



**PREPARED DIRECT TESTIMONY OF  
ANDREW P. WACHTER**

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

2 **A.** My name is Andrew P. Wachter, and my business address is 375 North Shore Drive,  
3 Pittsburgh, Pennsylvania 15212.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am employed as Director, Finance and Regulation for PNG Companies LLC (“PNG”).  
7 I provide services to Peoples Natural Gas Company LLC (“Peoples” or the “Company”).  
8 As Director, Finance and Regulation, I oversee the Rates and Regulatory group among  
9 other financial responsibilities at Peoples and its affiliates.

10

11 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND**  
12 **EMPLOYMENT EXPERIENCE.**

13 **A.** I graduated from Duquesne University in 2000 with a Bachelor of Science Degree in  
14 Accounting. I also obtained a Masters in Business Administration from Duquesne  
15 University in 2001. After graduation, I was employed as an Auditor with Deloitte and  
16 Touche LLP. In September 2004, I joined T. W. Phillips Gas and Oil Co., the  
17 predecessor to Peoples Gas Company LLC (“Peoples Gas”) as the Assistant Controller  
18 and was ultimately promoted to the Vice President of Finance and Rates. In June 2012, I  
19 assumed the position of Manager, Rates and Regulatory as the result of a post-acquisition  
20 reorganization. After that I held multiple roles until I was named Director, Finance in  
21 February 2016. In 2018, I assumed regulatory responsibilities in addition to my financial

1 responsibilities and my title was changed to Director, Finance and Regulation. I am a  
2 Certified Public Accountant, having obtained my certificate in Pennsylvania in 2004.

3  
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**  
5 **PUBLIC UTILITY COMMISSION (THE “COMMISSION”)?**

6 **A.** Yes. I have submitted Testimony in various base rate cases, purchased gas cost cases and  
7 other proceedings on behalf of Peoples, Peoples Gas and Peoples Gas WV LLC.

8  
9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 **A.** The purpose of my testimony is to explain the overall rate case organization and identify  
11 Peoples’ overall revenue requirement for non-gas costs. I will also identify and explain  
12 Peoples’ operating and maintenance expense for the test years relevant to this proceeding  
13 and, where helpful, the individual components of those expenses. There are three  
14 relevant test years: the historic test year (“HTY”), which covers the period October 1,  
15 2017 through September 30, 2018, the future test year (“FTY”) which covers the period  
16 October 1, 2018 through September 30, 2019, and the fully projected future test year  
17 (“FPFTY”) which covers the period November 1, 2019 through October 31, 2020.

18  
19 **RATE CASE ORGANIZATION**

20 **Q. HOW HAS PEOPLES ORGANIZED THIS RATE CASE?**

21 **A.** In the past, Peoples organized the rate case filing numerically following the filing  
22 requirement regulations. In this case, Peoples is taking a different approach and organized  
23 the filing by topics, instead of the previous numerical method. The below table

1 summarizes how the information is structured in this case by exhibit. Within each exhibit,  
 2 there are schedules and attachments to further organize the information. While the filing  
 3 requirements are still listed in each response, the Company’s witnesses will be referring  
 4 to the filing requirements by their corresponding exhibit and schedule numbers. Where  
 5 applicable, information is provided for the HTY, FTY and FPPTY in one response.

Exhibit 1	Balance Sheet
Exhibit 2	Income Statement
Exhibit 3	Revenues
Exhibit 4	O&M Expenses
Exhibit 5	Depreciation Study
Exhibit 6	Taxes other than Income Taxes
Exhibit 7	Income Taxes
Exhibit 8	Rate Base
Exhibit 9	Depreciation
Exhibit 10	Sales
Exhibit 11	Cost of Service
Exhibit 12	Gas Planning
Exhibit 13	General
Exhibit 14	Tariffs
Exhibit 15	System
Exhibit 16	Capitalization
Exhibit 17	COS Standard Data Requests
Exhibit 18	ROR Standard Data Requests
Exhibit 19	RR Standard Data Requests
Exhibit 20	Testimony

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 7 An index of all information provided can be found in Exhibit 13, Schedule 1.

8

1 **Q. HOW IS THE INFORMATION FOR THE PEOPLES AND EQUITABLE**  
2 **DIVISIONS PRESENTED IN THIS CASE?**

3 **A.** Where applicable, Peoples has provided information in each requirement on both a  
4 divisional and combined basis. To avoid duplicative responses for certain filing  
5 requirements, the Company has provided a combined answer for both divisions on  
6 questions where the answer would be identical for each Division.

7 Please note that the Divisions themselves are referred to in various ways. For  
8 example, the Peoples Division may be referred to as Peoples, PNG or PNGD and the  
9 Equitable Division may be referred to as Equitable, PED, EGC or EGCD.

10

11 **OVERALL REVENUE REQUIREMENT**

12 **Q. WHAT IS THE TOTAL NON-GAS COST RECOVERY IN THIS PROCEEDING?**

13 **A.** \$490,904,049 of revenues are required in order for Peoples to recover its non-gas costs.  
14 This is our non-gas cost revenue requirement.

15

16 **Q. WHAT DO YOU MEAN BY THE TERM NON-GAS COST REVENUE**  
17 **REQUIREMENT?**

18 **A.** Peoples non-gas costs are the costs incurred to provide public utility service, other than  
19 the cost of natural gas that is normally recovered in the Commission's 1307(f)  
20 proceedings.

21

22 **Q. HOW WAS THAT AMOUNT DETERMINED?**

1 **A.** The Company’s non-gas revenue requirement is the sum of the individual cost  
 2 components introduced and supported by the other witnesses in this proceeding and me.  
 3 These individual components include: (1) operation and maintenance expenses, which I  
 4 explain below; (2) depreciation and amortization expense and negative salvage expense  
 5 to which witness John Spanos has testified (**Peoples Statement No. 10**); (3) taxes other  
 6 than income taxes supported by witness Matthew Wesolosky (**Peoples Statement No. 4**);  
 7 (4) a return allowance which is the product of an overall rate of return of 8.0%, to which  
 8 witness Paul R. Moul has testified (**Peoples Statement No. 9**), rate base supported by  
 9 witness Anthony Caldro (**Peoples Statement No. 7**); and (5) federal and state income  
 10 taxes to which witness Wesolosky has also testified.

