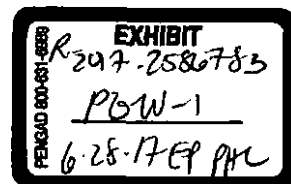


**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial	:	
Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

TESTIMONY AND EXHIBITS OF PHILADELPHIA GAS WORKS

Testimony	Witness	Exhibits
PGW St. No. 1	Direct Testimony of Gregory Stunder	None
PGW St. No. 1-R	Rebuttal Testimony of Gregory Stunder	Exhibit GJS-1
PGW St. No. 1-RJ	Rejoinder Testimony of Gregory Stunder	None
PGW St. No. 2	Direct Testimony of Joseph F. Golden, Jr.	Exhibits JFG-1 through JFG-3
PGW St. No. 2-R	Rebuttal Testimony of Joseph F. Golden, Jr.	Exhibits JFG-1-A & JFG-2-A & Exhibits JFG-4 through JFG-8
PGW St. No. 3	Direct Testimony of Daniel J. Hartman	Exhibit DJH-1
PGW St. No. 3-R	Rebuttal Testimony of Daniel J. Hartman	None
PGW St. No. 4	Direct Testimony of Frank C. Graves	Appendix 1 & Appendix 2
PGW St. No. 4-R	Rebuttal Testimony of Frank C. Graves	None



PGW HEARING EXHIBIT NO. 1

Testimony	Witness	Exhibits
PGW St. No. 5	Direct Testimony of Philip Q. Hanser	Exhibits PQH-1 through 6; PQH-7A through 7C & PQH-8 through PQH-11
PGW St. No. 5-R	Rebuttal Testimony of Philip Q. Hanser	Revised Exhibits PQH-9 through PQH-11 & PQH-12
PGW St. No. 5-SR	Surrebuttal Testimony of Philip Q. Hanser	Exhibit PQH-13
PGW St. No. 6	Direct Testimony of Kenneth S. Dybalski	Exhibits KSD-1 & KSD-2
PGW St. No. 6-R	Rebuttal Testimony of Kenneth S. Dybalski	None
PGW St. No. 7	Direct Testimony of Douglas A. Moser	Exhibits DAM-1 & DAM-2
PGW St. No. 7-R	Rebuttal Testimony of Douglas A. Moser	Exhibit DAM-3
PGW St. No. 7 -SR	Surrebuttal Testimony of Douglas A. Moser	None
PGW St. No. 8	Direct Testimony of Florian Teme	None
PGW St. No. 8-R	Rebuttal Testimony of Florian Teme	None
PGW St. No. 9-R	Rebuttal Testimony of Denise Adamucci	Exhibit DA-1
PGW St. No. 10-R	Rebuttal Testimony of Bernard L. Cummings	Exhibits BLC-1 & BLC-2
PGW St. No. 10-RJ	Rejoinder Testimony of Bernard L. Cummings	Exhibits BLC-3 & BLC-4

PGW HEARING EXHIBIT NO. 1

Testimony	Witness	Exhibits
PGW St. No. 11-R	Rebuttal Testimony of H. Gil Peach	Exhibits HGP-1 through HGP-3
PGW St. No. 11-RJ	Rejoinder Testimony of H. Gil Peach	None

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

GREGORY STUNDER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Rate Filing Overview
Need for Rate Relief

February 2017

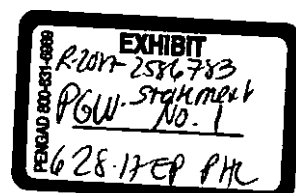


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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.**

3 A. My name is Gregory Stunder. My position with PGW is Vice President, Regulatory and
4 Legislative Affairs.

5 **Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.**

6 A. I have been employed with PGW since 2001. I became Vice President, Regulatory and
7 Legislative Affairs in January 2015. Prior to that, I was a Senior Attorney from 2003 to
8 2015 and a Staff Attorney from 2001 to 2003. I received my Juris Doctor (J.D.) from
9 Temple University - James E. Beasley School of Law in 1995, and my Bachelor's
10 Degree, Accounting, from La Salle University in 1985.

11 **Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THIS COMMISSION?**

12 A. No.

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

14 A. I will provide the Commission with an overview of PGW's base rate filing and discuss
15 the objectives that PGW seeks to accomplish in this proceeding. I will also introduce
16 PGW's other witnesses who provide detailed testimony and supporting documentation
17 for revenues, expenses and rate base items included in the fully projected future test year
18 used in this base rate filing.

