		
4	Total Corporate Incentive Plan	\$ 6,070,000
5	Portion Related to Financial Incentive Goals	<u>70%</u>
6		
7	Adjustment to Corporate Incentive Plan	4,249,000
8		
9	NCSC Stock Compensation	<u>2,700,000</u> ^{2/}
10		
11	Adjustment to O&M Expense	<u>\$ (6,949,000)</u>

Notes

^{1/} Response to I&E-RE-16.

^{2/} Response to I&E-RE-57.

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Reflect Additional Labor & Benefits
For the Test Year Ending December 31, 2023

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	CIP in FPFTY Claim	\$ 19,338
2		
3	Adjustment to O&M Expenses	<u>\$ (19,338)</u>

Notes:

^{1/} Exhibit No. 104, Schedule No. 2, Page 18.

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Outside Services Expense
For the Test Year Ending December 31, 2023

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1	FTY Inflation	\$ 828,969
2	FPFTY Inflation	<u>1,032,956</u>
3	Total Inflation Included in Company's Claim	<u>1,861,925</u>
4	Adjustment to O&M Expense	<u><u>\$ (1,861,925)</u></u>

Notes:

^{1/} Response to OCA 3-031 Attachment A.

COLUMBIA GAS OF PENNSYLVANIA INC.

Adjustment to Strategic Initiatives Expense
For the Test Year Ending December 31, 2023

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Additional Cross Bores Inspection Expense	\$ 2,700,000
2	Additional Abnormal Operating Conditions Remediation Expense	600,000
3	Additional Picarro Leak Detection Program Expense	10,900,000
4		
5		
6	Adjustment to O&M Expense	<u>\$ (14,200,000)</u>

COLUMBIA GAS OF PENNSYLVANIA INC.

Interest Synchronization Adjustment
For the Test Year Ending December 31, 2023

Line No.	Description	Amount
1	Company Rate Base	\$ 2,897,521,852 ^{1/}
2	Weighted Cost of Debt	<u>2.22%</u>
3		
4	Adjusted Interest Deduction	\$ 64,324,985
5	Interest Deduction Per Company	<u>58,870,071 ^{2/}</u>
6		
7	Adjustment to Synchronize Interest Expense	\$ 5,454,914
8	Effective State Income Tax Rate	<u>9.99%</u>
9		
10	Adjustment to State Income Taxes	<u>\$ (544,946)</u>
11		
12	Federal Income Tax Base	\$ 4,909,968
13	Federal Income Tax Rate	<u>21.00%</u>
14		
15	Adjustment to Federal Income Taxes	<u>\$ (1,031,093)</u>

Notes:

^{1/} Schedule LKM-2, Page 1.

^{2/} Exhibit No. 107, page 16.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2022-3031211
 :
 Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, Lafayette K. Morgan, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 1SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 26, 2022
*332946

Signature: 
Lafayette K. Morgan

Consultant Address: Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044-3575

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

Docket No. R-2022-3031211

SURREBUTTAL TESTIMONY

OF

DAVID J. GARRETT

ON BEHALF OF

THE PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 26, 2022

I. INTRODUCTION

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

2 A. My name is David J. Garrett. My business address is 101 Park Avenue, Suite 1125,
3 Oklahoma Company, Oklahoma 73102.

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

5 A. I am the managing member of Resolve Utility Consulting, LLC. I am an independent
6 consultant specializing in public utility regulation.

7 **Q. Have you previously filed testimony in this proceeding?**

8 A. Yes. I filed direct testimony in OCA Statement 2 on June 7, 2022, on behalf of the
9 Pennsylvania Office of Consumer Advocate (“OCA”). A summary of my qualifications is
10 included in my direct testimony.

11 **Q. What is the purpose of your surrebuttal testimony?**

12 A. My surrebuttal testimony primarily responds to the rebuttal testimony of Columbia Gas of
13 Pennsylvania witness (“CPA” or the “Company”) witness Paul Moul.

14 **Q. Did any of the Company’s rebuttal testimony you reviewed cause you to change your
15 positions and recommendations as stated in your direct testimony?**

16 A. No. To the extent I did not specifically address a statement made in the Company’s rebuttal
17 testimony filed in this case, it should not constitute my agreement with such testimony.

18 **Q. In his rebuttal testimony, did Mr. Moul raise any new, significant issues related to
19 your cost of equity and rate of return testimony and analysis?**

20 A. No. In Mr. Moul’s rebuttal testimony, it is clear that he disagrees with my opinions
21 regarding CPA’s cost of capital and my return on equity (“ROE”) recommendation.
22 However, I do not believe he raised any new, significant arguments or issues in addition to
23 those provided in his direct testimony. Thus, in my surrebuttal testimony, I will not repeat

1 all of the arguments and points raised in my direct testimony; rather, I will reiterate a few
2 important points in my response to Mr. Moul's rebuttal testimony.

3 **Q. Please describe the organization of your surrebuttal testimony.**

4 A. In my surrebuttal, I respond to several pertinent issues discussed in Mr. Moul's rebuttal
5 testimony, including (1) capital structure; (2) the Discounted Cash Flow ("DCF") Model;
6 (3) the Capital Asset Pricing Model ("CAPM") analysis; and (4) the leverage adjustment.

I. CAPITAL STRUCTURE

7 **Q. Please summarize Mr. Moul's surrebuttal testimony regarding capital structure.**

8 A. Mr. Moul disagrees with my recommendation to adjust the Company's ratemaking capital
9 structure. Mr. Moul claims that I did not demonstrate that CPA's proposed ratemaking
10 capital structure is unreasonable.¹ Mr. Moul also points to capital structures authorized for
11 other companies in other rate cases to support his assertion that the Commission should
12 accept the Company's proposed capital structure.

13 **Q. Did you demonstrate in your direct testimony that CPA's proposed debt ratio is**
14 **unreasonably low?**

15 A. Yes. I provide three different analyses that each indicated the Company's proposed debt
16 ratio is too low for ratemaking purposes. In summary, I analyzed the capital structures of
17 the proxy group, CPA's parent company, and other competitive industries. Particularly,
18 the debt ratios of the proxy group should be considered when assessing a reasonable debt
19 ratio for CPA. This is because the metrics obtained from the proxy group to estimate cost
20 of equity (and ultimately the authorized ROE) are necessarily interrelated with the capital

¹ CPA St. 5, Paul R. Moul Direct, pp. 10-11.

1 structures of the proxy group. I demonstrated this fact mathematically in my Hamada
2 model, which shows how various debt ratios impact the cost of equity.² The average debt
3 ratio of Mr. Moul's (and my) proxy group is 53%, which is considerably higher than the
4 Company's proposed debt ratio of 43%.³ If the average debt ratio of the proxy group were
5 only 43%, the cost of equity indicated from that group would be lower. Thus, by accepting
6 other metrics of the proxy group while ignoring their debt ratios, Mr. Moul's overall cost
7 of capital recommendation is unreasonably high.

8 **Q. Can you quantify the impact on the cost of equity resulting from the difference in the**
9 **Company's proposed debt ratio of 43% and your proposed debt ratio of 48%?**

10 A. Yes. This issue was discussed in my direct testimony as it relates to the Hamada model.
11 Using the Hamada model presented in my testimony, the Company's indicated CAPM cost
12 of equity at a 43% debt ratio is 7.85%. The Company's indicated CAPM cost of equity at
13 a 48% debt ratio, however, is 8.27%.⁴ Thus, setting aside the various assumptions about
14 the risk-free rate, beta, and the equity risk premium, the difference in these debt ratios
15 indicates a difference in the cost of equity estimate of about 0.4% (or 40 basis points).

16 **Q. What is the impact to the revenue requirement related to your proposed capital**
17 **structure adjustment?**

18 A. If the Commission were to authorize my proposed capital structure adjustment, it would
19 reduce the revenue requirement by \$10M, based upon the Company's original request.⁵

² OCA St. 2, David J. Garrett Direct, Exh. DJG-17.

³ OCA St. 2, Exh. DJG-14.

⁴ OCA St. 2, Exh. DJG-17.

⁵ OCA St. 1, Lafayette Morgan Direct, p. 7, li. 5-12.

1 **Q. Are the authorized capital structures for other utilities relevant to this proceeding?**

2 A. Relatively speaking, they are not. When determining a fair ratemaking debt ratio for CPA,
3 the Commission should focus on a debt ratio that might be observed for CPA if it existed
4 in a purely competitive environment today. We can look to the current debt ratios of the
5 proxy group as an indication of what CPA's debt ratio might look like in a comparative
6 environment. The average debt ratio of the proxy group is 53%. Moreover, the debt ratio
7 of CPA's parent company is also 57%. Based on this analysis, it would be reasonable to
8 conclude that, for ratemaking purposes, CPA's debt ratio should be at least 53%. However,
9 in the interest of gradualism, I propose a ratemaking debt ratio for CPA of only 48.3%.

10 **Q. Mr. Moul claims that your proposed capital structure is inconsistent with**
11 **Commission policy. Do you have a response?**

12 A. Yes. I am not aware of a specific Commission "policy" that would require the Commission
13 to simply accept a regulated utility's proposed capital structure. One of the hallmarks of
14 regulation is that it is supposed to mimic what would occur in a competitive environment.
15 Simply accepting a utility's proposed capital structure without analysis would be an
16 abdication of this core tenant. It is incumbent on the Commission to ensure that all of the
17 Company's costs passed to ratepayers are prudent, which means they might require an
18 adjustment. This is especially true with one of the Company's most significant costs:
19 capital costs. As demonstrated in my testimony, the Company's proposed capital structure
20 results in capital costs that are not at their lowest reasonable level.

1 **Q. Mr. Moul claims that your proposed capital structure “merely lowers the Company’s**
2 **revenue requirement.”⁶ Do you have a response?**

3 A. Yes. From a mathematical standpoint, adopting my proposed ratemaking capital structure
4 for CPA would result in a lower revenue requirement than that proposed by the Company,
5 all else held constant (which is quantified above). However, I take exception with Mr.
6 Moul’s testimony here because it implies that the *purpose* of my capital structure
7 adjustment is to lower the Company’s revenue requirement, which is not the case. From
8 this standpoint, however, I could argue that many of the decisions made by Mr. Moul with
9 regard to his cost of equity models “merely increase” the Company’s revenue requirement,
10 such as the various premiums he adds to his models and the unreasonable assumptions he
11 makes – all which have increasing effects on the cost of capital estimate and revenue
12 requirement. I stand by the belief that my proposed adjustments to the Company’s
13 authorized ROE and capital structure are fair and reasonable, and they are not designed to
14 achieve a particular revenue requirement outcome.

15 **Q. Mr. Moul claims that your examination of the capital structure of CPA’s parent**
16 **company is “without merit.” Do you have a response?**

17 A. Yes. The Commission should ensure that CPA’s capital costs are reasonable, of which
18 capital structure is a key component. What is considered “reasonable” in terms of capital
19 structure analysis would be to ensure that CPA is operating with a capital structure that
20 might be observed for the Company if it operated in a purely competitive (unregulated)
21 environment, since unregulated companies have a natural financial incentive to minimize
22 capital costs (i.e., operate with sufficient amounts of debt). I can think of no better proxy

⁶ CPA St. 5-R, Paul R. Moul Rebuttal, p. 11, li. 1-2.

1 for assessing a competitive debt ratio for CPA than the reported debt ratio of its unregulated
2 parent company. In my opinion, the Commission should strongly consider the fact that
3 NiSource's debt ratio is 57%, which is notably higher than the Company's proposed
4 ratemaking debt ratio of only 43%, when setting a fair ratemaking debt ratio for CPA.

II. DCF MODEL

5 **Q. Please summarize Mr. Moul's surrebuttal testimony regarding the growth rate input**
6 **to the DCF Model.**

7 A. Mr. Moul disagrees with my consideration of projected nominal GDP as a limiting factor
8 for long-term growth projections of the proxy utility group. Mr. Moul also disagrees with
9 my consideration of Value Line's projected growth in dividends as the long-term growth
10 rate in my alternative DCF model.

11 **Q. Please summarize the problems you have with the growth rates Mr. Moul used in his**
12 **DCF Model.**

13 A. The problems I have with Mr. Moul's growth rate inputs could be summarized into several
14 key points: (1) analysts' growth rates cover short-term time periods; and (2) it is not
15 reasonable to assume that any company can outpace the growth rate of the aggregate
16 economy in which it operates over the long run. I address each of these points below.