11  
 12 **Q. CAN YOU SUMMARIZE THE REVENUE REQUIREMENT?**

13 **A.** Yes. Below is a table which summarizes the major components of our non-gas revenue  
 14 requirement necessary to recover our FPFTY expenses and a fair return on plant  
 15 investment at the end of the FPFTY.

<b>Cost Category</b>	<b>Amount</b>
Operation and Maintenance Expense	\$ 194,240,606
Depreciation & Amortization Expense	86,626,149
Taxes Other Than Income Taxes	10,431,213
Rate of Return	164,144,039
Federal and State Income Taxes	35,462,041
<b>Total Non-Gas Claim</b>	<b>\$ 490,904,049</b>
Gas Costs	270,963,553
<b>Total Revenue Required</b>	<b>\$ 761,867,602</b>

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 17

1 **Q. WHAT EXHIBIT PROVIDES THE REVENUE REQUIREMENT?**

2 **A.** Exhibit 2, Schedule 4 (53.53.III.A.17) provides the income statement for both divisions  
3 and combined for each period in the case (HTY, FTY and FPFTY) at present and  
4 proposed rates (pages 2-4). Further, page 5 of this exhibit provides a calculation of  
5 proforma interest expense, page 6 provides rate of return on rate base including the  
6 derivation of the gross revenue conversion factors and page 7 provides the derivation of  
7 the adjustments to proposed rates necessary to derive projected rates for the combined  
8 Company.

9

10 **O&M EXPENSE**

11 **Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF YOUR TESTIMONY?**

12 **A.** Yes, I am sponsoring the main O&M claim schedule, **Peoples Exhibit 4, Schedule 1**  
13 (“Ex. 4, Sch. 1”), along with the filing requirements and standard data requests identified  
14 in Appendix A to this testimony.

15

16 **Q. ARE THERE ANY MAJOR CHANGES TO PEOPLES’ OPERATIONS**  
17 **DEPICTED IN THE EXPENSES OF THIS CASE?**

18 **A.** Yes, there is one major operational change affecting the Company during the HTY that is  
19 reflected in the Company’s HTY expenses. The normalized labor costs reflect the  
20 impacts of the Service Agreement between Peoples and PNG as well as the Second  
21 Amended Operational Service Agreement by and among Peoples and various affiliates  
22 both filed for approved by the Commission in 2018. Under these agreements  
23 administrative employees are hired at PNG and perform work for PNG’s various

1 subsidiaries such as Peoples Gas. In addition, operational employees in Pennsylvania are  
2 hired at Peoples Natural and perform work for other affiliates (primarily Peoples Gas).  
3 The impacts of these agreements can be seen primarily in the Labor and Benefits  
4 expenses that will be discussed later in my testimony.  
5

6 **Q. WHAT ARE PEOPLES' TOTAL FPFTY OPERATING AND MAINTENANCE**  
7 **EXPENSES AT PROPOSED RATES?**

8 **A.** Operating and Maintenance expense at proposed rate is \$194,240,606 on a combined  
9 basis<sup>1</sup>, as shown in the income statement presented at **Exhibit 2, Schedule 4** (filing  
10 requirement 53.53 III.A.17). This includes \$192,027,630 of expense at present rates  
11 which is presented **Ex. 4, Sch. 1** and \$2,212,976 of additional uncollectible expense as  
12 derived at **Exhibit 2, Schedule 4**.  
13

14 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU DETERMINED THE**  
15 **FPFTY OPERATING AND MAINTENANCE EXPENSES.**

16 **A.** I started with the “per books” operating and maintenance expenses of \$171,205,194 for  
17 the HTY as shown on **Ex. 4, Sch. 1 Page 4**, and I made HTY, FTY and FPFTY  
18 adjustments to determine the “normal” level of operating and maintenance expenses of  
19 \$170,730,778 for the HTY, of \$184,263,789 for the FTY and of \$192,027,630 for the  
20 FPFTY. These adjustments were made after reviewing Peoples’ actual expenses and  
21 obtaining additional information from department heads.  
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<sup>1</sup> The combined results of Peoples Natural Gas – Peoples Division and Peoples Natural Gas – Equitable Division will be referred to throughout this testimony as the Company is proposing to combine these rates in this proceeding.

1 **Q. WHAT IS THE INFLATION ADJUSTMENT?**

2 **A.** As shown on **Ex. 4, Sch. 1 Page 32** I have calculated inflation adjustments of 2.33% for  
3 the FTY and 1.89% for the FPFTY. This schedule calculates an average of the quarterly  
4 CPI: Urban Consumer - All Items index for each quarter of the FTY and the FPFTY to  
5 derive the rates. Such inflation calculation is utilized within several categories of O&M  
6 throughout **Ex. 4, Sch. 1** as discussed below.

7

8 **Q. IN LIGHT OF THE SERVICE AGREEMENT BETWEEN PEOPLES AND PNG**  
9 **AS WELL AS THE SECOND AMENDED OPERATIONAL SERVICE**  
10 **AGREEMENT DISCUSSED ABOVE HOW ARE YOU GOING TO ADDRESS**  
11 **NUMBER OF EMPLOYEES?**

12 **A.** Pursuant to these agreements, employees are hired at PNG or Peoples and perform work  
13 for affiliates as well as for the Company. Thus, I will provide the actual number of  
14 employees expected to be hired across the companies as well as the FTE anticipated to be  
15 charged to Peoples. To be clear, the costs claimed in this proceeding include only costs  
16 expected to be incurred by Peoples and do not include any costs for its affiliates.

17

18 **Q. WHAT IS THE HTY ADJUSTMENT FOR LABOR ON PAGE 5 OF EX. 4, SCH.**  
19 **1?**

20 **A.** The HTY Labor adjustment is \$1,993,458. This was determined by starting with the Full  
21 Time Equivalent (“FTEs”) complement on board at September 30, 2018 and annualizing  
22 the labor costs associated with those FTEs at our current wage rates (Rows 1-3) net of  
23 capitalization (Row 4) to derive an adjustment to the HTY (Row 5).

