

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2017-2640058

UGI Utilities, Inc. – Electric Division

Statement No. 6-SD

Supplemental Direct Testimony

of

**John Taylor, Principal Consultant
Black and Veatch Corporation**

**Topics Addressed: Impact of Tax Cuts and Jobs Act of 2017
 on the
 Class Cost Allocation Study**

Dated: March 12, 2018

1 **Supplemental Direct Testimony of John D. Taylor**

2 **INTRODUCTION**

3 **Q. Please state your name, affiliation, and business address.**

4 A. My name is John D. Taylor, and I am employed by Black and Veatch as a
5 Principal Consultant. My business address is 14401 Lamar Avenue, Overland
6 Park, KS 66211.

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

8 A. Yes, I previously submitted my direct testimony, designated UGI Electric
9 Statement No. 6, on January 26, 2018. My direct testimony addressed the
10 Company's cost of service, including a fully-allocated cost of service study to
11 determine the embedded costs of serving its various electric retail customers
12 and support rate design efforts. My testimony also supported the class revenue
13 increase apportionment and general guidance on the customer charges.

14 **Q. What is the purpose of your supplemental direct testimony?**

15 A. My direct testimony did not include the effects of the Tax Cut and Jobs Act of
16 2017 ("TCJA"), signed into law on December 22, 2017. As UGI Electric witness
17 Paul Szykman noted in his direct testimony, UGI Electric Statement No. 1, page
18 11, supplemental direct testimony to address the impact of the TCJA after it
19 completed further review and analysis.

20 **Q. Please summarize the content of your supplemental direct testimony?**

21 A. Upon updating the allocated class cost of service ("ACOSS") model with the
22 Company's revised Revenue Requirement, the basic conclusion from my Direct

1 Testimony remains the same: the Residential class is contributing revenues
2 below their cost to serve, whereas the other classes are contributing revenues
3 above their cost to serve. As such, the approach to apportioning the revenue
4 increase to the respective rate classes remains the same as that described in
5 the Company's direct testimony: a proposed increase to the Residential Class
6 and no net change for those rate classes with rates of return above the system
7 average.

8 **Q. Mr. Taylor, are you sponsoring any exhibits as part of this testimony?**

9 A. I am updating my direct Exhibit which is now labeled Revised UGI Electric
10 Exhibit D - Cost of Service Study ("Revised Exhibit D"). This exhibit contains
11 five sections for which an index is provided on page 2 of Revised Exhibit D.

12
13 IMPACT OF THE TCJA ON THE COST OF SERVICE CALCULATION

14 **Q. Did you reflect UGI Electric's revised revenue requirement into the ACOSS
15 model that was presented in your direct testimony?**

16 A. Yes. I reflected the revised revenue requirement, described by Company
17 Witness Stephan Anzaldo, in the ACOSS model that was presented in my direct
18 testimony. UGI Electric's revised revenue requirement of \$97,426,000, is shown
19 on line 40 of Section II of Revised Exhibit D.

20 **Q. What is the impact of the TCJA on the results of the ACOSS at the current
21 rate of return as shown on Section II of Revised Exhibit D?**

22 A. Income Taxes shown on line 18 decreased by \$508,000, from \$402,000 to
23 negative \$106,000. As a result of this change Current Operating Income shown

1 on line 20 has increased from \$3,303,000 to \$3,812,000, an increase of
2 \$508,000. There is a corresponding increase in the Current Rate of Return
3 shown on line 21, moving from 3.20% to 3.33%. Line 3 of Section II 'Other Rate
4 Base Items' decreased from \$20,302,000 to \$9,218,000 due to a decrease in the
5 rate base adjustment 'Accumulated Deferred Income Taxes' and a slight
6 decrease in the rate base adjustment 'Working Capital'. This resulted in an
7 increase to Total Rate Base from \$103,320,000 to \$114,404,000, which is shown
8 on line 4.

9 **Q. Does the revised cost of service study have any impact on the proposed**
10 **distribution of the revenue increase among the rate schedules?**

11 A. No. The basic conclusion from my Direct Testimony remains the same: the
12 Residential class is contributing revenues below their cost to serve whereas the
13 other classes are contributing revenues above their cost to serve. As such, the
14 approach to apportioning the revenue increase to the respective rate classes
15 remains the same as that described in the Company's direct testimony (see
16 Company witness David E. Lahoff UGI Electric Statement No. 8): a proposed
17 increase to the Residential Class and no change for those rate classes with rates
18 of return above the system average.

19 **Q. Does this conclude your supplemental direct testimony?**

20 A. Yes, it does.