

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	
v.	:	Docket No. R-2018-3006818
	:	
	:	
PEOPLES NATURAL GAS COMPANY	:	
LLC	:	

**PREPARED DIRECT TESTIMONY OF
KAREN R. WORCESTER
DIRECTOR, FINANCE AND ACCOUNTING
PEOPLES NATURAL GAS COMPANY LLC**

DATE SERVED: January 28, 2019
DATE ADMITTED: _____

Peoples Statement No. 6

**PREPARED DIRECT TESTIMONY OF
KAREN WORCESTER**

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

2 **A.** My name is Karen R. Worcester. My business address is 375 North Shore Drive,
3 Suite 400, Pittsburgh, PA 15212.

4

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

6 **A.** I am employed by PNG Companies LLC (PNG Companies) as Director, Finance
7 and Accounting. PNG Companies provides various administrative functions for
8 Peoples Natural Gas Company LLC (“Peoples” or the “Company”) including
9 Accounting.

10

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

13 **A.** I received a Bachelor of Science Degree in Accounting from Messiah College in
14 1989.

15 In 1993, I began my career in the utility industry by joining Virginia
16 Natural Gas Company (a subsidiary of Consolidated Natural Gas Company
17 (CNG) at the time) as a staff accountant. I eventually became an employee of
18 the CNG Service Company, as a senior accountant. After the 2000 merger of
19 Dominion Resources, Inc. (“Dominion”) and Consolidated Natural Gas
20 Company, I was promoted to Manager of Accounting – Delivery Segment,
21 within the Dominion Resources Services Company (“DRS”). My area was

1 responsible for the accounting and financial reporting of several companies that
2 comprised the Dominion Delivery Segment and then later the Virginia Power
3 Segment, including Virginia Electric and Power Company (Distribution and
4 Transmission), The East Ohio Gas Company, Peoples' predecessor - The
5 Peoples Natural Gas Company, Hope Gas, Inc., and Dominion Retail, Inc. On
6 February 1, 2011, I left DRS and joined Peoples as the Director of Accounting
7 where my responsibilities included the accounting and financial reporting for
8 Peoples in addition to the Fixed Asset Accounting and Accounts Payable
9 functions. In January 2017, I was named Controller of Peoples. In April 2018,
10 my title became Director – Finance and Accounting at PNG Companies.

11

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR, FINANCE**
13 **AND ACCOUNTING OF PEOPLES?**

14 **A.** I am responsible for the overall development and execution of the Company's
15 policies, strategies, and practices in the areas of Accounting, Fixed Asset
16 Accounting, and Accounts Payable.

17

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 **A.** I will identify the filing requirements that I am sponsoring. Also, I will discuss
21 how the accounting records of Peoples are maintained and what industry
22 standards are followed. Additionally, I will discuss the Company's settlement
23 commitment in the acquisition of Equitable Gas and how the accounting

1 information is reported by division in this proceeding based upon the settlement
2 agreement. Finally, I will provide information on the Company's proposed
3 transition of accounting methodology for gas in storage from the annual last-in
4 first-out ("LIFO") method to a weighted average cost of gas ("WACOG")
5 method.

6

7 **Q. WHAT FILING REQUIREMENTS ARE YOU SPONSORING?**

8 **A.** A list of the filing requirements that I am sponsoring is attached to my testimony
9 as Appendix A.

10

11 **Q. PLEASE DISCUSS HOW PEOPLES MAINTAINS ITS ACCOUNTING
12 RECORDS AND WHAT INDUSTRY STANDARDS IT FOLLOWS IN
13 DOING SO.**

14 **A.** Peoples' accounting records are maintained using both a "Natural" chart of
15 accounts and a "FERC" chart of accounts. Transactional data is recorded,
16 maintained and reported in accordance with Generally Accepted Accounting
17 Principles (GAAP). Several authoritative sources are utilized including
18 standards and interpretations issued by the Financial Accounting Standards
19 Board (FASB) and FASB's Accounting Standards Codification (ASC), and the
20 Code of Federal Regulations (CFR). Additionally, Pennsylvania Public Utility
21 Commission (Commission) and Federal Energy Regulatory Commission (FERC)
22 directives and standards are reviewed to assure compliance with applicable
23 reporting requirements.

