

COMMONWEALTH OF PENNSYLVANIA



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July 22, 2016

Honorable Angela T. Jones
Administrative Law Judge
PA Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107

Re: Pa. Public Utility Commission
v.
UGI – Central Penn Gas, Inc.
Docket No. P-2016-2537609

Dear Judge Jones:

Enclosed please find a copy of the testimony being submitted on behalf of the Office of Consumer Advocate in the above proceeding, as follows:

Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

/s/ Erin L. Gannon

Erin L. Gannon
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Enclosure

cc: Secretary's Office of the PUC (letter & certificate only)
Certificate of Service
*224131

CERTIFICATE OF SERVICE

Petition of UGI Central Penn Gas, Inc. for :
a Waiver of the Distribution System Improvement :
Charge Cap of 5% of Billed Distribution : Docket No. P-2016-2537609
Revenues and Approval to Increase the Maximum :
Allowable DSIC to 10% of Billed Revenues :

I hereby certify that I have this day served a true copy of the testimony of the Office of Consumer Advocate as follows:

Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 1;

upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 22nd day of July 2016.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of UGI Central Penn Gas of)
Pennsylvania for a Waiver of the)
Distribution System Improvement Charge) Docket No. P-2016-2537609
Cap of 5% of Billed Revenues and Approval)
to Increase the Maximum Allowable DSIC to)
10% of Billed Distribution Revenues)

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 22, 2016

DIRECT TESTIMONY OF JEROME D. MIERZWA

1 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
2 ADDRESS.

3 A. My name is Jerome D. Mierzwa. I am a principal and Vice President with 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. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
8 EXPERIENCE.

9 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
10 Science Degree in Marketing. In 1985, I received a Master’s Degree in Business
11 Administration with a concentration in finance, also from Canisius College. In July
12 1986, I joined National Fuel Gas Distribution Corporation (“NFGD”) as a
13 Management Trainee in the Research and Statistical Services Department (“RSS”). I
14 was promoted to Supervisor RSS in January 1987. While employed with NFGD, I
15 conducted various financial and statistical analyses related to the Company’s market
16 research activity and state regulatory affairs. In April 1987, as part of a corporate
17 reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG
18 Supply”) rate department where my responsibilities included utility cost of service
19 and rate design analysis, expense and revenue requirement forecasting and activities
20 related to federal regulation. I was also responsible for preparing NFG Supply’s
21 Purchased Gas Adjustment (“PGA”) filings and developing interstate pipeline and
22 spot market supply gas price projections. These forecasts were utilized for internal
23 planning purposes as well as in NFGD’s 1307(f) proceedings.

1 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
2 December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1,
3 1996, I became a Principal of Exeter. Since joining Exeter, I have specialized in
4 revenue requirement analysis, evaluating the gas purchasing practices and policies of
5 natural gas utilities, utility class cost of service and rate design analysis, sales and rate
6 forecasting performance-based incentive regulation, the unbundling of utility
7 services, and evaluation of customer choice natural gas transportation programs. A
8 complete copy of my resume is included as Appendix A to this testimony.

9 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
10 PROCEEDINGS ON UTILITY RATES?

11 A. Yes. I have provided testimony on more than 200 occasions in proceedings before
12 the Federal Energy Regulatory Commission (“FERC”), and state utility regulatory
13 commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine,
14 Massachusetts, Montana, Nevada, New Jersey, Ohio, Rhode Island, Texas, Utah, and
15 Virginia, as well as before the Pennsylvania Public Utility Commission (“PaPUC” or
16 “Commission”).

17 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

18 A. I am appearing on behalf of the Pennsylvania Office of Consumer Advocate
19 (“OCA”).

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

21 A. Exeter was retained by the OCA to assist in addressing the filing made by UGI
22 Central Penn Gas, Inc. (“CPG” or the “Company”) for a waiver of the statutory
23 Distribution System Improvement Charge (“DSIC”) cap of five percent of billed
24 revenues and approval to increase the maximum allowable DSIC from five percent to

1 ten percent of billed distribution revenues. In my testimony, I explain why CPG's
2 waiver should not be granted and the existing cap of five percent should be retained.