19 **II. OVERVIEW OF REASONS FOR RATE FILING**

20 **Q. PLEASE DISCUSS THE RATE RELIEF THAT PGW IS REQUESTING.**

21 A. PGW is requesting an increase in its annual base rate operating revenues of \$70 million,
22 or 11.6 percent on a total revenue basis, with a proposed effective date of April 28, 2017.
23 Consistent with its mandatory budget process, the base rate increase requested in this

1 filing is based on a fully projected future test year starting on September 1, 2017
2 (“FPFTY”).¹

3 **Q. ON WHAT BASIS IS PGW’S REQUESTED RATE RELIEF TO BE**
4 **CONSIDERED?**

5 A. PGW is a “City Natural Gas Distribution Operation” as that term is defined in the Public
6 Utility Code.² As such, just and reasonable rates for PGW are determined using the Cash
7 Flow Method. PGW has no shareholders and does not pay a dividend or a rate of return
8 to its owner (instead it remits a fixed annual payment to the City of Philadelphia).
9 Accordingly, all of the funds it needs to run the Company come from ratepayers or from
10 borrowing (the costs of which then must be paid by ratepayers). Therefore, rather than
11 having its revenue requirement determined on the basis of a fair rate of return on a used
12 and useful rate base, PGW’s rates are set by determining the appropriate levels of cash
13 and other financial metrics necessary to enable PGW to pay its bills and maintain access
14 to the capital markets at reasonable rates. The PUC issued a policy statement more fully
15 setting forth these criteria and the financial and other considerations that are to be looked
16 to in setting PGW’s base rates at just and reasonable levels.³

17 **Q. WHY HAS PGW MADE THIS FILING?**

18 A. PGW’s last base rate increase was filed in 2009 and settled in 2010 and, by the time that
19 the PUC is expected to rule on this request, over seven years will have passed. In the

¹ The statutory definition of FPFTY, 66 Pa.C.S. § 315(e), would require that the FPFTY commence in November 2017 and continue for 12 months. So, simultaneously with the filing of general base case, PGW has filed a Petition requesting that the Commission waive the application of the statutory definition of fully projected future test year (“FPFTY”) so as to permit PGW to use a FPFTY beginning on September 1, 2017 in this proceeding.

² 66 Pa.C.S. § 102 (definitions).

³ 52 Pa. Code § 69.2702, 2703.

2008 period PGW was in financial crisis. The Commission's decision to award PGW a \$60 million "extraordinary rate increase" in 2008 and to then subsequently make that emergency rate increase permanent (along with an additional \$16 million to begin to fund PGW's OPEB obligation) stabilized the Company and put it on the path back to financial solvency. Since that time, PGW has improved its financial health and, in turn, this has given PGW the ability to concentrate on modernizing its distribution system, improving safety, increasing efficiency and trying to enhance customer service. However, after seven years, PGW needs additional revenues in order to address declining financial metrics and improve them to acceptable levels in order to continue its efforts on behalf of its customers.