17 **Q. Are the analyst growth rates used by Mr. Moul in his DCF Model long-term growth**
18 **rates?**

19 A. No. Growth rates published by various analysts typically cover a period of 3 – 10 years.
20 However, the growth rate input in the constant growth DCF Model (or the terminal growth
21 rate in a multi-stage DCF Model) contemplates a *long-term* period of time (technically,
22 infinity). Regardless of the quantitative accuracy of the published growth rates Mr. Moul
23 relies upon, the Commission should understand that it is Mr. Moul, not the commercial

1 analysts, who is suggesting to the Commission that the proxy companies will experience
2 these annual rates of growth year after year for many years into the future.

3 **Q. Is it reasonable to assume that a company's earnings or dividends will grow at an**
4 **annual rate greater than that of the projected annual growth rate of the aggregate**
5 **economy in which it operates?**

6 A. No, I do not believe so. This is a fundamental concept in finance, but it also makes sense
7 intuitively. The growth rate of our economy is most widely measured by U.S. GDP. As
8 discussed in my direct testimony, a reasonable projection of annual GDP growth going
9 forward is about 3.8% (over the long-run). We could think of GDP as an "average" of
10 sorts, which means there are relatively high-growth companies (that have not yet reached
11 their mature stage of the lifecycle) that are bringing the average up, and likewise, there are
12 relatively low-growth companies that are bringing the average down. Some companies
13 would even have negative growth rates (i.e., decreasing earnings and/or dividends). The
14 growth rates of all the companies in the U.S. market are constantly changing over time, but
15 GDP growth is relatively consistent. Mathematically, if a company were to consistently
16 outpace GDP growth year after year, then it would eventually have earnings that exceeded
17 U.S. GDP, regardless of its starting point. An appropriate metaphor might be two runners
18 in an infinite race. If Runner A runs at a faster pace than Runner B, Runner A will
19 eventually surpass Runner B no matter the head-start distance Runner B was given. It is
20 simply not reasonable to assume that the earnings of any one company, especially a low-
21 growth utility, would ever surpass U.S. GDP.

22 **Q. Mr. Moul suggests that gas utilities can outpace GDP growth over the long-run due**
23 **to asset replacement programs. Do you have a response?**

24 A. Yes. I will reiterate some of the lengthy discussion in my direct testimony on this issue.
25 First, from a quantitative standpoint, utilities can achieve earnings growth that exceed U.S.

1 GDP growth. However, as explained in my direct testimony, this relationship suffers from
2 two important problems that the Commission should consider from the standpoint of
3 considering a fair and accurate application of the DCF Model. First, using a utility's
4 quantitative earnings growth in a particular period as the long-term growth rate assumption
5 in the DCF Model suffers from a feedback loop that is not present in the CAPM. In this
6 case (as in most cases), the short-term growth rate assumptions reported by analysts such
7 as Value Line are notably higher than long-term GDP growth. If those short-term rates are
8 used for the sustainable growth rate input in the DCF Model to assess cost of equity, it will
9 inevitably result in an inflated cost of equity estimate, which will presumably lead to
10 inflated earnings growth, and the cycle continues.

11 Second, I do not believe a utility's ability to increase earnings by simply increasing
12 its rate base is indicative of real, qualitative growth that should be directly considered as a
13 quantitative input in a fair application of the DCF Model. The reason for my opinion on
14 this issue is that competitive (non-regulated) companies cannot simply increase the amount
15 of capital assets on its balance sheet and automatically see earnings growth results.
16 Investing in large capital projects is risky, and unless it results in increased market share
17 over the long-run, such investments will not necessarily generate earnings growth. Unlike
18 many competitive firms, CPA does not have the ability to launch new product lines,
19 franchise, or expand to new and developing markets in order to increase market share and
20 achieve real, qualitative growth. Rather, any quantitative earnings growth CPA will realize
21 will be as a result of rate increases authorized by the Commission, which may be partially
22 driven by merely retiring and replacing assets to serve its existing customer base. In the
23 competitive environment, this dynamic does not represent how companies actually grow.

1 Utilities in general, including CPA, are effectively non-growth companies, but that does
2 not prevent their shareholders from seeking quantitative earnings growth through increased
3 rate bases and proposals to the regulator for authorized ROEs (and capital structures) that
4 result in awarded returns that clearly exceed market-based capital costs.

5 **Q. Despite your criticisms of using short-term analysts growth rates for the long-term**
6 **growth rate input in the DCF Model, did you also consider a variation of the DCF**
7 **Model using such analysts growth rates?**

8 A. Yes. In my direct testimony and exhibits, I presented a variation of the DCF Model using
9 Value Line's projected growth in dividends.⁷ This produced a DCF result of 8.1%. Mr.
10 Moul disagrees with this approach and instead relies on analysts' projected earnings
11 growth. However, the growth rates used by Mr. Moul in his "corrected" version of my
12 DCF Model are as high as 10.5%.⁸ This is nearly three times as high as long-term projected
13 U.S. GDP growth and is unreasonably high to use as a sustainable growth rate in the DCF
14 Model. Moreover, the DCF Model itself directly considers dividend growth, not earnings
15 growth. It is not unreasonable, per se, to consider earnings growth as a measure for
16 dividend growth in the DCF Model, however, the analyst should ensure that such growth
17 rate indications are not unreasonable. In my opinion, considering long-term growth rates
18 as high as 10.5% for a regulated utility is unreasonable, and it results in cost of equity
19 indications that are unreasonably high.

⁷ See OCA St. 2, Exh.DJG-6.

⁸ CPA St. 5-R, Rebuttal Exh. PRM-1.

III. CAPM Analysis

1 **Q. Please summarize Mr. Moul's surrebuttal testimony regarding your CAPM results.**

2 A. Mr. Moul claims that the result of my CAPM is not credible.⁹

3 **Q. Please summarize the inputs and results of your CAPM.**

4 A. The CAPM is a Nobel-prize-winning financial model that has three inputs: (1) risk-free
5 rate; (2) beta; and (3) the ERP. I will summarize and contrast the sources of these inputs
6 between my CAPM and Mr. Moul's CAPM.

7 1. Risk-free rate

8 Financial analysts use the yield on Treasury securities as a proxy for the risk-free rate. I
9 used a recent 30-day average on the daily yields on 30-year Treasury bonds as a proxy for
10 the risk-free rate in my CAPM. This is a very reasonable approach. In contrast, Mr. Moul
11 relies on projected bond yields. I have reviewed dozens of utility ROE testimony dating
12 back more than 20 years. In nearly every one of those cases, the witness representing the
13 utility will rely on a forward-looking or projected Treasury bond yield for the risk-free rate,
14 instead of relying on the current, *known* Treasury bond yield. In every single one of those
15 cases, I cannot recall a single instance in which the utility's projected bond yield was *lower*
16 than the current bond yield. In other words, I cannot recall a single case in which a utility
17 witness's prediction of the future did not, all else held constant, result in a higher cost of
18 equity estimate in the present. After observing this tactic numerous times over many years
19 without exception, it reinforces my opinion that it is preferable use known (current) bond
20 yields rather than unknown (future) bond yields.

⁹ CPA St. 5-R, p. 32, li. 6-8.

1 2. Beta

2 For the beta input in my CAPM, I relied on the betas published by Value Line. In my
3 experience, the vast majority of ROE witness in utility rate proceedings (representing both
4 utilities and customers) rely on Value Line betas without further adjustment. In contrast,
5 Mr. Moul takes the unusual approach of adjusting Value Line’s published betas. It is not
6 surprising that this adjustment is in the upward direction.

7 2. ERP

8 Mr. Moul criticized me for looking back over 30 days to get an average yield on T-bonds
9 for my risk-free rate and described it as “backward-looking.”¹⁰ In contrast, Mr. Moul relies
10 on data that predates the invention of color televisions in his ERP estimate. Relying on
11 data more than 80 year old, dating back to 1940, is not a reasonable approach in estimating
12 the ERP.¹¹ As discussed in my direct testimony, there is substantial evidence showing that
13 the current and forward-looking EPR is notably lower than the historical ERP (especially
14 if one begins their historical ERP analyses just after the end of the Great Depression). In
15 contrast to Mr. Moul’s approach, I relied on a survey of thousands of unbiased experts in
16 helping develop a reasonable estimate for the ERP. I also looked at the estimate published
17 by Duff & Phelps (a respected, international corporate advising firm) and the estimate
18 published by one of the world’s leading experts on the ERP – Dr. Aswath Damodaran. The
19 *highest* ERP from these sources is 5.8% (incidentally, my personal ERP estimate) which is
20 still notably lower than Mr. Moul’s 9.68% ERP estimate.

¹⁰ CPA St. 5-R, p. 32, li. 11.

¹¹ CPA Exh. No. 400, Sch. 12.

1 **Q. Based on this summary, what do you conclude about the results on your CAPM**
2 **analyses as compared with Mr. Moul’s results?**

3 A. I used reasonable figures for each of the three CAPM inputs. My inputs are not affected
4 by biases. Indeed, there is very little of my own personal judgement injected into the
5 CAPM results. The current risk-free rate is based on the current yields of Treasury bonds,
6 which are known; it does not require a subjective estimate or adjustment. The betas I used
7 are published by Value Line. To my knowledge, Value Line does not have any conflict of
8 interest with either utilities or ratepayers that might affect their judgment. The ERP I used
9 reflects the results from a survey of thousands of unbiased experts. Based on these inputs,
10 the results of my CAPM are quite reasonable.

IV. Leverage Adjustment

11 **Q. Please summarize Mr. Moul’s rebuttal testimony regarding his leverage adjustment.**

12 A. Mr. Moul claims that I “never really refute” his leverage adjustment.¹² Mr. Moul also
13 claims in that in my Hamada Model, I use the actual capital structure ratios of CPA, rather
14 than the ratemaking capital structure I propose.¹³

15 **Q. What is your response to Mr. Moul’s rebuttal testimony regarding the leverage**
16 **adjustment?**

17 A. First, Mr. Moul’s claim that I “never really refute” his leverage adjustment is inaccurate.
18 In my direct testimony, I stated that “Mr. Moul’s proposed leverage adjustment is entirely
19 unnecessary and inappropriate.”¹⁴ I also provided several reasons why I disagree with Mr.

¹² CPA St. 5-R, p. 27, li. 12-13.

¹³ *Id.* at li. 20-22.

¹⁴ OCA St. 2 p. 47, li. 12.

1 Moul's leverage adjustment. As discussed in my direct testimony, if we consider the
2 effects of leverage in the cost of equity calculation, it indicates a cost of equity of about
3 8.27% at a 48.3% debt ratio for CPA, which is my proposed ratemaking debt ratio.¹⁵

4 **Q. What is the impact to the revenue requirement related to Mr. Moul's proposed**
5 **leverage adjustment?**

6 A. If the Commission were to reject the Company's proposed leverage adjustment, it
7 would reduce the revenue requirement by \$22M, as determined based upon the
8 Company's original request.¹⁶

9
10 **VI. Size Adjustment**

11 **Q. Does Mr. Moul's rebuttal position that a size premium should be added to the**
12 **Company's ROE change your opinion as stated in your direct testimony?**

13 A. No. For the reasons stated in my direct testimony, it would be unreasonable to consider a
14 size premium as having an increasing effect on the Company's cost of equity estimate or
15 authorized ROE.¹⁷ In summary, the size premium has not been consistently observed in
16 the market in nearly 40 years. That is, small cap stocks do not consistently outperform
17 large cap stocks such that there would be a need to apply a size premium adjustment to cost
18 of equity estimates.

19
20 **V. The Commission's Quarterly Earnings Report**

¹⁵ OCA St. 2, Exh. DJG-17.

¹⁶ OCA St. 1, Morgan Direct, p. 16-17.

¹⁷ OCA St. 2, pp. 60-61, 63-66.

1 Q. Please comment on Mr. Moul's references to the Commission's determination of an equity
2 cost rate for use in gas utility Distribution System Improvement Charges (DSIC)
3 surcharges.

4 A. The Commission's Quarterly Report identifies a return on equity value for a particular time
5 period for the gas industry, not for Columbia Gas in particular and not for the purpose of
6 setting base rates. My cost of equity recommendation is reasonable to apply to all of
7 Columbia's measures of value to set base rates for Columbia.

8

9 **Q. Does this conclude your surrebuttal testimony?**

10 A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2022-3031211
 :
 Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, David J. Garrett, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 2SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 26, 2022
*332949

Signature:



David J. Garrett

Consultant Address: Resolve Utility Consulting PLLC
101 Park Avenue
Suite 1125
Oklahoma City, OK 73102

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC	:	
UTILITY COMMISSION	:	
	:	
v.	:	Docket No. R-2022-3031211
	:	
COLUMBIA GAS OF	:	
PENNSYLVANIA, INC.	:	

SURREBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 26, 2022

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter
4 Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
6 related consulting services.

7 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS
8 PROCEEDING?