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**Q. WHAT ARE THE FTY ADJUSTMENTS FOR LABOR ON PAGE 5 OF EX. 4, SCH. 1?**

**A.** The adjustments for the FTY (Rows 7-13) were derived by starting with the annualized HTY labor of \$52,025,539 on a combined basis and making three types of adjustments. First, we added anticipated merit increases for the FTY period (Columns 4-6) based upon recent history. Second, we added in expected union job progression and anticipated normal salaried promotion increases (Columns 7-9). Third, we made adjustments for routine/normal vacancies as of the end of the HTY as well as added the salaries related to incremental FTE additions expected in the FTY.

**Q. PLEASE EXPLAIN YOUR TREATMENT OF ROUTINE OR NORMAL POSITION VACANCIES.**

**A.** Routine and/or normal position vacancies which occur as a result of terminations or retirements were assumed to be filled by employees with equivalent pay or by temporary employees while the positions are being filled. The associated amounts are included in FTY Adjustments (Columns 10-12).

**Q. WHAT ARE THE FPFTY ADJUSTMENTS FOR LABOR ON PAGE 5 OF EX. 4, SCH. 1?**

**A.** The adjustments for the FPFTY (Rows 14-21) were derived by starting with the annualized FTY labor of \$55,414,111 on a combined basis and making three types of adjustments. First, we added anticipated merit increases for the FPFTY period (Columns

1 4-6) based upon recent history. Second, we added in expected union job progression and  
2 anticipated normal salaried promotion increases (Columns 7-9). Third, we made  
3 adjustments for incremental FTE additions expected in the FPFTY and added the salaries  
4 related to these positions.

5  
6 **Q. CAN YOU EXPLAIN THE EMPLOYEES ADDED BEYOND FILLING**  
7 **EXISTING VACANCIES IN THE FTY AND FPFTY?**

8 **A.** The Company and its affiliates anticipate adding approximately 43 employees (38 FTEs  
9 for Peoples) during the FTY and FPFTY. These employee additions fall into four general  
10 categories: 1) additional employees required to appropriately comply with regulations  
11 and laws; 2) additional employees necessary to maintain or enhance our customer  
12 experience; 3) additional employees aimed at improving processes; and 4) additional  
13 employees to support the growing use of technology throughout our Company. The  
14 salaries and appropriate capitalization rates were determined on a per employee basis.

15  
16 **Q. EXPLAIN FURTHER THE ADDITIONAL EMPLOYEES RELATED TO**  
17 **COMPLYING WITH REGULATIONS AND LAWS.**

18 **A.** We are projecting to add two employees (1.8 FTEs for Peoples) to manage the additional  
19 work necessary to comply with requirements of Act 50 associated with damage  
20 prevention. These employees will coordinate the new Act 50 requirements including  
21 faster re-notification process, expanded reporting details including external reporting to  
22 excavators, expanded documentation procedures and communications. In addition, we are

1 projecting to add two employees (1.8 FTEs for Peoples) to account for additional work  
2 related to inside Service Line Leak Survey (“SLLS”).

3 Further, we are projecting to add one project manager and two analysts in order to  
4 implement a Pipeline Safety Management System (“SMS”) based on recommendations  
5 from the U.S. National Transportation Safety Board (“NTSB”) which will result in 2.5  
6 FTEs for Peoples. The NTSB recommended the pipeline industry develop guidance for a  
7 safety management system for energy pipeline operations in order to protect communities  
8 and the environment with safer pipeline operations. An SMS involves a systematic  
9 approach to managing safety; including the structures, policies, and procedures an  
10 organization uses to direct and control its activities. Because SMSs have helped other  
11 industries, pipeline operators through the American Petroleum Institute (“API”) and in  
12 partnership with the U.S. Pipeline and Hazardous Materials Safety Administration  
13 (“PHMSA”), state pipeline regulators, and other interested stakeholders, developed API  
14 Recommended Practice 1173 (“1173”) to bring the benefits of SMSs to pipeline  
15 operations. 1173 provides pipeline operators with a framework to review an existing  
16 pipeline SMS or develop and implement a new pipeline SMS.

17  
18 **Q. EXPLAIN FURTHER THE ADDITIONAL EMPLOYEES RELATED TO**  
19 **PROCESS IMPROVEMENT.**

20 **A.** We are projecting 11 additional employees (10 FTEs for Peoples) in support of process  
21 improvement in our operations group including adding FTEs related to a new VAC truck  
22 initiative and UFG mitigation efforts. The incremental employees related to the VAC  
23 truck initiative will be used to expand the use of VAC Trucks, when performing various

1 gas operating activities. These activities include verifying underground utility location  
2 (“test holes”), pinpointing & fixing leaks, repairing gas line & valve, installing anodes,  
3 terminating service lines and performing pipeline integrity inspections. Use of this  
4 technology provides enhanced damage prevention control to improve safety by utilizing  
5 it for test holes to more accurately locate active utility facilities and abandoned facilities.  
6 Another key benefit is that it helps to mitigate the escalating restoration costs due to more  
7 stringent and prescribed restoration requirements by various cities and  
8 municipalities. Additionally, these positions and this technology support our leak  
9 reduction and UFG initiatives.

10  
11 **Q. EXPLAIN FURTHER THE ADDITIONAL FTES RELATED TO GROWING**  
12 **THE USE OF TECHNOLOGY.**

13 **A.** In recent years the Company has increased the use of technology among employees. This  
14 trend will continue as the Company plans to implement new technology in the coming  
15 years throughout various departments. Additionally, as field telecommunications data  
16 points and base networks grow we need to provide 24/7 reliability to our operations. As  
17 a result, more employees are needed in the Information Technology group to support this  
18 growth in automation and technology. As such, we are anticipating adding six employees  
19 (4.4 FTEs for Peoples) related to additional needs associated with technology. These  
20 resources will be additional analysts for PC, network, systems and telecommunications  
21 support and an additional cyber security analyst to combat the growing cyber security  
22 threat faced by companies. Also, 4 additional meter technology employees (3.8 FTEs for

1 Peoples) are necessary to handle the increased need to support the meter reading  
2 technology installed on customer meters.