Q. WHAT ARE THE KEY REASONS FOR THE NEED FOR ADDITIONAL REVENUES NOW?

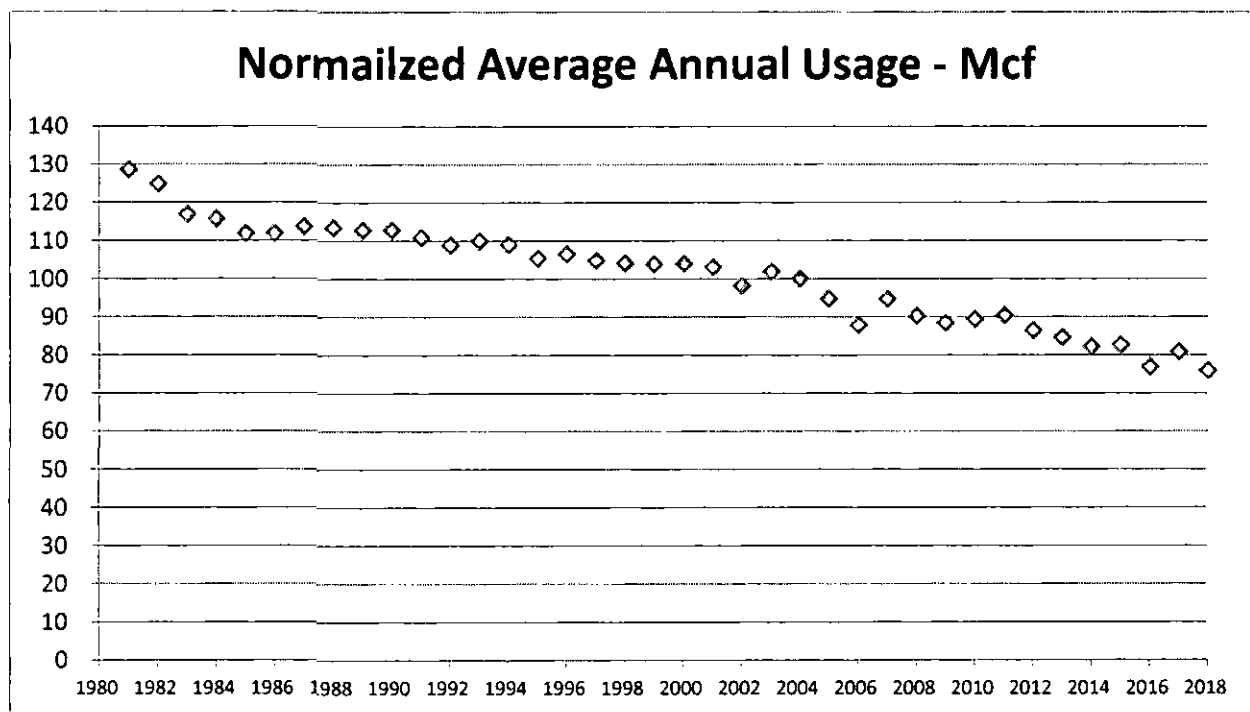
A. There are two key factors causing the need for additional revenues: increasing operational and capital costs and decreasing consumption. As PGW witness Golden explains in more detail, a combination of increasing costs over time and decreasing revenues caused chiefly by progressively warmer temperatures in PGW's service territory, resulting in less use of natural gas for heating, makes additional revenues imperative if PGW is going to avoid sliding back to a time before the Commission provided extraordinary rate relief.

Q. HOW HAVE INCREASED WARMING TRENDS AFFECTED PGW?

A. PGW is facing declining sales, which leads to not only declining revenues but also declining cash flow and bond coverages. Warmer weather is contributing to significant decreases in consumption. Fiscal Year (FY) 2016 reflected a 20.8% warmer than normal winter and 24.5% warmer than the prior year. In fact, since 2010, the average annual usage of PGW's residential heating customer has decreased by 15.38% from 91 Mcf (for

2010-2011) to 77 Mcf (for 2015-2016).⁴ This decreased level of degree days represents a loss of about six Bcf of normal sales or roughly \$36 million in lost margin.

And this trend has been long-term. As the graph below⁵ shows, the average residential heating customer using 76 Mcf/year in 2017-2018 compared to 129 Mcf/year in 1980-1981.



This clear trend prompted PGW to utilize a ten year average of degree days in order to calculate normal weather for fully projected future test year purposes. Both PGW witnesses Dybalski and Hanser discuss this issue in their testimony.

Q. WHAT IS THE OTHER MAJOR REASON FOR PGW'S NEED FOR RATE RELIEF?

A. The second major reason for the requested rate relief is increased costs. PGW has not requested a base rate increase since 2009 because: it has maintained control of payroll

⁴ See Exhibit KSD-1.

⁵ See Exhibit KSD-1.

1 costs through attrition with operational efficiencies; it has held operations and
2 maintenance expense increases at levels lower than inflation; and it has maintained
3 collection levels. Nonetheless, PGW has experienced a number of major cost increases
4 that it could not continue to absorb. For example, even though PGW's average number
5 of employees has decreased since 2010 from 1686 to 1650 projected for FY 2017-18,
6 payroll costs have increased (e.g., payroll costs ranged from \$106 million in 2010 to \$113
7 million in 2016). PGW also engaged in a concerted effort to hold the line on operating
8 expenses and was successful in limiting increases to 5% from 2010 to 2016, while the
9 inflation rate over that same period was 10.4%. However, PGW's expenses could have
10 been much higher if it had not taken several steps to reduce costs. PGW witness Moser
11 explains many of the efforts that the Company undertook to hold down expenses. For
12 example, PGW was able to save over \$77 million by self-insuring its employee health
13 care plan during FY 2012 to FY 2016. Projection of savings from self-insurance for the
14 period FY 2017 and FY 2018 totals an additional \$48.02 million for a total savings for
15 the seven years of \$125.4 million. It also reduced pension expense by incenting
16 employees to move to a defined contribution pension plan and dramatically reduced the
17 number of employees that will receive post-retirement health care benefits. Those and
18 other changes will reduce PGW's OPEB responsibility by some \$55 million.⁶ In
19 addition, PGW's interest expense on long term debt has decreased from the 2009/2010
20 base rate case when compared to the FPFTY (FY 2018) by \$12.6 million (\$61.8 million
21 reduced to \$49.2 million annually). The net effect of reduced revenues and increased
22 expenses resulted in PGW's determination that it needed to increase rates in order to