1 Further, Peoples' financial statements are subject to audit for inclusion in
2 the annual audit of its parent company PNG Companies and these financial
3 statements are replete with our independent auditors' report. The report is based
4 on audits conducted in accordance with auditing standards generally accepted in
5 the United States of America.

6

7 **Q. PLEASE DISCUSS THE SETTLEMENT COMMITMENT FROM THE**
8 **2013 ACQUISITION OF EQUITABLE DOCKETED AT NOS. A-2013-**
9 **2353647, A-2013-2353649, and A-2013-2353651.**

10 **A.** In paragraph 47, the Company agreed to the following:

11 Peoples will maintain separate accounting for the Peoples Division and
12 Equitable Division operations sufficient to provide all Commission
13 required financial statements. Separate accounting records will also be
14 maintained for operations in West Virginia and Kentucky.

15

16 Peoples' cost allocations between its Peoples and Equitable Divisions and
17 affiliates will follow the standards and allocation methodologies that have
18 been previously approved by the Commission, at Docket No. G-2012-
19 2290014, with regard to affiliate charges under the Peoples Service
20 Company LLC agreement. (¶ 53).

21

22 **Q. HAS THE COMPANY ADHERED TO THIS SETTLEMENT**
23 **PROVISION?**

1 **A.** Yes, Peoples has maintained separate and sufficient accounting records for the
2 Peoples Division and Equitable Division and for operations in West Virginia and
3 Kentucky. Cost allocations between the Peoples and Equitable Divisions and
4 affiliates have followed the standards and methodologies approved at Docket No.
5 G-2012-2290014, and allocation factors have been updated each year based on
6 the approved methodology.

7
8 **Q. HOW IS THE ACCOUNTING INFORMATION PRESENTED IN THIS**
9 **CASE?**

10 **A.** In the filing requirements, Peoples has provided separate information by division
11 where applicable.

12
13 **Q. HOW ARE OPERATING COSTS ALLOCATED BETWEEN DIVISIONS**
14 **IN THIS CASE?**

15 **A.** Costs are allocated based upon the affiliated interest agreements that are
16 provided in SDR-RR-51, Attachments 1 and 2, which have been filed and
17 approved by the PUC.

18
19 **Q. WHAT IS PEOPLES PROPOSING IN THIS PROCEEDING WITH**
20 **RESPECT TO THE PEOPLES AND EQUITABLE DIVISION**
21 **ACCOUNTING?**

22 **A.** The Company is proposing to consolidate the accounting of the Peoples and
23 Equitable Divisions together into one unified company.

1

2 **Q. PLEASE DISCUSS PEOPLES' PROPOSAL TO MOVE FROM LIFO TO**
3 **WACOG ACCOUNTING FOR GAS IN STORAGE.**

4 **A.** The Peoples Division currently uses an annual LIFO method to price gas injected
5 into and withdrawn from storage. Under the annual LIFO method, the Peoples
6 Division utilizes an average annual inventory rate which is not finalized until the
7 end of the fiscal year, December 31st, after all storage gas has been purchased,
8 injected and/or withdrawn during the same year. This annual LIFO method
9 requires Peoples to initially project the average cost of all gas purchases for the
10 entire fiscal year to set an initial LIFO injection/withdrawal inventory rate. The
11 rate derived from the total annual estimated purchase cost becomes the estimated
12 inventory rate and is then updated monthly as actual costs for purchased volumes
13 and revised projected costs for remaining purchase volumes become available.
14 The quarterly updates reprice both future LIFO injection and withdrawals and
15 experienced LIFO injections and withdrawals. These quarterly and annual
16 pricing adjustments can have a measurable effect upon quarterly purchased gas
17 cost filings.

18 The weighted average cost of gas ("WACOG") accounting methodology
19 would allow Peoples to value storage using the actual cost and volume of the
20 currently monthly injections and withdrawals. Under the WACOG method, the
21 actual cost and volume of the current month's injections are added to the
22 inventory value calculated at the end of the previous month, and a new average
23 cost per Mcf is calculated for the current month. The current month's

1 withdrawals are deducted from the balance at the new average cost per Mcf.
2 When storage gas is being injected, the inventory cost for the current month is
3 added to the inventory cost from the previous month(s). At the end of the
4 injection season, the storage cost for the winter is well-established, during the
5 withdrawal season withdrawals are made at the average price primarily resulting
6 from the injection season. Unlike the Peoples Division's annual LIFO method,
7 the WACOG method does not require repricing of prior months of injections or
8 withdrawals. Conversion from the annual LIFO method to WACOG accounting
9 would enhance the Peoples Division's ability to forecast its Purchased Gas costs,
10 would reduce price volatility and would conform the inventory accounting
11 method to the Equitable Division in their combined 1307(f) filings.