9 A. Yes. My Direct Testimony was submitted as OCA Statement No. 3 on June 7, 2022,
10 and my Rebuttal Testimony was submitted as OCA Statement No. 3-R on July 6,
11 2022.

12 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony of
14 Kevin L. Johnson presented on behalf of Columbia Gas of Pennsylvania, Inc.
15 (“Columbia” or “Company”), Mark D. Ewen and Robert D. Knecht presented on
16 behalf of the Office of Small Business Advocate (“OSBA”), and James L. Crist
17 presented on behalf of Pennsylvania State University (“PSU”).

1 **II. COLUMBIA GAS OF PENNSYLVANIA, INC.**
2 **WITNESS: KEVIN L. JOHNSON**

3 Q. MR. JOHNSON PRESENTS AN ANALYSIS WHICH HE CLAIMS
4 INDICATES THAT THE PEAK AND AVERAGE ACOS STUDY
5 METHOD ASSIGNS AN AVERAGE OF 13 MILES OF MAIN TO EACH
6 LDS/LGSS CUSTOMER BUT THE COMPANY WAS ONLY REQUIRED
7 TO EXTEND ITS SYSTEM IN THE RANGE OF 0.04 TO 1.4 MILES TO
8 CONNECT ITS 10 LARGEST LDS/LGSS CUSTOMERS TO ITS SYSTEM.
9 WHAT DOES MR. JOHNSON CONCLUDE FROM THIS ANALYSIS?

10 A. Based on his analysis, Mr. Johnson claims that the Peak and Average method
11 allocates an excessive amount of mains costs to the LDS/LGSS rate class.¹
12 Therefore, he contends that using the Peak and Average method as the sole basis of
13 determining the allocation of revenue is not fair or reasonable.

14 Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S ANALYSIS AND
15 CLAIMS?

16 A. Mr. Johnson's analysis is incomplete and, therefore, his claims should be dismissed.
17 He claims that the Company was only required to extend its system in the range of
18 0.04 to 1.4 miles to connect its 10 largest LDS/LGSS customers is based on the
19 distances between each large customer and the next upstream customer meter. This
20 fails to account for the main investment upstream of the next upstream customer that
21 is utilized to serve each large customer. That is, more than 0.04 to 1.4 miles of main
22 is utilized to serve each large customer connected to its system.

23 Q. ON PAGES 12 – 13 COLUMBIA ST. NO. 6-R, MR. JOHNSON
24 CONTENDS THAT THE 2.00 TIMES SYSTEM AVERAGE INCREASE

¹ Columbia St. No. 6-R at 10.

1 YOU HAVE ASSIGNED TO THE LDS/LGSS CLASS IS INCONSISTENT
2 WITH THE CONCEPT OF GRADUALISM. WHAT IS YOUR RESPONSE?

3 A. As I explained in my Direct Testimony, there is no hard and fast rule with respect to
4 applying the concept of gradualism, and typically an increase of 1.5 to 2.0 times the
5 system average increase is considered consistent with the concept of gradualism. In
6 his Rebuttal Testimony in Columbia Docket No. R-2021-3024296, Mr. Knecht
7 acknowledged this general rule for gradualism.² Under Columbia's proposed
8 revenue allocation, and the revised cost of service study by Mr. Johnson in his
9 Rebuttal Testimony, the relative rate of return of the LDS/LGSS class is 0.40. Given
10 that the LDS/LGSS rate class would be providing a return which is significantly
11 lower than the indicated cost of service under Columbia's proposed revenue
12 allocation of a 1.5 times system average increase, I believe the 2.0 times system
13 average increase is appropriate for the LDS/LGSS rate class in order to develop an
14 overall revenue allocation that is reasonable in this proceeding.

15 Q. IN HIS REBUTTAL TESTIMONY MR. JOHNSON PRESENTS A
16 REVISED PEAK & AVERAGE COST OF SERVICE STUDY TO
17 REFLECT THE THREE TECHNICAL CORRECTIONS IDENTIFIED BY
18 THE OSBA. HAS THE COMPANY CHANGED ITS PROPOSED
19 CUSTOMER CLASS REVENUE ALLOCATION TO REFLECT THE
20 RESULTS OF THE REVISED COST OF SERVICE STUDY?

21 A. No. Mr. Johnson claims that the impact of the three technical changes on the cost-of-
22 service study results are not significant enough to warrant a change to the Company's
23 original revenue allocation.³

² Docket No. R-2021-3024296, OSBA Statement No. 1-R, at 7.

³ Columbia St. No. 6-R, at 15-16.

1 Q. WAS THE REVENUE ALLOCATION PRESENTED IN YOUR
 2 REBUTTAL TESTIMONY BASED ON A COST-OF-SERVICE STUDY
 3 THAT REFLECTED THE OSBA’S THREE TECHNICAL CORECTIONS?

4 A. Yes.

5 Q. ARE YOU PROPOSING ANY CHANGES TO THE REVENUE
 6 ALLOCATION PRESENTED IN YOUR REBUTTAL TSTIMONY?

7 A. Yes. I am proposing two minor modifications to the revenue allocations presented in
 8 my Rebuttal Testimony. First, I am adjusting the allocation to the RSS/RDS class to
 9 correct for a minor rounding error. Second, I have increased the allocation to the
 10 SGSS/DS-1 class by \$400,000 and decreased the allocation to the SDS/LGSS class
 11 by \$400,000 to equalize the relative rates of return of each class. My revised revenue
 12 allocation is presented in Table 1-SR.

**Table 1-SR.
 OCA Proposed Revenue Distribution**

Class	Present Rates	Proposed Rates	Increase	Percent	Relative Rate of Return	
					Present Rates	Proposed Rates
RSS/RDS	\$421,160,909	\$457,782,352	\$46,536,908	11.0%	1.26	1.18
SGSS/DS-1	48,226,212	59,970,049	9,536,000	19.8%	1.05	1.11
SGSS/DS-2	50,190,486	65,113,733	11,132,000	22.2%	1.04	1.11
SDS/LGSS	30,108,161	40,643,081	8,149,000	27.1%	0.95	1.11
LDS/LGSS	23,934,662	32,251,032	6,785,000	28.3%	0.27	0.46
MLDS	1,448,089	1,447,856	0	0.0%	29.29	22.22
FLEX	4,270,723	4,283,047	13,000	0.3%	(0.65)	(0.49)
Total:	\$579,339,242	\$661,491,149	\$82,151,90	14.2%	1.00	1.00

13 Q. TURNING TO RESIDENTIAL RATE DESIGN, IN YOUR DIRECT
 14 TESTIMONY YOU INDICATED THAT UNCOLLECTIBLE EXPENSE,
 15 DEMONSTRATING AND SELLING EXPENSE, AND ADVERTISING
 16 EXPENSE ARE NOT DIRECT CUSTOMER COSTS AND, THEREFORE,

1 SHOULD NOT BE INCLUDED IN THE CALCULATION OF A
2 CUSTOMER CHARGE. WHAT IS MR. JOHNSON'S RESPONSE?

3 A. With respect to uncollectible expense, Mr. Johnson claims that the customer charge
4 is a portion of a customer's bill that becomes uncollectible and, therefore, should be
5 included in the customer charge calculation. Mr. Johnson claims that there is a direct
6 relationship between demonstration and selling expense and advertising expense and,
7 therefore, these costs should be included in the calculation of a customer charge.⁴

8 Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S CLAIMS
9 CONCERNING THE CALCULATION OF A CUSTOMER CHARGE?

10 A. As indicated in my direct testimony, only those costs which change directly both the
11 addition or subtraction of a customer should be included in the calculation of a
12 customer charge. Uncollectible expense, demonstration and selling expense, and
13 advertising expense do not directly change with the addition or subtraction of a
14 customer and, therefore, should not be included in the calculation of a customer
15 charge.

16 Q. AT PAGE 15 OF YOUR DIRECT TESTIMONY, YOU STATE
17 "COLUMBIA'S MONTHLY RESIDENTIAL CUSTOMER CHARGE IS
18 ALREADY THE HIGHEST IN THE COMMONWEALTH. THEREFORE, I
19 RECOMMEND THAT THE EXISTING \$16.75 MONTHLY CHARGE BE
20 MAINTAINED." WHAT IS MR. JOHNSON'S RESPONSE TO THIS
21 RECOMMENDATION?

22 A. Mr. Johnson does not dispute my claim that Columbia's current monthly Residential
23 charge is already the highest in the Commonwealth, but contends that Columbia's

⁴ 4 Columbia St. No. 6-R at 35.

1 Residential customer charge should not be determined by the cost of service of other
2 natural gas distribution companies (“NGDCs”) in Pennsylvania.⁵

3 Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON?

4 A. Columbia is proposing to increase its current monthly Residential customer charge
5 from \$16.75 to \$25.47. The additional proposed increase would further increase the
6 difference between Columbia’s Residential customer charge and those of the other
7 major Pennsylvania NGDCs. With the strains on household budgets attributable to
8 the economic conditions caused by the COVID-19 pandemic, increasing fixed
9 charges limits the benefits Residential customers can realize from engaging in
10 conservation actions and their ability to address budgetary strains. Promotion of
11 energy conservation has been a longstanding energy policy of the Commonwealth.
12 To promote the Commonwealth’s policy goals to encourage conservation and
13 provide the Residential customers of Pennsylvania’s largest NGDCs comparable
14 opportunities to control their heating bills, Columbia’s current monthly Residential
15 customer charge should not be increased.

16 Q. THE COMPANY HAS FURTHER PROPOSED A “REVENUE
17 NORMALIZATION ADJUSTMENT” (“RNA”). IN YOUR DIRECT
18 TESTIMONY, YOU ADDRESS THE 14 FACTORS FOR
19 CONSIDERATION IDENTIFIED IN THE COMMISSION’S STATEMENT
20 OF POLICY ON ALTERNATIVE RATEMAKING IN RESPONDING TO
21 THE COMPANY’S PROPOSED RNA RIDER. HOW DOES MR.
22 JOHNSON RESPOND?

23 A. Mr. Johnson notes that of the 14 factors, I agreed in principle with Columbia on five
24 considerations. He then comments on those considerations where I differed from

⁵ Columbia St. No. 6-R at 35.

1 Columbia. Below, I identify each consideration in which I continue to differ as well
2 as Columbia’s initial response, my initial response, Mr. Johnson’s comments, and my
3 response to Mr. Johnson’s comments.

4 Consideration 1: Please explain how the ratemaking mechanism and
5 rate design align revenues with cost causation
6 principles as to both fixed and variable costs.

7 COLUMBIA: Columbia’s proposed RNA is designed
8 to recover the residential base revenues needed to
9 satisfy the cost of service requirements determined in
10 this proceeding while negating over or under recovery
11 of costs.

12 OCA: The Company’s response does not indicate
13 how the mechanism aligns revenues with cost
14 causation as to fixed and variable costs.

15 Mr. Johnson claims that the RNA is designed to recover/pass back the
16 under/over amount charged by the variable base rates for the recovery of those fixed
17 and variable costs caused by the change in usage per customer.⁶ He therefore claims
18 that the RNA more closely aligns actual revenues to costs.

19 Under the RNA, all Residential customers will be assessed the same
20 “Benchmark Distribution Revenue per Bill,” or BDRB, regardless of whether a
21 customer’s usage contributed to an under- or over-recovery. That is, if an overall under-
22 recovery for the Residential class occurs, all customers will be assessed the same
23 BDRB, including those customers whose usage increased and resulted in an over-
24 recovery of costs. Under these circumstances, the RNA does not align actual revenues
25 to costs and has the potential to produce unduly discriminatory rates among Residential
26 customers.

⁶ Columbia St. No. 6-R at 44-45.

1 Consideration 4: Please explain how the ratemaking mechanism and
2 rate design limit or eliminate inter-class and intra-
3 class cost shifting.

4 COLUMBIA: Columbia's RNA minimizes inter-
5 class cost subsidization by limiting the amount of
6 cost recovery for the residential class to the revenue
7 benchmark established in this case. Residential intra-
8 class cost subsidization is reduced through
9 Columbia's proposal of a higher customer charge for
10 the residential class.

11 OCA: The RNA is only applicable to the Residential
12 class and, therefore, does not affect interclass cost
13 shifting. The Company's higher Residential customer
14 charge proposal, which should be rejected, is
15 unrelated to the RNA.

16 Mr. Johnson claims that the Company's proposed higher Residential customer
17 charge is related to the RNA in that it reduces the amount of revenue subject to recovery
18 through the RNA.⁷

19 I agree with Mr. Johnson that the higher customer charge proposal reduces the
20 amount of revenue subject to recovery through the RNA; however, customers charge
21 revenues are excluded from the RNA. A higher customer charge combined with a
22 class-wide BDRP has the potential to result in highly diverging Residential rates that
23 do not reflect individuals usage of the distribution system.