⁶ PGW St. 7, Exh. DAM-2.

maintain its efforts to manage costs and improve system performance while continuing to safely and reliably deliver natural gas to its customers.

III. OBJECTIVES

Q. PLEASE SUMMARIZE PGW'S MAJOR OBJECTIVES IN THIS PROCEEDING.

A. PGW seeks Commission approval to establish rate levels adequate to continue its efforts to modernize its system and to provide safe and adequate service by making its system safer and more efficient and improving customer service. To do this, PGW must be able to have the cash to pay its bills and provide for other obligations such as pensions and OPEBs and to achieve financial metrics that will enable it to maintain its present bond ratings and, if possible, improve its rating. As both PGW witnesses Hartman and Golden explain, an improved bond rating will reduce borrowing costs which, in turn will reduce costs that customers will have to bear over the life of PGW's 30-year bonds. An improved bond rating could also result in PGW considering additional system modernization steps, such as increasing the pace of cast iron main replacement. Further, approval of this request will demonstrate to the investment community that the Commission continues to support the need for intensified focus on pipeline safety matters as well as the need for reasonable and predictable earnings.

Q. DOES PGW HAVE ANY OTHER OBJECTIVES IN THIS PROCEEDING?

A. Yes, the Company is seeking several tariff changes. The Company seeks to add a Technology and Economic Development ("TED") Rider and a "Backup Service" rate. It also seeks to simplify its rate design by eliminating existing rate schedules that are no longer necessary or appropriate. It is also proposing that in the future, Interruptible

Transportation delivery rates be set on a negotiated basis, taking into account the customer's alternative cost of energy as well as the cost of firm transportation service.

IV. MANAGEMENT QUALITY, EFFICIENCY AND EFFECTIVENESS

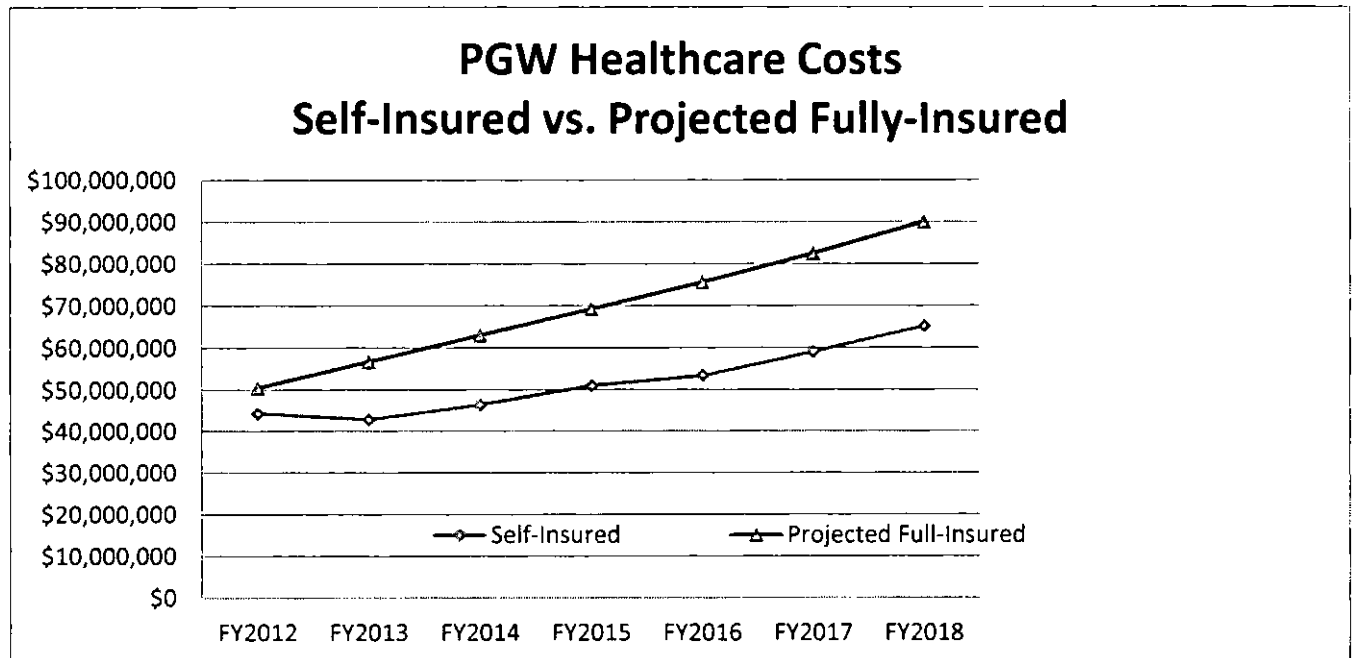
Q. PLEASE SUMMARIZE THE COMPANY'S INITIATIVES AND ACTIVITIES RELATED TO MANAGEMENT AND PROVIDING QUALITY SERVICE TO CUSTOMERS.