12

13 **Q. DOES THE EQUITABLE DIVISION CURRENTLY USE THE WACOG**
14 **METHOD?**

15 **A.** Yes.

16

17 **Q. WHEN DOES PEOPLES PROPOSE TO CONVERT THE ACCOUNTING**
18 **METHOD FOR GAS IN STORAGE?**

19 **A.** Assuming that the proposal is approved by the Commission, Peoples would
20 make this change for the Peoples Division effective January 1, 2020. Peoples
21 will be making a separate filing requesting this accounting change. Additional
22 detail will be provided in that filing.

23

1 **Q. DO THE FILING REQUIREMENTS IN THIS CASE REFLECT THE**
2 **IMPACT OF THIS PROPOSED CONVERSION?**

3 **A.** Yes, the storage inventory balances presented in the Fully Projected Future Test
4 Year reflect the impact of the proposed conversion. The projected impact of this
5 change would increase rate base by approximately \$8.7 million.

6

7 **Q. HOW WILL THE INVENTORY RE-PRICING CONVERSION OCCUR?**

8 **A.** Beginning January 1, 2020 current storage inventory for the Peoples Division
9 would be repriced at the WACOG rate for the Equitable Division. This
10 conversion will create an immediate credit to gas storage costs charged to
11 1307(f) customers.

12

13 **Q. WHEN AND HOW WILL CUSTOMERS SEE THE BENEFIT OF THE**
14 **INVENTORY RE-PRICING?**

15 **A.** Peoples would establish a WACOG bill credit that would be designed to provide
16 a credit to customers equal to the projected difference between Purchased Gas
17 Costs (PGC) using a LIFO method and PGC costs using the WACOG method for
18 the twelve months ending September 2020.

19

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A.** Yes. I reserve the right to supplement my testimony as additional issues arise
22 during the course of this proceeding.

Filing Requirements Sponsored by
Karen R. Worcester

<u>Exhibit/SDR</u>	<u>Filing Requirement</u>
Ex. 1, Sch. 1	53.52(c)(2)
Ex. 1, Sch. 2	53.53.III.A.1
Ex. 1, Sch. 3	53.52(c)(6)
Ex. 1, Sch. 5	53.53.II.A.23
Ex. 1, Sch. 7	53.53.III.A.2
Ex. 1, Sch. 8	53.53.III.A.3
Ex. 1, Sch. 9	53.53.III.A.4
Ex. 1, Sch. 10	53.53.III.A.5
Ex. 1, Sch. 11	53.53.III.A.6
Ex. 1, Sch. 12	53.53.III.A.7
Ex. 1, Sch. 13	53.53.III.A.8
Ex. 1, Sch. 14	53.53.III.A.9
Ex. 1, Sch. 15	53.53.III.A.10
Ex. 1, Sch. 16	53.53.III.A.11
Ex. 1, Sch. 17	53.53.III.A.12
Ex. 1, Sch. 18	53.53.III.A.13
Ex. 1, Sch. 19	53.53.III.E.1
Ex. 1, Sch. 20	53.53.III.E.2
Ex. 1, Sch. 21	53.53.III.E.32
Ex. 1, Sch. 23	53.53.II.A.20
Ex. 2, Sch. 1	53.52(b)(2)
Ex. 2, Sch. 2	53.52(c)(5)
Ex. 2, Sch. 5	53.53.III.A.18
Ex. 2, Sch. 6	53.53.III.A.42
Ex. 2, Sch. 7	53.53.III.A.43
Ex. 2, Sch. 8	53.53.III.E.16
Ex. 3, Sch. 18	53.53.III.E.37
Ex. 4, Sch. 3	53.53.III.A.21
Ex. 4, Sch. 19	53.53.III.A.38
Ex. 16, Sch. 8	53.53.II.A.11
RR 1	
RR 23	
RR 24	
RR 25	
RR 29	
RR 38	
RR 51	

COS 3
COS 4
COS 5
COS 6
COS 7
ROR 2
ROR 5