24 Consideration 5: Please explain how the RNA limits or eliminates
25 disincentives for the promotion of efficiency
26 programs.

27 COLUMBIA: Reduced throughput will not lead to
28 revenue and earnings erosion due to under-recovery
29 because the link between level of throughput and base
30 revenue recoveries is broken with the implementation
31 of the RNA.

⁷ Columbia St. No. 6R at 45.

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OCA: The RNA actually disincentives customers to engage in energy efficiency programs because less of a customer’s total bill would be subject to reduction through energy conservation.

Mr. Johnson claims that the Company is proposing a new Three-Year Energy Efficiency Plan (“EE Plan”) in this rate case proceeding.⁸ However, he does not disagree that less of a customer’s total bill would be subject to reduction through energy conservation. As pointed out by OCA witness Colton, the fact that the RNA will lessen the bill reduction impact of energy conservation also has an acute impact on low income customers who may seek to reduce their bills through reduced consumption or efficiency.

Consideration 6 Please explain how the RNA impacts customer incentives to employ efficiency measures and distributed energy resources.

COLUMBIA: Customers will continue to have an incentive to pursue energy efficiency measures since approximately 30% of an average residential bill is still subject to volumetric usage not related to base rate revenue recovery.

OCA: The RNA reduces the incentive for Residential customers to pursue energy efficiency programs. Base rate revenue savings that would ordinarily be achieved through usage reductions will be offset by higher usage charges under the RNA.

Mr. Johnson claims that when an individual Residential customer decides to reduce their usage, the customer pays less to the Company through their volumetric charge.⁹ He explains the shortfall in base revenue from the customer will be made up by the entire Residential class, not just the customer that chose to conserve, implying

⁸ Columbia St. No.6-R at 46.
⁹ Columbia St. No. 6-R at 28-29.

1 that the incentive to conserve would still exist under the RNA. Mr. Johnson fails to
2 recognize that the shortfall in base revenue would also be recovered from the customer
3 that chose to conserve, reducing the incentive for the customer to conserve by pursuing
4 energy efficiency programs.

5 Consideration 7 Please explain how the RNA impacts low-income
6 customers and supports consumer assistance
7 programs.

8 COLUMBIA: Columbia's proposed RNA only
9 applies to non-CAP customers.

10 OCA: The RNA will not impact CAP customers.
11 However, as OCA witness Colton points out, not all
12 low-income customers are enrolled in CAP and for
13 those customers not enrolled in CAP, the RNA will
14 be applied to their bills and have the same effect of
15 being a disincentive to energy efficiency as non-low-
16 income customers.

17 Mr. Johnson disagrees that the RNA will have the same effect of being a
18 disincentive to energy efficiency.¹⁰ Please see my response to Consideration 6
19 regarding energy efficiency. In addition, by virtue of the fact that they have limited
20 income, low income customers may be less able to actually take measures to reduce
21 their bills through conservation. Under the RNA, they would then have to pay
22 additional costs because of conservation efforts enacted by other households which
23 would likely have adverse impact on utility bill affordability.

24 Consideration 8 Please explain how the RNA impacts customer rate
25 stability principles.

26 COLUMBIA: Columbia's proposed RNA enables
27 the recovery of costs established in this case and,
28 therefore, mitigates the potential under or over

¹⁰ Columbia St. 6-R, at 47.

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recovery of costs that could require a material rate adjustment in the future.

OCA: Under the current regulatory standard in Pennsylvania, base rate cost under and over recoveries are currently not tracked and are not eligible for recovery in future base rate proceedings. The RNA will not change this standard.

Mr. Johnson claims that absent the RNA, when the billing determinants used in a rate case to design rates are different than the usage per customer currently experienced, the Company’s only option is to file a base rate case.¹¹ In response, I would note that in the last 15 years, Columbia has filed 11 rate cases. Mr. Johnson has not claimed that the RNA will reduce the frequency of Columbia’s rate case filings.

Consideration 12 Please explain whether the RNA includes appropriate consumer protections.

COLUMBIA: The RNA as proposed establishes a Benchmark Distribution Revenue per Bill (“BDRB”) Residential customer. Rider RNA will refund any amount over the established benchmark, and collect any amount below the benchmark. By design, the Company cannot retain revenue in excess of the BDRB, which protects the customer from being over-charged. Columbia will submit two filings per year for the RNA mechanism, which can be reviewed and audited by the Commission, similar to the process for the Company’s PGC and Rider USP filings.

OCA: The RNA does not include appropriate consumer protections and should be rejected for the reasons subsequently discussed in my testimony.

Mr. Johnson claims that I gave no examples or support for my conclusion that the RNA does not include appropriate consumer protections.¹² In my direct testimony,

¹¹ Columbia St. No. 6-R at 47.

¹² Columbia St. No. 6-R at 47.

1 I gave several examples as to why the RNA does not include appropriate consumer
2 protections.¹³ More specifically, I indicated that the RNA:

- 3 • Could increase earnings beyond those that the Company would
4 ordinarily be entitled;
- 5 • Unreasonably applies to customers whose usage is relatively constant
6 over time;
- 7 • Embodies a take-or-pay pricing policy; and
- 8 • Inappropriately adjusts rates without considering other changes in total
9 revenues and costs.

10 Q. MR. JOHNSON NOTES THAT IN YOUR DIRECT TESTIMONY YOU
11 STATE “A NEW CUSTOMER IS LIKELY TO HAVE PURCHASED A
12 MORE ENERGY-EFFICIENT GAS APPLIANCE THAN AN AVERAGE
13 EXISTING CUSTOMER, AND WOULD HAVE LOWER USAGE THAN
14 AN AVERAGE CUSTOMER, ALL ELSE BEING EQUAL. THIS WOULD
15 INCREASE COLUMBIA’S EARNINGS BEYOND WHAT THEY WOULD
16 HAVE BEEN WITHOUT RIDER RNA BECAUSE COLUMBIA’S
17 MARGINS WOULD BE BASED ON AVERAGE RESIDENTIAL
18 CUSTOMER MARGINS.” WHAT IS HIS RESPONSE TO THOSE
19 STATEMENTS?

20 A. Mr. Johnson claims that my statements are not accurate.¹⁴ He contends that although
21 new homes are more energy efficient than existing homes, they are also, on average,
22 larger, and therefore use more gas than existing homes. He presents an analysis which
23 he contends shows that the forecasted usage of newly constructed homes is higher
24 than the usage of existing homes.

25 Q. WHAT IS YOUR RESPONSE?

¹³ OCA St. 3 at 22.

¹⁴ Columbia St. No. 6-R at 49.

1 A. Mr. Johnson's claims that a new home would use more gas than an existing home is
2 based on usage projections developed by the Company and is inconsistent with the
3 findings of a study conducted by the National Association of Home Builders
4 ("NAHB"). A special study conducted by the NAHB found that:

5 Newer homes are larger, but over the long run the effects
6 of increased efficiency more than offsets the extra square
7 footage.¹⁵

8 Q. ON PAGE 50 OF COLUMBIA ST. NO. 6-R, MR. JOHNSON DISAGREES
9 WITH YOUR CLAIM IN YOUR DIRECT TESTIMONY THAT THE
10 COMPANY'S PROPOSED RNA SHOULD NOT BE ASSESSED TO
11 CUSTOMERS WITH CONSTANT USAGE. WHAT IS YOUR
12 RESPONSE?

13 A. Under the RNA, a BDRB would be established for Residential customers through a
14 base rate case proceeding. The RNA would collect or refund any variation in total
15 Residential revenues that differed from the BDRB and that are not due to differences
16 between actual and normal weather. Therefore, it would be unreasonable to apply
17 the RNA to those Residential customers whose usage is relatively constant over time.

18 Q. ON PAGES 50 AND 51 OF HIS REBUTTAL TESTIMONY, MR.
19 JOHNSON ALSO DISAGREES WITH YOU THAT THE RNA IS EQUAL
20 TO A "TAKE-OR-PAY" ARRANGEMENT. WHAT IS YOUR
21 RESPONSE?

22 A. Under the proposed RNA, consumers would pay for distribution service they do and
23 do not receive when revenues fall short of projections. No matter how much
24 distribution service is actually purchased by Columbia's Residential customers,
25 ultimately, under the proposed RNA, those customers would pay for the presumed

¹⁵ nahbclassic.org/generic.aspx?section10=734GenericContentID=23790&print=true.

1 level of service whether they take delivery or not. This is how take-or-pay
2 arrangements are structured. That is, a take-or-pay arrangement requires the
3 purchasing party to pay for a commodity even if the purchasing party does not accept
4 delivery of the commodity that is subject to the arrangement.

5 Q. ON PAGE 23 OF YOUR DIRECT TESTIMONY YOU STATE, “THE
6 PROPOSED RIDER RNA OPERATES TO CHANGE RATES,
7 AUTOMATICALLY, BETWEEN RATE CASES, SIMPLY AS A
8 FUNCTION OF RESIDENTIAL DISTRIBUTION REVENUES BEING
9 DIFFERENT FROM BENCHMARK REVENUES DUE TO FACTORS
10 OTHER THAN WEATHER. THERE IS NO REVIEW OF COLUMBIA’S
11 COSTS, OR THE VOLUMES AND ATTENDANT REVENUES FROM
12 OTHER CUSTOMER CLASSES THAT ARE NOT INCLUDED UNDER
13 RIDER RNA.” DOES MR. JOHNSON AGREE?

14 A. No. Mr. Johnson claims that I allege that if Residential usage per customer were to
15 fall over time, while SGSS1/DS-1 deliveries increased, Columbia’s Residential rates
16 would be increased under the RNA with no recognition of the increased SGSS1/DS-
17 1 distribution revenues.¹⁶ He claims that this statement is flawed because I assume
18 that higher SGSS1/DS-1 usage is not associated with higher costs and it is possible
19 that the higher usage could result in incremental costs.

20 Q. WHAT IS YOUR RESPONSE?

21 A. If the decline in Residential usage was offset by an increase in SGSS1/DS-1 usage so
22 that overall usage remained the same, I believe it likely that Columbia’s costs would
23 remain the same. The RNA does not provide for the review of revenues from other

¹⁶ Columbia St. No. 6-R at 52.

1 classes and would not recognize the increase in SGSS1/DS-1 revenues that Columbia
2 would experience.

3 Q. MR. JOHNSON DISAGREES WITH YOUR ASSERTION THAT
4 COLUMBIA'S CURRENT SYSTEM OF RATES AND CHARGES
5 ALREADY PROVIDES FOR REVENUE STABILITY. WHAT IS YOUR
6 RESPONSE?

7 A. Mr. Johnson claims that the Company's Purchased Gas Adjustment ("PGA")
8 mechanism does not provide for revenue stability.¹⁷ This claim is misplaced. My
9 testimony was referring to base rate revenue stability. The PGA mechanism provides
10 for dollar-for-dollar recovery of Columbia's purchased gas costs which eliminates
11 the impact of purchase gas costs on base rate revenue. In addition, Mr. Johnson
12 claims that the Company's quarterly Distribution System Improvement Charge
13 ("DSIC") is capped at 5 percent and, therefore, limits its usefulness. I would note
14 that since April 2018, Columbia's DSIC has only reached the 5 percent cap in one
15 quarter and, therefore, Columbia has not fully maximized the benefits of utilizing its
16 DSIC. Mr. Johnson has not demonstrated that Columbia's current system of rates and
17 charges do not provide sufficient revenue stability.

18 Q. ON PAGE 24 OF YOUR DIRECT TESTIMONY YOU STATE "THE
19 COMPANY PROPOSED A SIMILAR RIDER RNA IN ITS LAST BASE
20 RATE CASE. IN THAT PROCEEDING THE ALJ DETERMINED THAT
21 THE COMPANY FAILED TO PROVE THAT THE RNA WOULD
22 RESULT IN RATES THAT WERE JUST AND REASONABLE, IN THE
23 PUBLIC INTEREST, AND THE COMPANY DID NOT DEMONSTRATE
24 THAT ITS CURRENT RATES AND SYSTEMS OF REVENUE STREAMS

¹⁷ Columbia St. No. 6-R at 53.

1 FAILED TO PROVIDED REVENUE STABILITY. (ORDER AT 264-265).”

2 WHAT WAS MR. JOHNSON’S RESPONSE?

3 A. Mr. Johnson claims that because no exceptions to the ALJ’s Recommended Decision
4 were filed, full arguments were not presented to the Commission in the last case.¹⁸

5 Q. WHAT IS YOUR RESPONSE?

6 A. In Columbia’s last base rate proceeding, the Commission’s Order found that the
7 ALJ’s recommendation was supported by ample evidence and was just and
8 reasonable. (Order at 265). Therefore, based on the Commission’s Order, it appears
9 that all relevant factors were considered by the Commission.