A. The Company has focused on a number of areas that demonstrate the quality and effectiveness of PGW's current management performance and its management's focus on safe, reliable, and outstanding service, as well as a strong commitment to growth – these are set forth below:

- PGW is committed to providing safe, reliable natural gas service to the City of Philadelphia. Since its last rate case, in order to assure safety and reliability, PGW has sought and obtained Commission approval for several actions that will allow for faster replacement of at-risk pipelines,⁷ including the increase in the Distribution System Improvement Charge (DSIC) cap for infrastructure replacement purposes from 5% to 7.5%. PGW's efforts, as well as steps it has taken to enhance customer understanding and awareness of its accelerated main replacement program are explained by PGW witness Moser.
- PGW has enhanced its efforts to detect and appropriately respond to natural gas leaks on its system. As a result, PGW is seeing a reduction in the number of hazardous leaks. These efforts are explained in greater detail by PGW witness Moser.

⁷ Docket Nos. P-2015-2501500; C-2015-2504092.

- As noted above, PGW has worked hard to manage costs and improve system performance while continuing its commitment to safely and reliably delivering natural gas to its customers. PGW witness Moser gives more details on the multi-faceted program undertaken to build efficiencies into its employee benefit programs. Some of the most significant include the implementation of a Health Care Cost self-insurance initiative. This one initiative alone will save the Company over \$125 million through the Fully Projected Future Test Year. The following chart from Exhibit DAM-1 shows:



- Proposing to implement a new rider, the TED Rider, which would increase access and expand the use of natural gas by giving customers more options to obtain natural gas services, including combined heat and power (“CHP”) projects, natural gas vehicles (“NGVs”) and fuel cells.

- Proposing to implement a pilot Micro-Combined Heat and Power (“Micro-CHP”) Incentive Program for small and medium sized properties to incent market development and market acceptance of small targeted fuel-switching projects to increase the ability of these customers to expand natural gas usage.

Q. HAS THE COMPANY UNDERTAKEN INITIATIVES TO ASSIST LOW INCOME CUSTOMERS TO AFFORD THEIR NATURAL GAS SERVICE?

A. The provision of services to low income customers starts with a robust “Customer Assistance Program” (“CAP”) which PGW calls its “Customer Responsibility Program” (“CRP”). CRP is a Percentage of Income Payment Program (PIPP). The CRP provides discounts to CRP participants and establishes affordability limits at 8% (for households with income at or below 50% of Federal Poverty Level (“FPL”); 9% (for households with income between 51%-100% of FPL); and, 10% (for households with income between 101-150% of FPL).

PGW also provides the largest Low Income Usage Reduction Program (“LIURP”) of any natural gas utility. Named CRP Home Comfort, the program seeks to provide cost-effective energy savings to low-income customers and make customers’ homes more energy efficient, safe and comfortable.

Q. HAS THE COMPANY MADE OTHER EFFORTS TO MAKE THE COMPANY’S SERVICE MORE ECONOMIC FOR ITS CUSTOMERS?

Yes. EnergySense is the demand side management program voluntarily offered by the Company. It offers easy, affordable ways that residential and business customers can conserve energy and save money. Its CRP Home Comfort Program is the largest Low Income Usage Reduction Program (“LIURP”) of any natural gas utility and provides cost effective energy savings to over 14,000 homes since its inception.