3  
4 **Q. EXPLAIN FURTHER THE ADDITIONAL EMPLOYEES RELATED TO**  
5 **ENHANCING THE CUSTOMER EXPERIENCE.**

6 **A.** Overall, the Company anticipates adding 17 employees to enhance the customer  
7 experience. They are as follows:

- 8 • Three employees (2.7 FTEs for Peoples) to enhance our theft of service program that  
9 supports our Unaccounted for Gas (“UFG”) mitigation efforts. We will be hiring an  
10 office supervisor and customer service representatives dedicated to theft of service  
11 reduction and fraud investigation efforts and its impact on UFG. Another position is  
12 an additional field resource to support the continual enhancement of our theft of  
13 service UFG efforts.
- 14 • Eight customer service representatives (7.1 FTEs for Peoples) and analysts aimed at  
15 improving the customer experience in our customer service group. These additional  
16 employees will enable us to potentially expand our call center hours, further enhance  
17 our interaction quality and enhance the quality assessment process by better analyzing  
18 our customer interactions.
- 19 • An engineer (0.9 FTE for Peoples) to enhance the timeliness of customer project  
20 assessments and other related customer requests. This new role will be focused on  
21 improving our support through consulting and engineering studies for new or existing  
22 customers looking to take advantage of gas equipment technologies.

- 1           • Three credit and collections representatives (2.7 FTEs for Peoples) to expand our  
2           collection efforts. The role of these employees will be to enhance the in-house  
3           collection efforts performed prior to turning over past due accounts receivable to our  
4           third party collection agencies.

5  
6 **Q.   WHAT IS THE TOTAL FTE COMPLEMENT INCLUDED IN YOUR FPFTY**  
7 **LABOR EXPENSES?**

8 **A.**   The Company’s projected FTE complement is based on the organization proposed by the  
9       department heads. This level increases the FTE equivalent staffing level for Peoples to  
10      1,200, our FPFTY FTE count in this proceeding.

11  
12 **Q.   EXPLAIN THE O&M LABOR PERCENTAGE UTILIZED ON THE LABOR**  
13 **SCHEDULES.**

14 **A.**   We developed the O&M labor percentage based upon payroll information during the  
15      period from October 1, 2017 through September 30, 2018 and an evaluation of the new  
16      labor added and the type of work they will perform.

17  
18 **Q.   IS THE ALLOCATION OF LABOR COSTS BETWEEN THE PEOPLES AND**  
19 **EQUITABLE DIVISIONS CONSISTENT WITH THE PREVIOUSLY**  
20 **MENTIONED AGREEMENTS?**

21 **A.**   Yes. The labor costs in this case reflect the impacts of the Service Agreement between  
22      Peoples and PNG as well as the Second Amended Operational Service Agreement by and  
23      among Peoples and various affiliates.

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**Q. WHAT IS THE BASIS FOR THE ANNUAL PERFORMANCE INCENTIVE PROGRAM (“APIP”) AND INCENTIVE COMPENSATION CLAIM ON PAGE 6 OF EX. 4, SCH. 1?**

**A.** First the Company normalized and annualized the per books incentive compensation to the amounts based upon the compliment of FTEs on board as of the end of the HTY (Rows 1-5). Then the Company made an adjustment to the FTY (Row 11) and the FPFTY (Row 17) to reflect the incentive compensation based upon the FTEs and their associated compensation projected in the FTY and the FPFTY. Rows 7 and 13 include the incentive compensation related to FTEs projected to be added in the FTY and FPFTY, respectively.

**Q. WHY IS IT IMPORTANT FOR PEOPLES TO RECOVER THE EXPENSE RELATED TO INCENTIVE COMPENSATION?**

**A.** To retain talent, Peoples must offer benefits comparable to other companies. Offering Incentive Compensation is one way for Peoples to retain talent by offering market based incentives to Company employees. The Company has undertaken research to ensure that it offers market based compensation and incentive programs. Eliminating or reducing these programs would have a significant impact on the Company’s ability to attract and retain competent employees.

**Q. WHAT IS THE BASIS OF THE FPFTY PENSION CLAIM ON PAGE 10 OF EX. 4, SCH. 1?**

1 A. Peoples' FPFTY pension expense is based on the FTEs' pension costs determined on a  
2 contribution basis. The Company used a two year average of contributions made in 2017  
3 and 2018 as reflected in the most recent actuary reports to derive the claim amount.  
4 Peoples intends to make contributions to the pension account based upon the actuarial  
5 recommendations.

6  
7 **Q. WHAT IS THE BASIS FOR YOUR FTY EXPENSE FOR POST RETIREMENT**  
8 **BENEFITS OTHER THAN PENSIONS ("PBOPS") ON PAGE 11 OF EX. 4, SCH.**  
9 **1?**

10 A. Peoples has been accounting for PBOPs on the same basis that these costs are recovered  
11 in rates. That is, on an accrual basis consistent with FAS 106 and the Commission order  
12 at Docket No R-00953318. Peoples has complied with that order and deposited the  
13 amounts into dedicated trust accounts in response to the Commission's Opinion and  
14 Order at Docket No R-00943111. The rate proceeding at Docket R-2010-2201702  
15 further allowed Peoples to include \$1,337,486, the funding deficiency for these costs at  
16 time of the acquisition by Steel River, over a 10 year amortization period. Both the  
17 ongoing accrual amount as well as the funding deficiency amount will be deposited into a  
18 dedicated VEBA trust. The HTY adjusted expense is reflected on Row 3 of this  
19 schedule.

20 Under our existing benefits programs, the total FPFTY PBOP expense is  
21 \$2,320,140 (Row 9) based on projections provided by the Company's actuary as well as  
22 the previously discussed amortization amount of \$1,337,486.

23

1 **Q. ARE YOU PROPOSING ANY CHANGES TO THE RECOVERY OF THESE**  
2 **COSTS IN THIS PROCEEDING?**

3 A. Yes. I am proposing to track actual PBOP costs and amortize the cumulative difference  
4 between actual and projected costs in the Company's next base rate proceeding. The  
5 amount to be tracked is \$982,654 as calculated on page 11 of **Ex. 4, Sch. 1**. The tracking  
6 will exclude the \$1,337,486 discussed above since the recovery of the previous period  
7 costs is an amortization and it is not appropriate to track this amount. This treatment is  
8 consistent with the past ratemaking treatment of these costs by the Company's affiliate,  
9 Peoples Gas. The Company anticipates that differences between the rate allowance and  
10 actual accruals be tracked and amortized over a period to be determined in the  
11 Company's next base rate proceeding.