10 **III. OFFICE OF SMALL BUSINESS ADVOCATE**
11 **WITNESSES: MARK D. EWEN AND ROBERT D. KNECHT**

12 Q. DOES THE OSBA AGREE WITH YOUR PROPOSED REVENUE
13 ALLOCATION?

14 A. The OSBA finds my proposed increase to the rates of the SGS1 and SGS2 classes
15 past full cost recovery to be unprecedented, and to propose a similar magnitude
16 increase for the SDS/LGS and LDS/LGSS classes, to be inequitable.¹⁹

17 Q. WHAT IS YOUR RESPONSE TO THE OSBA?

18 A. My Direct Testimony indicated that a \$57,200,000 subsidy was being provided to the
19 LDS/LGSS class and Flex rate customers.²⁰ In my Rebuttal Testimony, I noted that,
20 due to the OSBA’s changes to the Company’s cost of service study, the subsidy to Flex
21 rate customers was reduced by approximately \$7 million.²¹ If Columbia is entitled to
22 collect 100 percent of its cost of service, it is necessary for other classes to pay rates in

¹⁸ Columbia St. No. 6-R at 53.

¹⁹ OSBA St. 1-R at 5.

²⁰ OCA St. No. 3 at 10.

²¹ OCA St. No. 3-R at 4.

1 excess of the cost of service. My proposal to increase the rates of the SGS1 and SGS2
2 classes past full cost recovery provides for the recovery of a reasonable portion of the
3 \$50,000,000 subsidy from the SGS1 and SGS2 classes. To be consistent with the
4 principle of gradualism, I assigned an increase of 2.0 times the system average increase
5 to the SDS/LGSS and LDS/LGSS class. For the LDS/LGSS class, even with this
6 increase, they are contributing less in revenue than the indicated cost of service.
7

1 **IV. PENNSYLVANIA STATE UNIVERSITY**
2 **WITNESS: JAMES L. CRIST**

3 Q. MR. CRIST CLAIMS YOUR PROPOSAL TO INCREASE THE RATES OF
4 LDS/LGSS CUSTOMERS IS “UNCONSCIONABLE.”²² WHAT IS YOUR
5 RESPONSE?

6 A. As indicated in Table 1-SR, at present rates, LDS/LGSS revenues are significantly
7 below the indicated cost of service with a relative rate of return (“ROR”) of 0.27. A
8 ROR of 1.0 would indicate that revenues are fully recovering the indicated cost of
9 service. Based on the result of the ACOSS method approved by the Commission in
10 the Company’s 2020 base rate case, I have proposed an increase of 2.0 times the
11 system average increase for the LGSS class which is consistent with the principle of
12 gradualism. Even with this increase, rates for the LDS/LGSS class would still be
13 significantly under-recovering the indicated cost of service with a ROR of 0.46. In
14 this context, I disagree with Mr. Crist’s assessment that my allocation is
15 unconscionable.

16 Q. WHAT IS MR. CRIST’S RECOMMENDATION CONCERNING THE
17 ACOSS THAT SHOULD BE USED IN THIS PROCEEDING?

18 A. Mr. Crist claims that, despite being the preferred method, Columbia’s Customer-
19 Demand ACOSS was rejected in the Company’s 2020 base rate proceeding because
20 it had serious flaws and errors and, therefore, the Commission accepted the
21 Company’s Peak and Average ACOSS.²³ Mr. Crist recommends that since those
22 flaws and errors have been eliminated in the Customer-Demand ACOSS filed by
23 Columbia in this proceeding, Mr. Crist recommends that the Customer-Demand
24 study should be utilized in this proceeding.

²² PSU St. No. 1-R at 5.

²³ PSU St. No. 1-R at 3-4.

1 Q. WHAT IS YOUR RESPONSE TO MR. CRIST'S CLAIM?

2 A. As explained in my Rebuttal Testimony, in its Order in Columbia's last proceeding,
3 the Commission specifically approved the use of the Peak & Average allocation
4 methodology. This finding was not due to the errors in the Customer-Demand
5 ACOSS presented by Columbia in its last case that have now been eliminated.
6 Rather, the Commission's findings in Columbia's last proceeding concerning the use
7 of the Peak & Average method were presented on pages 5 through 7 of my Direct
8 Testimony, there specifically in the 2020 proceeding the Commission found:

9 ...we remain of the opinion that although mains serve
10 customers, it is the throughput that determines the mains
11 investment, not the number of customers served.
12 (Order at 217).

13 Thus, the elimination of the errors in the Customer-Demand ACOS presented by
14 Columbia in its last case had no influence on the Commission's finding that the Peak
15 & Average method is superior as throughput, and not the number of customers,
16 determines the Company's mains investment.

17 Q. HAS THIS COMMISSION PREVIOUSLY ADDRESSED THE
18 ALLOCATION OF DISTRIBUTION MAINS COSTS BASED ON THE
19 NUMBER OF CUSTOMERS IN OTHER PROCEEDINGS?

20 A. Yes. In Philadelphia Gas Works, Docket No. R-00061931, 2007 PA. PUC LEXIS 46
21 (2007), the Commission found that mains allocations based on the number of
22 customers was not acceptable.

1 Q. MR. CRIST CLAIMS THAT THE MARYLAND PUBLIC SERVICE
2 COMMISSION (“MPSC”) APPROVED IN A BALTIMORE GAS AND
3 ELECTRIC COMPANY PROCEEDING AN ACOSS METHOD WHICH
4 ALLOCATES MAINS INVESTMENT BASED ON NON-COINCIDENT
5 PEAK DEMANDS.²⁴ WHAT IS YOUR RESPONSE?

6 A. In Washington Gas Light Company (“WGL”), Case No. 9322, the MDPSC found
7 “...that the CCOSS and accompanying demand study were sufficient for purposes of
8 rate design and that the Proposed Order fairly assigned costs to each customer class,
9 including non-residential customer classes.” (Order No. 86013, Issued November 22,
10 2013). In that proceeding WGL’s cost of service study utilized the Peak & Average
11 approach to the allocation of distribution mains. In WGL’s base rate proceeding in
12 Case No. 9481, the cost-of-service study presented by WGL again used the Peak &
13 Average method to allocate distribution mains, and WGL’s cost of service study was
14 accepted by the MDPSC (Order No. 88944, Issued December 11, 2018). In WGL’s
15 base rate proceeding in Case No. 9605, the cost-of-service study filed by WGL also
16 utilized the Peak & Average method. That proceeding was resolved by settlement.

17 Q. MR. CRIST CITES PROCEEDINGS IN OTHER JURISDICTIONS IN
18 WHICH COMMISSIONS HAVE ADOPTED CUSTOMER-DEMAND
19 ACOSSs. ARE YOU AWARE OF PROCEEDINGS IN WHICH
20 COMMISSIONS HAVE ADOPTED PEAK AND AVERAGE ACOSSs?

21 A. Yes. The Indiana Utility Regulatory Commission (“IURC”) has strongly endorsed
22 the use of the Peak & Average methodology. See In re Citizens Gas & Coke Utility,
23 IURC Case No. 42767 (Oct. 19, 2006). The IURC found that the Peak & Average

²⁴ PSU St. No. 1-R at 13.

1 method was the “equitable and realistic” method for allocating distribution mains
2 costs, and provided the following analysis:

3 Based upon the record evidence, this Commission
4 concludes that the OUCC's cost-of-service study is
5 most reflective of cost causation and possesses a
6 high degree of objectivity upon which the
7 Commission may place reliance in establishing the
8 rates and charges in this proceeding.

9 While we do not doubt that distribution mains must
10 be constructed with peak demand in mind,
11 distribution mains do not only serve customers on
12 peak demand days. Therefore, a measure of the
13 costs of distribution mains must be allocated to
14 customers based on their usage that takes place on
15 non-peak days. For example, a customer that does
16 not take service at all on the peak demand day-and
17 therefore contributes nothing to peak demand
18 requirements of distribution mains-but receives
19 service through distribution mains at other times
20 should be responsible for some portion of
21 distribution main costs.

22 The OUCC's approach is much more equitable and
23 realistic. Rather than allocating distribution main
24 costs exclusively based on either peak demand day
25 or average annual consumption, the OUCC used a
26 compromise approach that allocated these costs
27 based on both. Under the OUCC's cost-of-service
28 study, 80% of distribution main costs are allocated
29 based on average demand. (Public's Ex. No. 6 at
30 13.) In this way, the OUCC's approach allocates
31 part of distribution main costs to customers who
32 receive service through distribution mains
33 throughout the year but who may not receive much
34 or any service on the peak demand day.

35 For the reasons set forth above, we find the OUCC's
36 cost-of-service study most accurately reflects the
37 manner in which distribution main costs are actually
38 incurred. See, *In Re Citizens Gas & Coke Utility*,
39 IURC Cause No. 39066, at 31 (Nov. 1, 1999). We
40 therefore adopt the OUCC's cost-of-service study to

1 implement the rates increase approved in this
2 Cause.

3 [In re Citizens Gas & Coke Utility, IURC Cause
4 No. 42767, at 74-75 (Oct. 19, 2006)]

5 The Illinois Commerce Commission (“ICC”) has also accepted the Peak &
6 Average method for allocating transmission and distribution costs in the natural gas
7 industry. The ICC explained the reasoning behind utilizing a Peak & Average
8 methodology in their decision as follows:

9 Generally, [Central Illinois Public Service Company
10 or CIPS] and [Union Electric Company or UE] gas
11 transmission and distribution facilities exist because
12 there is a daily need for such facilities. Regardless
13 of when CIPS and UE experience their respective
14 peak and the level of the peak, customers depend on
15 the continued operation of the Ameren gas
16 transmission and distribution systems to meet their
17 daily needs. On the day that the peak does occur,
18 Ameren’s own Mr. Carls testifies that CIPS’ and
19 UE’s respective systems are built to accommodate
20 the system peak without regard to each class’ peak.
21 In light of the nature in which the transmission and
22 distribution systems are used and because of the
23 relatively declining cost of increasing capacity,
24 peak demand is not the appropriate emphasis in
25 allocating demand costs... As the Commission
26 concluded in Docket 94-0040, a utility can not
27 justify its transmission and distribution investment
28 on demands for a single day. The allocation method
29 that properly weights peak demand is the [Average
30 & Peak or A&P] method, the same method that the
31 Commission adopted in CIPS’ and UE’s last gas
32 rate cases. The A&P method properly emphasizes
33 the average component to reflect the role of year-
34 round demands in shaping transmission and
35 distribution investments.

36
37 [Central Ill. Pub. Service Co. Proposed General
38 Increase in Natural Gas Rates, et al., 2003 Ill. PUC
39 Lexis 824, 231-232 (2003)]

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes, it does.

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

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

3 **Q. ARE YOU THE SAME ROGER COLTON WHO PREVIOUSLY PREPARED**
4 **WRITTEN DIRECT TESTIMONY ON BEHALF OF THE OFFICE OF**
5 **CONSUMER ADVOCATE IN THIS PROCEEDING?**

6 A. Yes, I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. My Surrebuttal Testimony responds to the Rebuttal Testimony of the following
9 witnesses: (1) D.C. Patel on behalf of I&E; and (2) Deborah Davis on behalf of Columbia
10 Gas.

11 I do not further respond to the Rebuttal Testimony of Columbia Gas Witness Kevin
12 Johnson. Witness Johnson's entire response to my Direct Testimony regarding the
13 Company's proposed Revenue Normalization Adjustment was that: "Columbia disagrees
14 with Mr. Mierzwa and Mr. Colton that the RNA will have the same effect of being a
15 disincentive to energy efficiency. Please see the response to Consideration 6 regarding
16 energy efficiency." (Columbia St. 6-R, at 47).

17 No response is possible to Mr. Johnson's generic, and unsupported, statement of
18 "disagreement."

1 **A. Response to I&E Witness D.C. Patel.**

2 **Q. PLEASE IDENTIFY THE REBUTTAL TESTIMONY OF I&E WITNESS D.C.**
3 **PATEL TO WHICH YOU PROVIDE A RESPONSE.**

4 A. I&E witness Patel testifies that he “agree[s] with Mr. Colton’s recommendation for
5 increasing efforts to serve more low-income customers, but. . .disagree with increasing
6 the budget amount in this proceeding.” (I&E St. 1-R, at 6).