1 **Q. WHAT STEPS HAS PGW TAKEN TO IMPROVE THE SERVICE IT PROVIDES**
2 **TO ITS CUSTOMERS WITH RESPECT TO BILLING, COLLECTIONS AND**
3 **INQUIRIES?**

4 **Q.** PGW has worked hard to improve its billing, collection and inquiry interactions with its
5 customers. In that regard, PGW has worked to provide better and more comprehensive
6 training of customer service field and collection staff and also engaged in a replacement
7 of its phone system. Some expected benefits of this replacement are improved reporting
8 that will assist with coaching and analyzing call center performance and providing a more
9 user friendly service representative interface. PGW has also upgraded its workforce
10 planning software, which will assist PGW in more efficiently and effectively handling
11 high call volume.

12 **Q. PLEASE DISCUSS THE IMPACTS OF THE REQUESTED RATE RELIEF**

13 **A.** PGW is requesting an increase in the delivery charge as well as the customer charge for
14 most customer classes. For example, the Company is proposing a residential customer
15 charge (under Rate GS) of \$18.00 per month, as compared to the current charge of \$12.00
16 per month to better reflect the direct customer costs per customer as calculated by PGW's
17 cost of service witness, Mr. Hanser. Customer charge increases are also discussed in
18 greater detail by PGW witness Dybalski.

19 The requested residential customer charge compares to the monthly charges of
20 other NGDCs as follows:

Residential Customer Charge Comparison Residential Heating 15 MCF (monthly bill)		
NGDC	Customer Charge	Notes
PGW	\$18.00 (P)	Current \$12.00
Columbia	\$16.75	Increased in December 2016; R-2016-252966
National Fuel Gas	\$12.00	Last Increase: R-00061493 (2006)
PECO (Gas)	\$11.75	Last Increase: R-2010-2161592
Peoples	\$13.95	Last Increase: R-2012-2285985
Peoples - Equitable	\$13.25	Last Increase: R-2008-2029325
Peoples TWP	\$15.75	Last Increase: R-2013-2355886
UGI Central Penn	\$14.60	Last Increase: R-2010-2214415
UGI Penn Natural Gas	\$13.17	\$18.50 proposed in January 2017; R-2016-2580030
UGI Utilities (Gas)	\$11.75	Increased in October 2016; R-2015-2518438
Sources: NGDC Tariffs filed with the Commission and made available online by each NGDC; and Pennsylvania Public Utility Commission Rate Comparison Reports, which are available at: http://www.puc.pa.gov/filing_resources/rate_comparison_report.aspx		

1 The Company is also proposing increases to delivery charges. The increase for
 2 each customer class is discussed in greater detail by PGW witness Dybalski. I would like
 3 to highlight certain proposed increases in delivery charges from Table 3 of his testimony:

Delivery Charge			
Rate Class	Current (\$/MCF)	% Increase from Current	Proposed (\$/MCF)*
Residential	6.0067	12.0%	6.7275
Commercial	4.5984	4.6%	4.8108
Industrial	4.5332	-15.8%	3.8170
PHA GS	4.9441	32.7%	6.5603
Municipal	3.3661	14.0%	3.8365
PHA (Rate 8)	4.1101	-6.7%	3.8365
* The proposed delivery charge (\$/MCF) does <u>not</u> include the Merchant Function Charge ("MFC") and the Gas Procurement Charge ("GPC")			

4 In addition, I would note that the average impacts for the increased distribution
 5 rates are as follows:

- If PGW's base rate case is approved, the bill for a typical PGW residential heating customer who uses 76 Mcf per year will increase \$10.59 per month from \$94.06 to \$104.65 per month or by 11.3%.
- The bill for a typical PGW commercial heating customer who uses 332 Mcf per year will increase \$15.08 per month from \$327.07 to \$342.15 per month or by 4.6%.
- The bill for a typical PGW industrial customer who uses 717 Mcf year will decrease by \$18.23 per month from \$712.81 to \$694.58 per month or by (2.6)%.

The following chart compares the total charge for an average residential heating customer if the rate increase is approved compared to the same charges in 2010 and 2014:

	GCR*	Total Rate	Notes
September 2010	\$6.9050	\$15.9847 ¹	(Before DSIC)
June 2014	\$6.5642	\$15.6439 ¹	
November 2017	\$4.8152	\$14.2389 ²	(Includes DSIC)
* Purchased Gas Cost Rate Data for PGW compiled by the Bureau of Investigation & Enforcement which is available at: http://www.puc.pa.gov/NaturalGas/pdf/PGC.pdf			
¹ GCR plus RC&E (\$0.0259) plus Delivery Charge (\$6.3863) plus OPEB (0.2997) plus USC (\$2.3678) ²			
² GCR plus MFC (\$0.0228) plus GPC (\$0.2165) plus Delivery Charge (\$6.7322) plus OPEB (\$0.3386) plus ECR (\$0.0315) plus USC (1.3392) plus DSIC (\$0.743)			

This shows that, even if the full \$70 million is permitted by the PUC, the average residential customer will pay some 12% less on a total bill basis than they paid for the same amount of gas some seven years ago.