12  
13 **Q. WHAT APPROACH DID YOU USE TO DETERMINE PEOPLES' BENEFITS**  
14 **EXPENSES ON PAGE 12 OF EX. 4, SCH. 1?**

15 A. Overall, these benefits include Medical, Dental, Vision, Life Insurance, Long Term  
16 Disability Insurance, 401(k) plans and other such programs. The FPFTY benefits  
17 expenses reflect the HTY benefits expenses adjusted to include the costs of the benefits  
18 for new FTEs and annualized for changes in costs relative to the anticipated results from  
19 future open seasons. Medical and other benefits were increased 6% based upon a  
20 medical cost trend study as prepared by PwC's Health and Research Institute in June of  
21 2018. 401(k) benefits were increased consistent with merit increases utilized to develop  
22 the labor claim. The combined benefits expense claim for the FPFTY is \$17,222,707.

23

1 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO OUTSIDE SERVICES-**  
2 **CONTRACTED ON PAGE 13 OF EX. 4, SCH. 1?**

3 **A.** I adjusted the HTY costs to remove non-recurring charges in the HTY, if applicable, and  
4 then adjusted for inflation in determining the FTY and FPFTY expense. Further, I added  
5 \$135,000 in the FTY for anticipated incremental costs associated with Company’s main  
6 storage field.

7  
8 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO OUTSIDE SERVICES-**  
9 **A&G ON PAGE 14 OF EX. 4, SCH. 1?**

10 **A.** I adjusted the HTY costs to remove non-recurring charges, if applicable, in the HTY and  
11 then adjusted for inflation in determining the FTY and FPFTY expense (Rows 3 and 7).  
12 Further, costs were added both in the FTY (Row 4) and FPFTY (Row 8) for anticipated  
13 increases in costs associated to support the growing use of technology throughout our  
14 Company. Below is a summary of those costs.

Type of Cost	Amount
Licenses for additional users	\$ 202,711
Increased maintenance expenses associated with existing and new technology	\$ 1,465,267
Additional bandwidth and related costs for additional data usage	\$ 65,685
<b>Total</b>	<b>\$ 1,733,663</b>

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20 **Q. HOW DID YOU DETERMINE THE COSTS OF RENT FOR THE FTY AND**  
21 **FPFTY ON PAGE 15 OF EX. 4, SCH. 1?**

22 **A.** Our General Office Rent for the FTY and FPFTY are based on the terms and conditions  
23 of the lease for our main office and call center operations in downtown Pittsburgh as well

1 as our Etna and Grove City field office facilities. The adjustment on Row 2 represents  
2 the annualization of rent expense according to the terms of the leases compared to the  
3 HTY expense amount.

4  
5 **Q. HOW WERE PEOPLES' INSURANCE COSTS DETERMINED ON PAGE 16 OF**  
6 **EX. 4, SCH. 1?**

7 **A.** I have adjusted the HTY Corporate Insurance Premium by annualizing the premium  
8 invoices received in September of 2018 for the period of October 2018 to September  
9 2019. Furthermore, I increased the cost thereafter by 7.1% which represents the total  
10 premium increase experienced from the 2018 invoice as compared to the 2017 invoice.

11  
12 **Q. WHAT IS THE BASIS FOR THE INJURIES AND DAMAGES EXPENSE ON**  
13 **PAGE 17 OF EX. 4, SCH. 1?**

14 **A.** I have reviewed the history of Peoples' Injuries and Damages expenses and have  
15 included an average of the past three years' expenses. Further, I utilized the previously  
16 discussed inflation rate to adjust the FTY and FPFTY.

17  
18 **Q. WERE EMPLOYEE EXPENSES ADJUSTED ON PAGE 18 OF EX. 4, SCH. 1?**

19 **A.** First, Employee Expense was annualized based upon the complement of employees at the  
20 end of the HTY (Row 2). Second, these expenses are adjusted for inflation in the FTY  
21 and FPFTY (Rows 5 and 9). Third, employee costs of \$98,504 (approximately \$1,700  
22 per employee) were added for the additional employees discussed above. Fourth,  
23 \$100,166 of costs related to new service and employee recognition programs were added.

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**Q. WERE COMPANY MEMBERSHIPS ADJUSTED ON PAGE 19 OF EX. 4, SCH. 1?**

**A.** Yes. The O&M Expense related to Company Memberships has been adjusted for inflation in the FTY and FPFTY based upon the amount booked in the HTY.

**Q. PLEASE EXPLAIN THE ADJUSTMENTS TO UTILITIES AND FUEL USED IN COMPANY OPERATIONS ON PAGE 20 OF EX. 4, SCH. 1?**

**A.** Since the expense of gas used in company operations is recovered through the 1307(f) proceeding, it has been removed from the O&M expense in this proceeding on Row 2 of this schedule. The remaining level of costs in this category represent other utility costs, like electric, that are not recovered through the 1307(f) proceeding. The remaining costs in this category were adjusted to reflect inflation for the FTY and FPFTY. In addition, costs were added on Row 6 for incremental ongoing satellite phone costs expected to be incurred related to measurement.

**Q. WHAT ARE PEOPLES' FPFTY ADVERTISING EXPENSES ON PAGE 21 OF EX. 4, SCH. 1?**

**A.** Peoples advertising expenses total \$3,133,755 for the FPFTY. This amount was adjusted to reflect only expenses which satisfy at least one of the criteria set forth in Section 1316(a) of the Public Utility Code.