3 Q. PLEASE PROVIDE A BRIEF HISTORY OF THE IMPLEMENTATION OF
4 CPG'S DSIC.

5 A. On December 12, 2013, CPG filed a petition for approval of a Distribution System
6 Improvement Charge ("DSIC petition"), as well as a petition for approval of a Long-
7 Term Infrastructure Improvement Plan ("LTIIIP"). By order entered September 11,
8 2014, the Commission approved CPG's proposed LTIIIP and DSIC, subject to refund,
9 pending final resolution of four issues that were assigned to the Office of
10 Administrative Law Judge ("ALJ"). CPG was subsequently able to reach a
11 settlement with the parties in the proceeding. By Order entered July 8, 2015, the
12 Commission approved the settlement. On September 18, 2014, CPG filed a tariff
13 supplement implementing the DSIC for bills rendered on or after October 1, 2014.
14 The initial DSIC was set at 0.0 percent pursuant to the Commission's order. CPG has
15 subsequently filed quarterly updates to its DSIC rate. CPG's current DSIC is 5.00
16 percent. On February 29, 2016, CPG filed a petition to modify its LTIIIP. On June 30,
17 2016, the Commission approved CPG's modified LTIIIP.

18 Q. ARE THERE PROVISIONS IN THE PUBLIC UTILITY CODE FOR A
19 WAIVER OF THE 5 PERCENT DSIC CAP?

20 A. Yes. The Commission may grant a waiver of the 5 percent cap in order to "ensure
21 and maintain adequate, efficient, safe, reliable, and reasonable service." 66 Pa.C.S.
22 §1358(a)(1).

23 Q. WHAT ARE CPG'S STATED REASONS FOR INCREASING THE DSIC
24 CAP ON BILLED DISTRIBUTION REVENUES FROM FIVE PERCENT
25 TO TEN PERCENT?

1 A. In his testimony, CPG witness Mr. William J. McAllister claims that “[i]ncreasing the
2 DSIC cap is the best way to ensure the Company’s financial stability so that it can
3 continue addressing system repair and replacement, as opposed to undertaking a full
4 base rate proceeding.”

5 Q. HAVE OTHER NATURAL GAS DISTRIBUTION COMPANIES
6 (“NGDCs”) REQUESTED A WAIVER OF THE 5 PERCENT DSIC CAP?

7 A. Yes. On September 1, 2015, Philadelphia Gas Works (“PGW”) filed a petition to
8 increase its DSIC cap from 5 percent to 7.5 percent with a total cap of 10 percent
9 including reconciliation to recover any undercollection amounts from prior years
10 (Docket N. P-2015-2501500). In approving the increase in the cap to 7.5 percent, the
11 Commission noted:

12 It is undisputed in this proceeding that PGW’s aging gas
13 distribution infrastructure poses significant safety and
14 reliability issues, and that the current pace of the
15 Company’s replacement efforts is unacceptable and
16 potentially harmful to the public. The record reflects that
17 66% of PGW’s 3,000 miles of gas main infrastructure
18 consists of at-risk cast iron and unprotected steel mains.
19 This percentage is among the highest of any natural gas
20 distribution company in Pennsylvania. In addition, there
21 has been a definite upward trend in gas leaks and broken
22 pipes on the Company’s system over the past several years.
23 This state of affairs is particularly troubling given that
24 PGW operates in an urban environment with a high
25 population density. PGW St. 1 at 1-9. The Staff Report
26 cited by PGW and I&E further describes the poor condition
27 of PGW’s distribution infrastructure and confirms the need
28 for PGW to undertake an aggressive main replacement
29 strategy. Staff Report at 33-34.

30
31 It is clear that in order for PGW to address these substantial
32 infrastructure issues, it must obtain the additional funding
33 necessary to further accelerate its main replacement efforts.
34 We believe that granting PGW a waiver of the statutory 5%
35 DSIC limitation, as provided for in Act 11, may be the
36 most cost-effective and least problematic means of

1 ensuring that the Company can obtain this additional
2 funding in a timely fashion. (Order at 41).

3 Q. HOW DID THE COMMISSION RESOLVE PGW'S REQUEST TO
4 INCREASE THE DSIC CAP TO 10 PERCENT TO ADDRESS FUTURE
5 UNDER-COLLECTIONS?

6 A. In its initial Order denying the requested increase in the DSIC to 10 percent the
7 Commission noted:

8 We emphasize that our approval of an increased DSIC
9 recovery level must be balanced by the need to consider the
10 impact on the Company's ratepayers. An increase in
11 ratepayer bills is unavoidable if PGW's DSIC is to be
12 raised to a level that is high enough to ensure that
13 significant progress can be made in addressing the poor
14 condition of the Company's infrastructure. Nevertheless,
15 we see no need to further burden customers by
16 guaranteeing that PGW can raise its DSIC even higher—up
17 to a maximum of 10%, or a 100% increase in the current
18 DSIC—during periods when it must reconcile
19 undercollections from prior years. (Order at 54-55).