1 **V. SUMMARY OF FILING**

2 **Q. PLEASE INDICATE WHO THE WITNESSES WILL BE FOR PGW IN THIS**
3 **PROCEEDING AND THEIR RESPONSIBILITIES FOR THE FILING?**

4 A. PGW's direct testimony is Volume II of the Filing. The witnesses and a summary of
5 their testimony are as follows:

- 6 • Mr. Joseph F. Golden, Jr., (PGW Statement 2) is PGW's Executive Vice
7 President and Acting Chief Financial Officer. Mr. Golden provides
8 documentation and supporting methodology for the schedules and exhibits that
9 are included in PGW's base rate filing. He describes PGW's financial results for
10 the FPFTY (comprised of the period from September 1, 2017 through August 31,
11 2018). He also details and provides supporting justification for PGW's requested
12 annual increase in existing base rate of \$70 million.
- 13 • Mr. Daniel J. Hartman (PGW Statement 3) is a Managing Director and Partner
14 with PFM Financial Advisors LLC ("PFM"). He is an expert on financial markets
15 and financial instruments. Mr. Hartman testifies to the importance of obtaining
16 the rate increase being sought, in order to maintain its bond ratings, access to the
17 municipal capital markets at reasonable pricing, and to ensure there are not
18 unforeseen impacts to PGW's capital structure. Specifically, his testimony
19 focuses on the adverse financial consequences to PGW, which could be
20 considerable and broadly based, if the Company does not receive full approval of
21 its needed and requested rate increase.
- 22 • Mr. Frank C. Graves (PGW Statement 4) is a Principal with The Brattle Group.
23 He is an expert on financial economics and specializes in regulatory and financial

1 economics, especially for electric and gas utilities. Mr. Graves discusses the
2 results of a comparable utility analysis. His testimony benchmarks the financial
3 performance of PGW over the 2011-2015 time period, and he analyzes both
4 average performance over the time period and also trends over the time period.
5 The benchmarking, among other things, (i) indicates that PGW lags its peers on
6 key metrics such as debt to total capitalization and Days Cash; (ii) shows that a
7 failure to grant a rate increase would return PGW's financial position to pre-2009
8 levels; and (iii) shows that there is a continued need to support PGW's financial
9 stability with timely and appropriate rate increases.

10 • Mr. Philip Q. Hanser (PGW Statement 5) is a Principal with The Brattle Group.
11 Mr. Hanser presents the Company's class cost of service study ("CCOSS"), which
12 is Volume III of the Filing. The primary purpose of the present CCOSS is to
13 allocate the Company's costs of providing service to each Rate Class. The
14 purpose of his testimony is to describe the principles, methodology, and data used
15 in the present CCOSS, which was developed with the aim to move towards cost
16 allocations and rate design that more closely reflect cost causation. Mr. Hanser
17 also shows the monthly fixed customer cost per class. Finally, Mr. Hanser
18 explains why normal weather for PGW is best reflected as the 10-year average of
19 degree days experienced in PGW's service territory.

20 • Mr. Kenneth S. Dybalski (PGW Statement 6) is the Vice President - Energy
21 Planning & Technical Compliance at PGW. Mr. Dybalski describes and supports
22 (i) the process used to develop the sales forecast for the test year; (ii) the

1 allocation of the proposed base rate increase by customer class; and (iii) the
2 proposed customer charges by class.

3 • Mr. Douglas A. Moser (PGW Statement 7) is PGW's Executive Vice President
4 and Acting Chief Operating Officer. Mr. Moser provides an overview of PGW's
5 operations. He discusses PGW's initiatives taken to improve its overall safety
6 and compliance efforts. In addition, he describes PGW's existing universal
7 service programs and provides data on cost offsets related to CRP requested by
8 the PUC. He also addresses certain tariff changes proposed by PGW including
9 PGW's proposal to establish Interruptible Transportation rates on negotiated basis
10 within a range of cost of service and the comparable firm transportation rate.