1 **Q. PLEASE EXPLAIN THE CRITERIA SET FORTH IN SECTION 1316(a) OF THE**  
2 **PUBLIC UTILITY CODE.**

3 **A.** The criteria in this section are as follows:

- 4 1. Advertising that is required by law or regulation is addressed, for example, by  
5 costs projected for notices to ratepayers of proposed changes in our rates,  
6 pamphlets that advise them of their rights as consumers, and information on  
7 means of using their energy services more effectively and efficiently.
- 8 2. Advertising that is in support of financing.
- 9 3. Advertising that encourages energy independence is addressed, for example,  
10 by costs projected for publications that educate consumers on the use of  
11 domestic natural gas as a heating fuel instead of oil, or as a motor vehicle fuel  
12 instead of gasoline.
- 13 4. Advertising that provides important information to the public regarding the  
14 pipelines being replaced as part of our infrastructure replacement program and  
15 safety messages such as “Call before you dig” and explanations of gas  
16 odorization. Rate changes, means of reducing usage or bills, and energy  
17 conservation are addressed, for example, by costs projected for notices of  
18 changes in rates, for publications that provide maintenance tips and  
19 information on home winterization, budget payment programs, for billing and  
20 payment options as well as for the availability of public funds for payment of  
21 utility bills, and for bill inserts.
- 22 5. Advertising that provided a direct benefit to ratepayers is represented by most  
23 if not all of our projected advertising costs, in that those costs are designed to

1 keep all of our ratepayers or targeted groups of our ratepayers well informed  
2 of issues of interest to them, including information related to our infrastructure  
3 replacement program.

4 6. Advertising that is for the promotion of community service or economic  
5 development.

6  
7 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO FLEET MAINTENANCE  
8 AND FUEL AS WELL AS MATERIALS & SUPPLIES ON PAGES 22, AND 23,  
9 RESPECTIVELY OF EX. 4, SCH. 1?**

10 **A.** I adjusted these categories for inflation in determining the FTY and FPFTY expense.

11  
12 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO OTHER O&M EXPENSE  
13 ON PAGE 24 OF EX. 4, SCH. 1?**

14 **A.** I added an adjustment for charitable contributions on Row 3 and an adjustment for  
15 Mountain Energy costs on Row 10 then adjusted for inflation in determining the FTY and  
16 FPFTY expense.

17  
18 **Q. PLEASE EXPLAIN THE CHARITABLE CONTRIBUTIONS ADJUSTMENT  
19 FURTHER.**

20 **A.** The adjustment of \$2,608,086 on Page 24, Row 3 represents the amount of charitable  
21 contributions claimed as Other O&M in the case. Page 30 of **Ex. 4, Sch. 1.** presents a  
22 breakdown of charitable contributions. Peoples contributed \$3,049,097 in the HTY. We  
23 expect to spend about the same amount in the FTY and FPFTY in similar categories.

1 Although these amounts are booked as contributions we believe a significant amount of  
2 these costs provide benefits to customers. As such, we reclassified \$2,608,086 of these  
3 for ratemaking purposes to business expenses. This represents 50% of economic  
4 development contributions and 100% of environmental, human services and youth  
5 contributions (discussed below). This \$2,608,086 was derived by adjusting the HTY  
6 amount of \$3,049,097 by \$46,010 (normalization adjustments) to arrive at an adjusted  
7 HTY of \$3,003,087. Of this amount, \$2,608,086 was claimed as Other Exhibit 4 on Page  
8 24 and \$395,001 was not claimed according to the discussion below. The \$395,001  
9 represents 50% of economic development contributions and 100% of arts/culture  
10 contributions (discussed below).

11 As also described in the direct testimony of Mr. O'Brien (**Peoples' Statement**  
12 **No. 1**), our FPFTY Contribution expenses will provide direct benefits to our customers.  
13 For example, our contributions under the economic development category help attract  
14 new businesses to our service territory, encourage the expansion of existing businesses,  
15 retain existing businesses, and reduce unemployment. As such, the economic  
16 development contributions will provide a direct stimulus to the maintenance or  
17 enhancement of the market for natural gas within Peoples' service territory and an  
18 opportunity to spread our costs of service among the widest possible base of sales and  
19 transportation volumes. Because the benefits in this area accrue over time, I have only  
20 included 50% of contributions made in this category.

21 Our Contribution expenses under the youth and human services categories foster  
22 the development of a qualified and productive work force within our service territory, a  
23 necessary complement to our economic development activities as a means to attract new

1 businesses and enhance and retain existing businesses. In the same way as economic  
2 development, our educational other expenses stimulate the market for natural gas within  
3 Peoples' service territory to the direct benefit of all of our customers. Moreover, our  
4 expenses in these categories also improve the economic self-sufficiency of people within  
5 our service territory, and create a genuine opportunity for Peoples to reduce its costs of  
6 service, particularly in the areas of uncollectible expenses, customer assistance and other  
7 social programs.

8 The contributions associated with environmental programs are intended to  
9 improve the environment within our service territory and provide a direct benefit to our  
10 customers.

11 Finally, our other contributions in the Arts/Culture category have been removed  
12 because they have less of a direct benefit to customers. Peoples still intends to make  
13 similar donations but has not included these amounts in its cost of service for ratemaking  
14 purposes.

15  
16 **Q. DO SOME OF THESE CHARITABLE CONTRIBUTIONS REPRESENT**  
17 **EMPLOYEE EXPENSES?**

18 **A.** Yes. The Company currently has a Matching Gift Program which supports organizations  
19 that are important to our employees and our customers. Through this program, Peoples  
20 provides a dollar for dollar match (up to \$500) of donations our employees provide to  
21 eligible non-profit organizations. As this is a benefit to our employees it should be  
22 considered an employee expense. However, for purposes of the claim these costs were

1 claimed in the \$2,608,086 adjustment to Other O&M mentioned above and were not re-  
2 classed to Employee expenses.

3  
4 **Q. PLEASE DISCUSS THE ADJUSTMENT FOR MOUNTAIN ENERGY.**

5 **A.** The Company anticipates closing on the acquisition of the Mountain Energy system and  
6 its customers in early 2019. As such, an adjustment of \$132,000 was made on Page 24,  
7 of **Ex. 4, Sch. 1** (Row 10) to recover the expected ongoing costs to serve this system and  
8 its customers.