7 **Q. WHAT IS YOUR RESPONSE TO I&E WITNESS PATEL’S DISCUSSION OF**
8 **THE COLUMBIA GAS LIURP BUDGET?**

9 A. I&E Witness Patel argues that Columbia Gas “significantly underspent its Universal
10 Service and Energy Conservation Plan’s (USECP) approved LIURP budget in the fiscal
11 years 2020 and 2021.” (I&E St. 1-R, at 3). Witness Patel further argues that “Columbia
12 has not shown that it will exhaust the existing budget or that there will be a shortfall in
13 the funding,” and “that the Company would be able to utilize the recommended increase
14 in LIURP funding.” (Id., at 4). Witness Patel specifically relies on this “historic
15 performance for LIURP spending” as the grounds to oppose any increase in funding. (Id.,
16 at 6)

17 What Witness Patel does not acknowledge is that the “historic performance for LIURP
18 spending” from 2020 and 2021 cannot be separated from the COVID-19 health
19 pandemic. (Columbia Gas St. 13, at 10). When the economy shutdown due to COVID-
20 19 health restrictions, weatherization providers not only in the Columbia Gas service
21 territory, but nationwide, were prevented from making the personal visits to low-income
22 customer homes required in order to install weatherization measures. Even throughout

1 much of 2021, COVID-19 restrictions encouraged “remote” working and prevented in-
2 person contact. Installing weatherization measures is obviously not the type of work that
3 can be done “remotely.”

4 Moreover, Witness Patel does not acknowledge the relationship between COVID-19 and
5 the reticence to have people outside of their own families visit their homes, let alone
6 work in their homes. As COVID subsides, it is reasonable to expect this reticence to
7 subside as well.

8 The most recent BCS annual report on Universal Service Programs and Collections
9 Performance (2020, released in September 2021) shows the impact of COVID on LIURP
10 production in 2020 and the recovery in production in 2021, even though most of 2021
11 was also impeded by COVID-19 restrictions. The natural gas data is set forth in the
12 Table below.

	2019 (actual)	2020 (actual)	2021 (projected)
Columbia	497	257	749
NFG	123	77	291
PECO (gas)	970	293	860
Peoples*	79	204	453
Peoples-Equitable*	74	N/A	N/A
PGW	3,010	1,657	2,213
UGI Utilities – Gas*	N/A	247	737
UGI South	166	N/A	N/A
UGI North	164	N/A	N/A
Total Industry	5,079	2,735	5,303

*Data affected by utility mergers.

1 LIURP production within the electric industry further demonstrates that this impact of
2 COVID-19 restrictions on LIURP production was not limited to the natural gas industry.
3 COVID-19 restrictions were a production impediment to the weatherization industry as a
4 whole.

	2019 (actual)	2020 (actual)	2021 (projected)
Duquesne	659	1,415	2,780
Met Ed	402	274	404
PECO (electric)	6,087	2,610	4,874
Penelec	661	337	678
Penn Power	377	242	357
PPL	1,101	682	1,900
West Penn Power	228	229	212
Total	9,515	5,789	11,205

1 2022 data is not yet reported, either for the natural gas or for the electric LIURP
2 programs.

3 In sum, while Witness Patel is correct in noting the sharp decline in LIURP production
4 during the COVID years, the lack of acknowledgement regarding the ability to ramp
5 production back up not only to historic levels, but to levels to recover for the production
6 lost to COVID restrictions is a shortcoming in his analysis.

7 Finally, Witness Patel errs in asserting that maintaining current levels of funding can or
8 will maintain current levels of production. Consider that on May 26, 2022, the PA
9 Coalition of Local Energy Efficiency Contractors, Inc. (CLEEC) reported in comments
10 regarding the PPL USECP:

11 From the perspective of the field contractors who deliver the services and
12 who are members of PA-CLEEC, the effect of price inflation is potentially
13 the most significant factor affecting the overall viability of the Plan for its
14 proposed duration. . . The first quarter of 2022 has seen the inflationary
15 environment in the US economy surging toward historic levels. Continued
16 historic levels of inflation will produce an even more profound impact on the
17 Plan, the result of which is *an effective defunding of the LIURP WRAP*
18 *program.*

19
20 PPL proposes that through 2027 (i.e., the termination of the Plan), LIURP-
21 WRAP funding should remain fixed. Under this structure, price inflation will
22 have at least two major impacts, neither of which are beneficial to low-
23 income ratepayers nor in the public interest:

- 24
25 1) Fewer jobs can be performed and completed with the *full scope* of
26 WRAP measures, resulting in fewer low-income ratepayers being
27 served despite the fact that those individuals and their household
28 budgets are affected by the same inflationary pressures. This
29 includes the cost of electric service, which, in the case of PPL's
30 default service rate is scheduled to increase 38.3% on June 1st.

1
2 2) Alternatively, the cost-basis per job could be held flat in an attempt
3 to service a similar number of low-income ratepayers. Combining
4 this strategy with inflationary effects will result in a scope of
5 measures much reduced from what recipients are currently receiving
6 under WRAP, and therefore adversely affect actual customer kWh
7 reductions. Energy savings are, of course, the point of the programs.
8 With customers' electric bills reduced less by WRAP than in the
9 past, further financial pressure will be brought to bear on low-
10 income ratepayers' household budgets in an existing inflationary
11 environment.

12 (Comments of PA-CLEEC, May 26, 2022, Docket No. M-2022-3031727) (emphasis in
13 original). The inflationary pressures on weatherization providers are not unique to the
14 PPL service territory. Indeed, PA-CLEEC is a statewide association of weatherization
15 providers. The same observations can be made about Witness Patel's recommendation.
16 To keep Columbia Gas' LIURP budget flat will mean that either (1) fewer jobs can be
17 performed and completed with the full scope of weatherization services; or (2) the cost-
18 basis per job could be held flat in an attempt to service a similar number of low-income
19 ratepayers. Combining this strategy with inflationary effects will result in a scope of
20 measures much reduced from what recipients are currently receiving under LIURP, and
21 therefore adversely affect actual customer energy (and bill) reductions.

22 **Q. WHAT DO YOU CONCLUDE?**

23 A. For all of the reasons I state above, I conclude that I&E Witness Patel does not provide a
24 reasonable basis to reject the increased LIURP funding I present in my Direct Testimony.

1 **B. Response to Columbia Gas Witness Deborah Davis.¹**

2 **Q. PLEASE IDENTIFY THE REBUTTAL TESTIMONY OF COLUMBIA GAS**
3 **WITNESS DEBORAH DAVIS TO WHICH YOU PROVIDE A RESPONSE.**

4 A. I will respond to the Rebuttal Testimony of Columbia Gas witness Deborah Davis with
5 respect to my proposal to increase LIURP spending; my observation that the Company's
6 proposed energy efficiency program lacks any low-income component; and my
7 recommendations that Columbia Gas be directed to report on specified low-income
8 outcome measurements. I find that Ms. Davis' responses provide an inadequate basis to
9 reject my recommendations.

10 **Q. HOW DO YOU RESPOND TO MS. DAVIS' TESTIMONY REGARDING YOUR**
11 **PROPOSED INCREASE IN LIURP FUNDING?**

12 A. Columbia Gas witness Davis argues first that the Company's weatherization contractors
13 have been unable to spend the Company's LIURP budget in recent years (Columbia Gas
14 St. 13, at 3) and that they lack the capacity to increase their production in response to
15 increased funding. (Id., at 5, 6). I have responded to each of these arguments in my
16 discussion of I&E witness Patel's similar arguments.

17 The production of LIURP providers substantially dipped in 2020 and 2021 when, along
18 with much of the rest of the economy, production was shutdown due to COVID-19.

¹ Columbia Gas witness Theodore Love defers his response to my Direct Testimony to the Rebuttal Testimony of Deborah Davis. (Columbia Gas St. 16-R, at 9). Accordingly, my response to Witness Davis below should be construed as a response to Witness Love as well.

1 As the most recent BCS report on universal service documents, however, LIURP
2 production significantly rebounded in 2021 to well above pre-COVID levels as providers
3 were once again able to visit homes and install energy efficiency measures. Moreover,
4 historic production performance has clearly demonstrated that when Pennsylvania's
5 weatherization providers were provided with funding increases to increase production
6 after the Great Recession, they were able to ramp up their production capacity.

7 Finally, due to the extraordinary inflation pressures on weatherization materials,
8 proposals to allow LIURP budgets to remain constant in today's world, in reality, will
9 result either in the reduction of LIURP jobs completed or in the scope of LIURP jobs
10 completed. Both of these impacts are contrary to the goals of LIURP.

11 **Q. PLEASE RESPOND TO THE REBUTTAL TESTIMONY OF COLUMBIA GAS**
12 **WITNESS DAVIS REGARDING THE COSTS OF LIURP?**

13 A. Columbia Witness Davis asserts that the cost to serve an additional 932 low-income
14 customers would require an increased LIURP expenditure of \$3,000,000 a year added to
15 the Company's universal service rider. (Columbia Gas St. 13-R, at 6). She continues on
16 to state that this would be "an additional \$10 per year [to non-CAP customers) on top of
17 the \$19 they are currently paying." (Id.)

18 It is the Company's rate increase, however, that creates the need to increase LIURP
19 spending. The increase in LIURP spending is needed to ensure that low-income
20 households can respond to the Company's rate hike by reducing their usage, reducing
21 their bills, and thus reducing their unpaid balances. Without increased LIURP spending,

1 under the Company's rates proposed in this proceeding, low-income households will face
2 increased bills of between \$8 (at monthly usage of 10 CCF) and \$11 (at monthly usage of
3 40 CCF) *each month*, including a 52% increase in the fixed monthly customer charge.
4 (OCA-3-39; OCA-3-40).

5 Moreover, Ms. Davis does not dispute my observation that the additional LIURP costs
6 would be largely offset by declines in other universal service costs. The PUC's own
7 long-term evaluation of LIURP investments found that such investments were effective
8 in reducing the arrearages of low-income natural gas customers.² Penn State reported
9 that 54.4% of natural gas customers receiving LIURP services reduced their arrearages.
10 In addition, Penn State reported that "the percent of households with missed payments
11 decreased and the average number of partial payments increased."³ The significance of
12 these observations is three-fold.

13 First, the overall Columbia Gas cost of service can be expected to decline as the expenses
14 reductions associated with these arrearage reductions are incorporated into rates.
15 Expense reductions can be expected to be experienced with respect to credit and
16 collection expenses, working capital, and uncollectibles.

17 Second, the increase in costs collected through the universal service rider will be
18 substantively reduced by the reduction in costs collected through the universal service

² John Shingler (2009). Long-Term Study of Pennsylvania's Low-Income Usage Reduction Program: Results of Analyses and Discussion, at 42, Pennsylvania State University: Consumer Services Information System Project, prepared for Pennsylvania PUC.

³ *Id.* at 41.

1 rider from other universal service programs. In particular, the costs of the Company's
2 CAP program will be reduced by the reduction in CAP credits. In addition, the costs of
3 the Company's CAP program will be reduced by the reduction in pre-program arrears
4 that are forgiven through the CAP. As I noted in my Direct Testimony, CAP Credits and
5 Arrearage Forgiveness comprise more than 95% of the total costs of the Columbia Gas
6 CAP program.

7 The benefits of the reductions in CAP credits and arrearage forgiveness credits are
8 amplified by the fact that they are recurring annual cost reductions that are generated by a
9 one-time LIURP investment. The annual reductions in universal service costs will arise
10 not simply from the LIURP investments made in the current year, but from the LIURP
11 investment that have been made in prior years as well. The reductions in universal
12 service costs collected through the Columbia Gas rider, in other words, are additive from
13 one year to the next.

14 Finally, the reductions in CAP credits are made more substantial by recent significant
15 increases in the cost of natural gas. Whether a CAP participant is taking service under
16 Columbia Gas' percentage of income CAP component, or percentage of bill CAP
17 component, as gas costs fly-up, the amount of the CAP credits correspondingly increase
18 as well. Reducing CAP consumption will thus help control the increase in CAP credits
19 associated with the fly-up in natural gas prices.

1 Ms. Davis failed to take into account any of these offsets when she asserted that my
2 proposed increase in LIURP spending would result in a \$10 annual increase in costs
3 collected through the universal service Rider.

4 **Q. HOW DO YOU RESPOND TO MS. DAVIS' REBUTTAL TESTIMONY**
5 **REGARDING WHETHER LOW-INCOME CUSTOMERS DERIVE BENEFITS**
6 **FROM COLUMBIA'S PROPOSED ENERGY EFFICIENCY PROGRAM?**

7 A. Columbia Gas witness Davis opposes my recommendation that Confirmed Low-Income
8 customers should be exempt from the energy efficiency rider because they derive no
9 benefits from the energy efficiency programs funded through the rider. Her argument
10 that nothing prevent low-income households from participating in the Company's energy
11 efficiency programs simply does not consider why, due to the very fact of their poverty,
12 low-income household lack the resources to make the investments necessary to allow the
13 Company's program be helpful.