20 PGW filed a Petition for Reconsideration of the Commission's denial of a 10 percent
21 DSIC cap, which was granted. In that Order, the Commission considered new
22 information from PGW concerning the 2015 undercollection caused by PGW
23 transitioning to an annualized, levelized DSIC, which was a one-time event. (Order
24 at 17, 26). The Commission approved a temporary increase to 10 percent to address
25 this one-time event, stating:

26 For the above-stated reasons, we will reconsider our
27 January 2016 Order with regard to this issue, and will
28 permit PGW to increase its DSIC to allow for the recovery
29 of an additional \$5.7 million a year over a two-year period,
30 resulting in a total DSIC recovery rate of 8.84% that will
31 allow the Company to recoup approximately \$11.4
32 attributable to the undercollection for the year ending
33 December 31, 2015. Upon expiration of this two-year

1 period, we will require PGW to reduce the DSIC to the
2 previously-approved level of 7.5%. (Order at 27-28).

3 Q. SHOULD CPG BE AUTHORIZED TO INCREASE THE DSIC REVENUE
4 CAP TO TEN PERCENT?

5 A. No. There are several reasons why CPG should not be permitted to increase the
6 DSIC revenue cap from five percent to ten percent. First, the five percent revenue
7 cap was included as part of Act 11 as an important consumer protection. It prevents
8 utilities from bypassing the traditional ratemaking process. Act 11 does not give the
9 Commission authority to waive the cap unless, without the waiver, the utility cannot
10 ensure and maintain adequate, efficient, safe, reliable and reasonable service. 66
11 Pa.C.S. §1358(a)(1).

12 Second, in PGW (Docket No. P-2015-2501500), the increase in the DSIC cap
13 to 7.5 percent was approved to address significant safety and reliability issues, and to
14 enable PGW to undertake an aggressive accelerated replacement strategy. There has
15 been no claim in this proceeding that the current state of CPG's infrastructure poses
16 significant safety and reliability issues or that the current pace of the Company's
17 replacement efforts is unacceptable and potentially harmful to the public.

18 In OCA-I-1, which asked if the Company would continue to provide safe,
19 reliable, and reasonable service if the request to increase the DSIC to 10 percent is not
20 approved, the Company stated that it will continue to meet its obligation to provide
21 safe and reliable service to its customers." Therefore, the Company may prefer to
22 charge a DSIC rather than rely on base rate increases but it does not need an increase
23 in the DSIC cap to 10 percent in order to ensure safe and adequate service.
24 Therefore, an increase in the DSIC cap to 10 percent is unnecessary.

1 Q. CPG CONTENDS THAT IF THE DSIC IS NOT INCREASED TO 10
2 PERCENT, IT WILL LIKELY REQUIRE CPG TO SUPPORT ITS
3 INFRASTRUCTURE IMPROVEMENTS THROUGH BASE RATE
4 PROCEEDINGS. WHAT IS YOUR RESPONSE?

5 A. While CPG has indicated that failing to increase the DSIC rate cap will likely result
6 in the Company filing base rate proceedings, the Company has made no commitment
7 as to how less frequently it will file rate cases if its request is approved. Numerous
8 economic and financial factors together determine the frequency with which CPG,
9 and other utilities, must file base rate increase requests and the costs incurred in the
10 review of those requests. Some of those factors are within the control of the
11 Company. As a result, there is no way of knowing whether the increase in the DSIC
12 rate cap will change the timing of CPG's future rates filings.

13 Q. IF CPG COMMITTED TO DEFERRING THE FILING OF A BASE RATE
14 CASE, WOULD YOU SUPPORT WAIVER OF THE DSIC CAP?

15 A. No. The waiver of the 5 percent DSIC cap is governed by Section § 1358(a)(1). That
16 statute gives the Commission authority to waive the cap in the event that a utility
17 cannot ensure and maintain adequate, efficient, safe, reliable, and reasonable service
18 without the waiver. CPG has indicated that it will provide adequate, efficient, safe,
19 reliable, and reasonable service regardless of whether a waiver is granted.

20 Q. MR. MCALLISTER CLAIMS THAT THE COMPANY HAS BEEN
21 ACCELERATING ITS INFRASTRUCTURE INVESTMENTS BECAUSE
22 IT HAS BEEN ABLE TO RECEIVE A RETURN ON THE CAPITAL IT IS
23 INVESTING WITHOUT REGULATORY LAG. ARE THERE BENEFITS
24 TO REGULATORY LAG?

1 A. Yes. Regulatory lag provides utilities with a greater incentive to control costs
2 between rate cases.

3 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

4 A. Yes it does.

224126

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of UGI Central Penn Gas, Inc. for :
a Waiver of the Distribution System Improvement :
Charge Cap of 5% of Billed Distribution : Docket No. P-2016-2537609
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VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts above set forth in my Direct Testimony, OCA St. No. 1, are true and correct 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).

Signature:


Jerome D. Mierzwa

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

DATED: July 22, 2016