9  
10 **Q. PLEASE DESCRIBE PEOPLES' ADJUSTMENT FOR DEBT ISSUANCE COSTS**  
11 **ON PAGE 25 OF EX. 4, SCH. 12?**

12 **A.** Peoples recently refinanced the revolving credit facility used to help finance capital  
13 expenditures and to fund working capital, particularly in the summer months when  
14 revenues are low. These issuance costs, along with the remaining issuance costs from the  
15 prior facility have been amortized over five years, the life of the new credit facility. I  
16 have included one year's worth of that amortization amounting to \$410,099 in our O&M  
17 expenses as shown on this page. In addition, I included estimated annual costs for the  
18 letters of credit fee, the annual agency fee associated with the revolver and an estimate of  
19 the Commitment fee on the unused credit line.

20  
21 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO INCLUDE THIRD**  
22 **PARTY PAYMENT PROCESSING FEES IN THE COST OF SERVICE.**

1 A. Currently, Peoples customers can make payment through various channels such as mail,  
2 web and automated telephone (“IVR”). The cost of processing the majority of these  
3 payments is borne by customers via their base rates. However, the costs associated with  
4 third party payment processing for certain web, IVR and walk-in payments are borne by  
5 the individual customers making such payments.

6 The Company is proposing to pay all costs associated with customer payments  
7 directly to its service providers and recover such costs from all customers via base rates  
8 rather than a customer-paid transaction cost. If approved, all customers will be able to  
9 select the payment channel of their choice without consideration of additional  
10 convenience or transaction fees subject to certain limitations.

11

12 **Q. WHAT LIMITATIONS WILL THESE PAYMENTS BE SUBJECT TO?**

13 A. Under this no-fee for the customer model the Company will pay a fixed fee per payment  
14 to the third party service provider. In order to receive this fixed fee the Company will  
15 have to agree to certain limitations such as capping the cost of individual payments and  
16 limiting the frequency of payments one customer may make in a given period. These  
17 limitations help reduce the per transaction cost.

18

19 **Q. PLEASE DESCRIBE HOW CUSTOMERS BENEFIT FROM THIS PROPOSAL.**

20 A. Overall, this will improve the Customer Experience and thus customer satisfaction.  
21 Customers have frequently voiced dissatisfaction with having to pay transaction fees for  
22 making payments. Additional benefits include:

- 1 • Elimination of the convenience fee to customers for electronic payment through
- 2 our third party processor for credit card, debit card and ACH transactions;
- 3 • Elimination of transaction fees for bill payment at authorized walk-in locations;
- 4 • Encourage customer use of authorized agents, thus avoiding delays in processing
- 5 payments made through unauthorized agents;
- 6 • Increased customer satisfaction by allowing customers to pay via the channel of
- 7 their choice – free of charge; and,
- 8 • Encourages payment, especially from those who have limited means.

9

10 **Q. DO MANY NON-UTILITY INDUSTRIES CHARGE CUSTOMERS PER**  
11 **TRANSACTION FOR PROCESSING PAYMENTS?**

12 A. No. It is my observation that very few industries outside of utilities and government  
13 charge a per transaction fee for payment processing.

14

15 **Q. WHAT IS THE INCREMENTAL AMOUNT OF PAYMENT PROCESSING FEES**  
16 **INCLUDED IN THE COST OF SERVICE AS A RESULT OF THIS PROPOSAL?**

17 A. The fees are estimated to be \$2,303,208. The details for the cost and projected volumes  
18 for each transaction are provided on page 26 of **Ex. 4, Sch. 1**.

19

20 **Q. HOW WAS THE INCREASE IN QUANTITY OF PAYMENTS PROCESSED BY**  
21 **THE THIRD PARTY ESTIMATED?**

22 A. Based upon information obtained from an AITE Group Paper, the Company expects the  
23 percentage of payments that are made by debit/credit cards to increase from the rate

1 experienced today to 31% by the FPFTY. The 31% represents the percentage the AITE  
2 Group Paper projects for one-time no fee payments paid by credit/debit card for oil or gas  
3 payments. As such, the Company utilized 31% in projecting the number of Third Party  
4 Payments on Page 26, of **Ex. 4, Sch. 1** for the FPFTY. Peoples does not project an  
5 increase in the volume of walk-in payments, as consumer trends do not indicate this as  
6 becoming a more preferred payment method.

7  
8 **Q. PLEASE SUMMARIZE YOUR PAYMENT PROCESSING FEE PROPOSAL.**

9 A. The Company proposes to waive all transaction fees associated with the payment of  
10 residential customers' bills and include these costs in the cost of service.

11  
12 **Q. HAVE ANY OTHER PENNSYLVANIA PUBLIC UTILITIES RECEIVED**  
13 **APPROVAL FOR THIS?**

14 A. Yes. It is my understanding that Columbia Gas of PA and Duquesne Light have received  
15 approval.

16  
17 **Q. IF APPROVED, WHEN WOULD THE PROPOSAL GO INTO EFFECT?**

18 A. Since the proposal would require IT changes for both Peoples and the third party payment  
19 processing company, Peoples will endeavor to implement these changes as soon as  
20 possible after approval.

21  
22 **Q. PLEASE EXPLAIN ANY CLAIM FOR LOBBYING EXPENSE IN THIS**  
23 **PROCEEDING.**

1 A. Peoples is not making a claim for expenses related to lobbying in this case.

2

3 **Q. PLEASE EXPLAIN THE CALCULATION OF RATE CASE EXPENSES ON**  
4 **PAGE 27 OF EX. 4, SCH. 1.**

5 A. I have used the projected costs for outside services of \$2,389,000 related to this  
6 proceeding and normalized them over two years.

7

8 **Q. WHY DID YOU SELECT TWO YEARS FOR THE NORMALIZATION OF**  
9 **THESE COSTS?**

10 A. Peoples filed rate cases in both 2010 and 2012. Absent the rate case stay out period  
11 resulting from the Equitable acquisition, Peoples projects two years to be the approximate  
12 length of time between the filing of this proceeding and the filing of Peoples' next base  
13 rate proceeding given the Company's LTIP commitments for infrastructure replacement.