14 She further argues that low-income customers will benefit from the Company's proposed
15 energy efficiency program because the proposed program will screen customers for
16 LIURP eligibility and will refer low-income applicants to the Company's LIURP
17 program. (Columbia Gas St. 13-R, at 7). There are two problems with that argument.
18 First, even assuming the screening works as intended, Columbia Gas is proposing to
19 generate that screening (and those referrals) with no increase to the LIURP budget. The
20 only impact that such screening and referral would have, therefore, is to replace low-
21 income customers who would otherwise have been served through LIURP with
22 customers who are newly referred to LIURP through the screening and referral process

1 Ms. Davis describes. There is not incremental addition to the number of low-income
2 homes that are weatherized. Thus, given that the total low-income budget would not
3 increase, in the aggregate, the benefit to low-income customers remains the same as it
4 would have been without the screening and referral process. No more households would
5 be served because of this screening than would have been served in the absence of this
6 screening. Columbia Gas is simply substituting one set of low-income customers (those
7 referred by the energy efficiency program) for the set of customers that otherwise would
8 have been served. Even setting aside that problem, however, the reasoning of Ms. Davis
9 fails because it does not acknowledge that the LIURP expenditures are collected through
10 the universal service rider. Even if low-income customers are screened and referred to
11 LIURP, to be served by LIURP, those benefits are already paid for through a separate
12 rider. The referral process does not generate any additional energy efficiency benefits to
13 low-income customers that are paid for through the energy efficiency rider.

1 **Q. HOW DO YOU RESPOND TO MS. DAVIS' REBUTTAL TESTIMONY**
2 **REGARDING WHETHER THE PROPOSED COLUMBIA GAS ENERGY**
3 **EFFICIENCY PROGRAM OFFERS BENEFITS TO LOW-INCOME**
4 **CUSTOMERS?**

5 A. Columbia Gas witness Davis argues that the Company's energy efficiency program will
6 benefit low-income customers through increased referrals to the Columbia Gas Audits
7 and Rebates (A&R) program. (Columbia Gas St. 13-R, at 7 – 8). However, the A&R
8 program is not a program exclusively directed toward Confirmed Low-Income customers
9 (i.e., customers with income at or below 150% of Poverty). Instead, the A&R program is
10 directed toward customers with income earning 250% or less of the Federal Poverty
11 Income Guidelines (Columbia Gas St. 13-R, at 8). Customers who income-qualify for
12 LIURP are served by LIURP. The practical effect, therefore, is for the A&R program to
13 be limited to households with income above the income eligibility for LIURP, but below
14 250% of Poverty.

15 Finally, Ms. Davis cites the Company's Emergency Repair program as reason for why
16 low-income customers should be required to pay the energy efficiency rider. (Columbia
17 Gas St. 13-R, at 9). It is not clear why Ms. Davis cites this program as a reason why low-
18 income customers should pay for the Company's energy efficiency programs that do not
19 serve them. As even Ms. Davis concedes, the Emergency Repair program is "not
20 identified as an energy efficiency program." (Id., at 9).

21

1 **Q. HOW DO YOU RESPOND TO MS. DAVIS' REBUTTAL TESTIMONY**
2 **REGARDING YOUR PROPOSED ADOPTION OF OBJECTIVE OUTCOME**
3 **MEASURES RELATING TO LOW-INCOME CUSTOMERS?**

4 A. Company witness Davis opposes my recommendations to establish certain objective
5 metrics by which to measure the outcomes of Columbia Gas efforts directed toward low-
6 income customers. The outcome metrics that I recommend relate to: (1) confirming the
7 low-income status of Columbia Gas customers; (2) enrolling those Confirmed Low-
8 Income customers into the Company's CAP; and (3) enrolling customers with the lowest
9 income, as measured by income as a percentage of Poverty, in CAP.

10 Initially, Ms. Davis opposes the creation of any outcome measurements by which to
11 measure the Company's performance. She argues against the use of outcome
12 measurements by asserting that such metrics measure customer decision-making rather
13 than measuring the Company's efforts ("Columbia should be measured based on the
14 Company's efforts and not on customer behavior"). (Columbia Gas St. 13-R, at 14; see
15 also, *id.*, at 15). This argument ignores decades of use of outcome performance metrics
16 in assessing the effectiveness of those who deliver public services. As I noted in my
17 Direct Testimony, and as Ms. Davis failed to respond to, adoption of the Government
18 Performance and Results Act of 1993 (GPRA, nearly 30 years old at this point) was
19 based on the principle that: "The key concepts of this performance-based management
20 are the need to define clear agency missions, set results-oriented goals, measure progress
21 toward achievement of those goals, and use performance information to help make
22 decisions and strengthen accountability." (OCA St. 4, at 23). Ms. Davis does not explain
23 how she expects the Commission to measure "the Company's efforts" (Columbia Gas St.

1 13-R, at 14), unless, at the beginning, the mission is “clearly defined” and “results-
2 oriented goals” have been established. Only if those steps have been taken, is it possible
3 to “measure progress toward achievement of those goals.” Contrary to Ms. Davis’
4 Rebuttal Testimony, in other words, it is not possible to review the “Company’s efforts”
5 unless the Company first establishes what those efforts are in furtherance of.

6 Ms. Davis’s illustration of why she opposes any performance metrics proves the need for
7 outcome objectives rather than demonstrating their impropriety. Ms. Davis argues that
8 “the Company cannot force its customers to enroll in CAP.” (Columbia Gas St. 13-R, at
9 15). She argues that “to base the Company’s performance on whether or not a customer
10 takes steps to apply for programs is effectively measuring the Company’s customer’s
11 (sic) actions and not the Company’s performance.” (Id.). Ms. Davis asserts that
12 “Columbia should be measured based on the Company’s efforts and not on customer
13 behavior, which is outside of the Company’s control.” (Id., at 14) (emphasis added).

14 Therein lies the issue. To what extent is “customer behavior” “outside of the Company’s
15 control”? Without objective measurable outcome objectives, it is not possible to measure
16 whether the Company is making progress toward achieving any particular enrollment
17 goal, given that there is no enrollment goal. To be sure, there may be some elements that
18 are outside the Company’s control, but this is not a reason to impose no measures of
19 accountability for the Company. It is not possible to question or assess, either internally
20 by the Company, or externally by other stakeholders, whether outcome objectives are or
21 are not being achieved if we do not have a goal and do not measure these objectives. If
22 they are not being achieved, it is not possible to assess why they are not being achieved

1 (in the words of GPRA, to “use performance information to help make decisions and
2 strengthen accountability”).

3 The goal of the Universal Service and Energy Conservation programs that are required by
4 statute is to help residential low-income customers “to maintain natural gas supply and
5 distribution service.” 66 Pa. C.S. § 2203 (definitions). The outcome metrics that I
6 proposed to measure are consistent with this goal because they seek to measure success
7 of the programs themselves rather than simply the outreach efforts of the Company. If
8 the programs are not working to help low-income households “maintain” gas service –
9 i.e. if they are not working to keep more people connected to service, avoid termination,
10 promote reconnection, etc. – than they are not meeting the required standard and changes
11 are needed. My proposed metrics are designed to begin making that assessment.

12 **Q. DOES MS. DAVIS OBJECT TO THE PARTICULAR OUTCOME OBJECTIVES**
13 **YOU RECOMMEND?**

14 A. Yes. Columbia Gas witness Davis opposes not merely the establishment of outcome
15 objectives in general; she also opposes the three specific outcome objectives I
16 recommend in particular. Her testimony, however, does not provide an adequate basis
17 for her objections. My three recommended outcome objectives included:

- 18 a. Outcome Objective #1: Columbia Gas should achieve a Confirmed Low-Income
19 identification rate, as a percentage of estimated low-income customers, for the
20 utilities as a whole, no less than the Confirmed Low-Income identification rate of
21 the top quartile of Pennsylvania natural gas utilities as a whole (excluding
22 Columbia Gas).
- 23 b. Outcome Objective #2: Columbia Gas should achieve a CAP participation rate, as
24 a percentage of Confirmed Low-Income customers, no less than the CAP

1 participation rate of the top quartile of Pennsylvania natural gas utilities as a whole
2 (excluding Columbia Gas).

- 3 c. Outcome Objective #3: Columbia Gas should achieve a CAP participation rate, as
4 a percentage of its Confirmed Low-Income customers, in the lowest poverty level
5 range that is no less than the proportion of households in that poverty level range
6 for the Columbia Gas service territory as a whole.

7 **Q. WHY DOES MS. DAVIS OPPOSE ESTABLISHING AN OUTCOME**
8 **OBJECTIVE CONCERNING THE IDENTIFICATION OF CONFIRMED LOW-**
9 **INCOME CUSTOMERS?**

10 A. Columbia Gas witness Davis first opposes establishing an outcome objective for
11 identifying Confirmed Low-Income customers. She argues that the data collected by
12 BCS do not have “standardized definitions” and use of that data could lead to “erroneous
13 conclusions.” (Columbia Gas St. 13-R, at 15). She notes, for example, that different
14 utilities use different tests to establish the Confirmed Low-Income status of a customer.
15 The BCS data that I propose to use, however, is precisely the data that the PUC collects
16 and reports to provide for a comparison of utility performance. BCS states in its 2020
17 annual report on Universal Programs and Collections Performance, “To assist in fulfilling
18 its universal service obligations, the Commission established standard reporting
19 requirements for universal service and energy conservation for both the EDCs and the
20 NGDCs. The Universal Service and Energy Conservation Reporting Requirements
21 became effective Aug. 8, 1998, for EDCs and Dec. 16, 2000, for NGDCs. This data
22 assists the Commission in monitoring the progress of the EDCs and NGDCs in achieving
23 universal service in their respective service territories.” (BCS 2020 report on Universal
24 Service Programs and Collections Performance, at 1). After nearly 25 years of reporting,

1 Columbia Gas now asserts that the data is not useful and should not be viewed as
2 reasonable.

3 Similarly, Ms. Davis objects to the Commission-prescribed method for estimating the
4 number of low-income customers. It is, however, recognized by the Commission, the
5 BCS, the utilities, and other stakeholders that the Commission-prescribed method results
6 in a report of “The number of estimated low-income customers [that] represents the
7 public utility’s approximation of its total (maximum) population of low-income
8 customers in its service territory.” (2020 BCS Report, at 8). Each utility is providing the
9 same approximation using the same estimation method. Ms. Davis provides no reason
10 that Columbia Gas would be disproportionately affected, let alone disproportionately
11 adversely affected, by this Commission-prescribed method.

12 **Q. DOES MS. DAVIS OFFER ANY OTHER OBJECTION TO ESTABLISHING AN**
13 **OUTCOME MEASURE BASED ON THE PERCENTAGE OF ESTIMATED**
14 **LOW-INCOME CUSTOMERS THAT ARE IDENTIFIED AS CONFIRMED**
15 **LOW-INCOME CUSTOMERS?**

16 A. Yes. Ms. Davis objects to the fact that a utility may generate different performance on
17 different objectives. She notes that Columbia Gas would rank differently on my
18 recommended Objective No. 1 than it would rank on my recommended Objective No. 2.
19 She provides no reason, however, why a utility would generate the same rankings on
20 different objectives. The use of outcome objectives does not create a race that a utility
21 seeks to “win” by having the highest ranked. As explained in detail above, the purpose of
22 outcome objectives is, in the words of GPRA, to “use performance information to help

1 make decisions and strengthen accountability.” I would also submit that it is to assess
2 how well a utility is doing at fulfilling the overriding purpose of the programs which is to
3 help low-income households maintain gas supply and distribution service. Furthermore,
4 it would not only be “possible,” but not at all surprising, if the same utility would
5 generate different ranks on different outcome objectives.

6 Consider, for example, if a utility were measuring its performance on bill collections.
7 One objective would be to minimize the level of arrears. A different objective would be
8 to minimize the number of disconnections. It is entirely conceivable that a utility might
9 view those objectives to be in tension one with the other and that the utility might rank
10 differently on these two objectives. On the one hand, it might be entirely possible for a
11 utility to minimize arrears by increasing its number of disconnections. On the other hand,
12 it would be entirely possible for a utility to minimize the number of disconnections by
13 allowing the level arrears to build. Despite this potential tension, however, no-one would
14 argue that a utility should not seek to accomplish both objectives (to minimize arrearages
15 while at the same time minimizing the number of disconnections). Contrary to what Ms.
16 Davis argues, no reason exists at all that a utility would generate the same rank on all
17 objectives. Its performance on one objective may be entirely adequate, while its
18 performance on another may indicate a need to improve.

19 **Q. DOES MS. DAVIS OPPOSE ESTABLISHING A MEASURABLE OUTCOME**
20 **OBJECTIVE REGARDING THE DEGREE TO WHICH COLUMBIA GAS**
21 **ENROLLS CUSTOMERS WITH INCOME AT OR BELOW 50% OF POVERTY**
22 **INTO CAP?**

1 A. Yes. My third proposed outcome objective provides that Columbia Gas should achieve a
2 CAP participation rate, as a percentage of its Confirmed Low-Income customers, in the
3 lowest poverty level range that is no less than the proportion of households in that
4 poverty level range for the Columbia Gas service territory as a whole. Ms. Davis
5 opposes this recommendation.

6 I note that Ms. Davis opposes measuring the extent to which customers with income less
7 than 50% of Poverty are being enrolled in CAP even though it is precisely this population
8 about which the Commission has expressed concern. The CAP Policy Statement now has
9 a specific provision that requires a utility to “include the following provisions in its plan:
10 Specific efforts to educate and enroll eligible and interested customers at or below 50%
11 of FPIG.” (CAP Policy Statement, Section 69.265(8)(vi)(B)(I)). The Commission stated
12 that a utility’s outreach and education plan “should identify efforts to educate and enroll
13 eligible and interested customers at or below 50% of the FPIG.” (Final Order, Docket No.
14 M-2019-3012599, at 79, September 19, 2019).

15 Ms. Davis opposes my third recommended objective (relating to the CAP enrollment of
16 customers with income less than 50% of Poverty), arguing that there may be reasons why
17 such customers do not enroll in CAP. She argues, for example, that “Mr. Colton does not
18 acknowledge the possibility that these customers [0-50% FPIG) receive the highest
19 LIHEAP grants, which may be all the payment assistance they need.” (Columbia Gas St.
20 13-R, 18). She further argued that “Moreover, given that these customers have the lowest
21 income level, it is possible that they live in subsidized housing that may provide an
22 additional grant for utilities.” (Id.) What Ms. Davis does not state is that a tiny fraction of

1 low-income households live in subsidized housing. Moreover, LIHEAP has long been
2 known to reach but a small fraction of the total number of low-income customers. Of
3 those it does reach, LIHEAP grants cover a small fraction of their total home energy bills.
4 Even of those households receiving LIHEAP grants, many are faced with a need to split
5 their grants between their primary and secondary heating sources. Ms. Davis' argument
6 that some of the lowest income customers do not enroll in CAP because they do not need
7 the assistance should be rejected.

8 Finally, the fact that there are reasons why customers with income below 50% of Poverty
9 may not enroll in CAP is one reason why the outcome objective is not to enroll 100% of
10 these customers. The only circumstances in which her objections might be valid is if the
11 Company could establish that it has enrolled all those customers in this Poverty Level
12 range that need assistance.

13 Despite Ms. Davis' objection, having required utilities to make "specific efforts" to reach
14 this population, it is entirely reasonable for the Commission to require Columbia Gas to
15 report on the extent to which, if at all, Columbia's efforts are accomplishing the objective
16 the Commission, itself, established (i.e., to "educate and enroll eligible and interested
17 customers at or below 50% of FPIG").

18 **Q. PLEASE RESPOND TO MS. DAVIS' OBJECTION TO EXEMPTING**
19 **CONFIRMED LOW-INCOME CUSTOMERS FROM THE ENERGY**
20 **EFFICIENCY RIDER.**

1 A. Columbia Gas witness Davis asserts, without support or explanation, that “the Energy
2 Efficiency program will provide benefits to low-income customers. . .” (Columbia Gas
3 St. 13-R, at 19). I have responded to that assertion in detail above.

4 Ms. Davis further argues that if Columbia Gas were to exclude Confirmed Low-Income
5 customers from the Energy Efficiency rider, it might “need” to change the method it uses
6 to confirm the low-income status of its customers. No reason exists for Columbia Gas to
7 modify the way it establishes the income status of low-income customers. The Columbia
8 Gas mechanism for confirming low-income status has been agreed to in prior cases in
9 agreements between the Company and other stakeholders. If Columbia Gas believes that
10 that process is now inadequate, and in noncompliance with the Commission definition of
11 “Confirmed Low-Income” customer, it should present a new process for review and
12 litigation. Moreover, there is no inherent need to change any administrative process for
13 administering its Confirmed Low-Income status. The Company has an established
14 procedure for receiving income and coding customer accounts as Confirmed Low-
15 Income. There is no need for it to change that established process.

16 **Q. PLEASE RESPOND TO MS. DAVIS’ REBUTTAL TESTIMONY ABOUT THE**
17 **EXTENT TO WHICH LOW-INCOME CUSTOMERS WILL BE ADVERSELY**
18 **AFFECTED BY THE COMPANY’S PROPOSED RATE INCREASE?**

19 A. The Rebuttal Testimony of Columbia Gas witness Davis does not really respond to my
20 conclusion that only a small percentage of low-income customers are protected from the
21 rate increased. She argues, for example, that customers on the percentage of bill payment
22 plan will not see a rate increase until the “May after the rate increase takes effect.”

1 (Columbia Gas St. 13-R, at 19). Even if the adverse effect is delayed by a few months,
2 however, the adverse impact from the proposed rate increase will occur. Moreover, the
3 statement of Ms. Davis that the percentage of bill customers “will experience an increase
4 of half of the overall rate increase” (Columbia Gas St. 13-R, at 19 – 20) does not respond
5 to my observation. These low-income customers will be harmed by the Company’s
6 proposed rate hike. Finally, her argument that percentage of income customers are
7 protected from the rate increase (Columbia Gas St. 13-R, at 20) does not respond to my
8 Direct Testimony. Even if true, as I explained in my Direct Testimony, the percentage of
9 low-income customers who participate in the Columbia Gas percentage of income plan is
10 a small portion of its total low-income customer base.

11 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes, it does.

13

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Pennsylvania Public Utility Commission :
v. : Docket No. R-2022-3031211
Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, Roger D. Colton, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 4SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 26, 2022
*332952

Signature:


Roger D. Colton

Consultant Address: Fisher, Sheehan, & Colton
34 Warwick Road
Belmont, MA 02478

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

Docket No. R-2022-3031211

SURREBUTTAL TESTIMONY

OF

Noah D. Eastman

ON BEHALF OF

THE PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 26, 2022

Contents

Introduction.....	1
Purpose of Surrebuttal Testimony:	1
Response to Witness Kempic.....	1
Conclusion	5

1 **Introduction**

2 **Q. Please state your name, business address and occupation.**

3 A. My name is Noah D. Eastman. My business address is 555 Walnut Street, Forum
4 Place, 5th Floor, Harrisburg, Pennsylvania 17101. I am currently employed as a
5 Regulatory Analyst by the Pennsylvania Office of Consumer Advocate (OCA).

6 **Q. Please describe your educational background and qualifications to provide**
7 **testimony in this case.**

8 A. I have a bachelor's degree in Economics with a Business Concentration from
9 Shippensburg University. My educational background and qualifications are
10 described in Appendix A.

11 **Q. On whose behalf are you testifying in this proceeding?**

12 A. I am testifying on behalf of the Office of Consumer Advocate.

13 **Purpose of Surrebuttal Testimony:**

14 **Q. Please describe the purpose of your Surrebuttal Testimony.**

15 A. I will respond to the rebuttal testimony provided by Columbia witness Kempic.

16 **Response to Witness Kempic**

17 **Q. Please summarize witness Kempic's rebuttal to your direct testimony.**

18 A. Mr. Kempic disagrees with my conclusion that Columbia's performance is as is
19 expected but does not warrant an increase in compensation. He claims that my
20 characterization of both the consumer satisfaction report and J.D. Power survey are

1 wrong, and that they in fact do support a performance increase to the return on
2 equity.

3 **Q. Does Mr. Kempic's rebuttal lead you to change your conclusions?**

4 A. No. For all reasons stated in my direct testimony, and reasons in response to his
5 rebuttal testimony below, I still believe that Columbia's performance does not
6 justify charging customers more to provide a 25 basis point increase to the cost of
7 equity.

8 **Q. Mr. Kempic states that all performance is relative, and relative to other
9 natural gas distribution companies in Pennsylvania Columbia is superior in
10 performance. Do you agree with this statement and his support?**

11 A. No. Mr. Kempic states that Columbia performs above average in ten categories of
12 the 2020 Customer Service Report survey, average in five categories, and below
13 average in three categories.

14 First, by my count the correct amount is that they could be considered above
15 average in nine categories, not ten, while being at average in five categories and
16 below average in four (Exhibit MK-2R).

17 Second, when talking about superior performance to warrant an increase in
18 compensation, merely being above average in some categories is not enough
19 justification. Of the nine categories that Columbia is above average, they are only
20 alone as the highest performing utility three times, often by no more than one or
21 two percentage points. This alone is not indication that Columbia is an exemplary

1 performer who should receive additional compensation, just that it is providing
2 performance at the higher end of the normal range in just those categories, while
3 still performing at or below average in the other nine categories.

4 Third, while my statements above are enough to show that Columbia is providing
5 service that is expected of them but not service that would justify an increase in
6 compensation, I also question that value of the survey questions related to on
7 premises visits as justification for such an increase. The survey uses 700 consumers,
8 however, only 12% of those consumers needed an on-premises visit (Exhibit MK-
9 2R, pg. 4). That means only 84 consumers were able to provide data that made up
10 the averages and performance indicators seen in tables 5A and 5B. These tables
11 certainly may have their place in how the company wishes operate, but the sample
12 size of only 84 respondents is entirely too small to be used as support in justification
13 for an adder for exemplary management.

14 **Q. Mr. Kempic disagrees with your conclusion regarding the J.D. Power survey.**
15 **(Columbia St. 1-R at 7) Please respond.**

16 A. I believe that it is difficult to fully compare natural gas utilities operating under
17 different regulatory bodies, i.e., commissions, especially when the ranking is based
18 on customer satisfaction. This can create a scenario where the rankings are based
19 more on the customers satisfaction with the regulatory body itself than the actual
20 operation of the utility. This can also be seen in the east region: large segment,

1 where UGI, PECO, National Fuel Gas, PGW, and Peoples are all at or above the
2 segment average.¹

3 For this reason, I continue to believe there are serious limitations as to how much
4 weight can be given to Columbia’s performance among eastern midsized natural
5 gas utilities when no other utility in that study operates in Pennsylvania.

6 To go along with this, Columbia has filed base rate cases in 2019, 2020, 2021, and
7 this case in 2022, and an exemplary management in the past would surely have been
8 captured in those increases. However, Columbia only had a 1-point increase in
9 customer satisfaction in 2021, and this also provides no support for an increase.

10 **Q. Please comment on Mr. Kempic’s position that the Commission should**
11 **consider the areas in which Columbia has improved its service because**
12 **“customers who will be paying the rates establish by this rate proceeding will**
13 **receive the benefits of the performance improvements...” and that perfect**
14 **service is not required to qualify for a reward for management performance.**
15 **(Columbia St. 1-R at 4, li. 9-14).**

16 A. As I have stated in my direct testimony and above, I do not believe that the
17 Company has provided sufficient support for its exemplary management claim.
18 Mr. Kempic acknowledges the July 2019 “incident” at 100 Park Lane in North
19 Franklin Township in Washington County. (Columbia St. 1-R at 12, li. 13-19).
20 That “incident” resulted in the explosion of one house and 96 claims for damage to

¹ <https://www.jdpower.com/sites/default/files/file/2022-02/2021167%20Gas%20Utility%20Residential.pdf>

1 real property or structures and 4 bodily injury claims. (OCA-IX-5; OCA-X-5, Att.
2 A). Columbia paid out over \$3M in compensation, including \$1.4M in 2021, the
3 historic test year. (OCA-IX-5). The Company's rate filing includes the adverse
4 financial impact of the "incident" through rate base additions, depreciation, and
5 operating and maintenance expense. (OCA-IX-6) I do not agree with Mr. Kempic
6 that Columbia's performance warrants imposing additional costs on ratepayers in
7 the form of a management performance bonus.

8 **Conclusion:**

9 **Q. Please summarize your findings.**

10 A. It is clear that Columbia is a reasonably well-run utility who provides the service
11 that is expected of them. However, when considering my analysis of the customer
12 surveys in my direct testimony and above, there is no management excellence to
13 the degree that could justify an increase in earnings. Columbia's less-than-perfect
14 performance which resulted in the July 2019 house explosion and revenue
15 requirement claims further weighs against charging customers more a reward for
16 management performance.

17 **Q. Does this conclude your surrebuttal testimony?**

18 A. Yes. However, I reserve the right to modify or supplement my testimony if needed.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Pennsylvania Public Utility Commission :
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 v. : Docket No. R-2022-3031211
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 Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, Noah D. Eastman, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 5SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 26, 2022
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Signature: 
Noah D. Eastman

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