14

15 **Q. HOW DID YOU DEVELOP PEOPLES' EXPENSES FOR WRITE-OFF OF**  
16 **UNCOLLECTIBLE ACCOUNTS ON PAGE 28 OF EX. 4, SCH. 2?**

17 A. The uncollectible write-off amount is based on the relationship between write-offs and  
18 revenues. I have used a three-year average of write-offs as the basis for my adjustment.  
19 This schedule depicts the development of each customer class' uncollectible expense by  
20 using a percentage of write-offs to revenues for each test year. These averages were  
21 applied to both pro-forma revenue present rate levels and proposed revenue levels to  
22 determine normal uncollectible write-off amounts. I note that the development of the

1 uncollectible expense at proposed rates is determined and presented at **Exhibit 2,**  
2 **Schedule 4.**

3  
4 **Q. HOW WAS THE UNIVERSAL SERVICE RIDER ADJUSTMENT**  
5 **DETERMINED ON PAGE 29 OF EX. 4, SCH. 1?**

6 **A.** To normalize the Universal Service Rider expenses to the corresponding revenues, an  
7 adjustment was made to match the Universal Service Rider expenses to the projected  
8 Universal Service Rider Revenues. This adjustment has no impact on base rates. The  
9 Company is not proposing any other changes to these programs within this case.

10  
11 **Q. HOW WAS THE INTEREST EXPENSE ON CUSTOMER DEPOSITS DERIVED**  
12 **ON PAGE 31 OF EX. 4, SCH.1?**

13 **A.** Peoples used a twelve month average of customer deposits which represents the customer  
14 deposit amount utilized as a deduction to rate base. This average was then multiplied by  
15 the current interest rate of 4%, per Chapter 14 of the Public Utility code, to determine the  
16 interest on customer deposits at current rates. No adjustment is needed for the FPFTY or  
17 FTY as the Company has not projected a change to the balance of customer deposits.

18 **Q. ARE YOU CLAIMING ANY COSTS ASSOCIATED WITH THE**  
19 **GOODWIN/TOMBAUGH SYSTEM?**

20 **A.** No adjustments or claims were made for rate base or the costs associated with the  
21 Goodwin/Tombaugh system. The Company intends to file a separate petition for its  
22 proposals related to this system.

23

1 **Q. WOULD YOU LIKE TO DISCUSS ANY OTHER EXHIBITS THAT YOU ARE**  
2 **SPONSORING?**

3 A. Not at this time. The other schedules I sponsor are self-explanatory.

4

5 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

6 A. Yes, it does.

## Appendix A

Reference	FR/SDR #	Reference	FR/SDR #
Ex. 1, Sch. 4	53.53.II.A.18	Ex. 13, Sch. 16	53.52(a)(7)
Ex. 2, Sch. 3	53.53.II.A.22	Ex. 13, Sch. 17	53.52(a)(8)
Ex. 2, Sch. 4	53.53.III.A.17	Ex. 13, Sch. 18	53.52(a)(9)
Ex. 2, Sch. 9	53.53.III.E.21	Ex. 15, Sch. 1	53.53.I.A.1
Ex. 4, Sch. 1	53.53.III.E.17	Ex. 15, Sch. 4	53.53.II.A.24
Ex. 4, Sch. 2	53.53.III.A.20	Ex. 13, Sch. 2	53.52(e)(1)
Ex. 4, Sch. 4	53.53.III.A.25	Ex. 16, Sch. 14	53.53.II.A.16
Ex. 4, Sch. 5	53.53.III.A.29	Ex. 16, Sch. 15	53.53.II.A.17
Ex. 4, Sch. 6	53.53.III.A.33	Ex. 19, RR-19	RR 19
Ex. 4, Sch. 7	53.53.III.A.22	Ex. 19, RR-20	RR 20
Ex. 4, Sch. 8	53.53.III.A.23	Ex. 19, RR-21	RR 21
Ex. 4, Sch. 9	53.53.III.A.24	Ex. 19, RR-22	RR 22
Ex. 4, Sch. 10	53.53.III.A.27	Ex. 19, RR-26	RR 26
Ex. 4, Sch. 11	53.53.III.A.28	Ex. 19, RR-27	RR 27
Ex. 4, Sch. 12	53.53.III.A.31	Ex. 19, RR-28	RR 28
Ex. 4, Sch. 13	53.53.III.A.32	Ex. 19, RR-30	RR 30
Ex. 4, Sch. 14	53.53.III.A.30	Ex. 19, RR-31	RR 31
Ex. 4, Sch. 15	53.53.III.A.34	Ex. 19, RR-32	RR 32
Ex. 4, Sch. 16	53.53.III.A.35	Ex. 19, RR-33	RR 33
Ex. 4, Sch. 17	53.53.III.A.36	Ex. 19, RR-34	RR 34
Ex. 4, Sch. 18	53.53.III.A.37	Ex. 19, RR-37	RR 37
Ex. 4, Sch. 20	53.53.III.E.29	Ex. 19, RR-39	RR 39
Ex. 4, Sch. 21	53.53.III.E.33	Ex. 19, RR-40	RR 40
Ex. 4, Sch. 22	53.53.III.E.34	Ex. 19, RR-42	RR 42
Ex. 8, Sch. 18	53.53.III.A.16	Ex. 19, RR-43	RR 43
Ex. 13, Sch. 1	53.53.III.A.39	Ex. 19, RR-44	RR 44
Ex. 13, Sch. 2	53.52(a)(6)	Ex. 19, RR-46	RR 46
Ex. 13, Sch. 3	53.53.II.A.13	Ex. 19, RR-47	RR 47
Ex. 13, Sch. 4	53.53.III.A.40	Ex. 19, RR-52	RR 52
Ex. 13, Sch. 5	53.53.III.A.44	Ex. 19, RR-53	RR 53
Ex. 13, Sch. 6	53.53.III.A.46	Ex. 19, RR-54	RR 54
Ex. 13, Sch. 8	53.53.III.A.41	Ex. 18, ROR-1	ROR 1
Ex. 13, Sch. 9	53.53.III.A.19	Ex. 18, ROR-8	ROR 8
Ex. 13, Sch. 12	53.52(a)(11)	Ex. 18, ROR-13	ROR 13
Ex. 13, Sch. 13	53.52(b)(1)	Ex. 18, ROR-16	ROR 16
Ex. 13, Sch. 14	53.52(a)(5)	Ex. 18, ROR-22	ROR 22
Ex. 13, Sch. 15	53.52(a)(10)	Ex. 18, ROR-23	ROR 23