11 • Mr. Florian Teme (PGW Statement 8) is PGW's Vice President, Marketing and
12 Sales. Mr. Teme explains and provides support for the Company's proposed TED
13 Rider and the pilot Micro-CHP Incentive Program.

14 In addition to these statements, PGW is submitting the information and data
15 required by the PUC's filing requirements (Volume I) and its proposed Tariff Supplement
16 No. 100 to Gas Service Tariff No 2, (Volume IV) which sets forth all of the changes and
17 rate increases proposed by PGW as part of this case.

18 **VI. CONCLUSION**

19 **Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?**

20 **A. Yes.**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

GREGORY STUNDER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:
Universal Service Surcharge, Bad Debt Offset
Universal Service Surcharge, Carrying Cost Offset

June 9, 2017

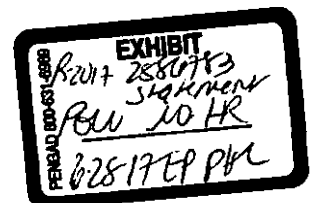


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II. UNIVERSAL SERVICE SURCHARGE	2
III. CONCLUSION.....	11

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

3 A. My name is Gregory Stunder. My position with PGW is Vice President,
4 Regulatory and Legislative Affairs.

5 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING**
6 **ON BEHALF OF PGW?**

7 A. Yes. I submitted my direct testimony, PGW St. No. 1 on February 27, 2017.

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

9 A. The purpose of my rebuttal testimony is to respond to the testimony of Office of
10 the Consumer Advocate (“OCA”) Witness Roger Colton on the structure of cost
11 recovery for PGW’s Customer Assistance Program (“CAP”), which PGW calls its
12 “Customer Responsibility Program” (“CRP”). The Company recovers CRP costs
13 through a “Universal Service Surcharge” (“USC”). More specifically, Mr. Colton
14 has set forth a position that adjustments should be made to the Universal Service
15 Surcharge for bad debt and carrying costs if CRP enrollment increases.

16 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

17 A. I urge the Administrative Law Judges (“ALJs”) and Commission to closely
18 scrutinize the proposed adjustments to PGW’s USC. It is critical for the ALJs and
19 the Commission to recognize that Mr. Colton incorrectly bases his position on the
20 wrong data and an extremely limited time period. Additionally, Mr. Colton
21 asserts a certain correlation between CRP enrollment and bad debt that is
22 absolutely unsupported by PGW’s actual CRP enrollment and bad debt expense
23 data (this is discussed below and in the Rebuttal Testimony of PGW Witness Dr.
24 H. Gil Peach). Furthermore, Mr. Colton has failed to realize that a full one-third

1 of PGW's bad debt expense is excluded from base rates because it represents the
2 projected CRP Arrearage Forgiveness for the Fully Projected Future Test Year
3 ("FPFTY"). Finally, Mr. Colton further suggests a carrying cost offset which is
4 inaccurate and unsupported.

5 **II. UNIVERSAL SERVICE SURCHARGE**

6 **Q. WHAT ISSUES HAVE THE PARTIES RAISED REGARDING**
7 **ADJUSTMENTS TO PGW'S UNIVERSAL SERVICE SURCHARGE?**

8 A. OCA's witness Mr. Colton recommends (OCA St. 4¹ at 4) that PGW's Universal
9 Service Surcharge incorporate a total offset for CRP Credits of 36.7% (15.7% for
10 bad debt offset; and 21% carrying cost offset) and a total offset for Arrearage
11 Forgiveness Credits of 36.7% (15.7% for bad debt offset, and 21% for carrying
12 cost offset).

13 **Q. DO YOU AGREE WITH MR. COLTON'S POSITION REGARDING THE**
14 **BAD DEBT AND CARRYING COST OFFSETS?**

15 A. No. In fact, Mr. Colton's position is based on absolutely ignoring how PGW
16 establishes the reserve for uncollectible accounts receivable, writes off accounts
17 receivable, reactivates written-off accounts receivable and records bad debt
18 expense. He also incorrectly characterizes write-off percentages as being the
19 same as PGW's "bad debt rate" and "uncollectible rate." Additionally, he is
20 unaware that the CRP Arrearage Forgiveness amount that is projected for the
21 FPFTY is subtracted from the bad debt expense and is not included in base rates.
22

¹ "OCA St. 4" refers to the revised direct testimony of OCA witness Colton that was served on June 2, 2017.

1 **Q. WHAT IS THE PROCESS WHICH MR. COLTON IGNORES?**

2 A. PGW's accounts receivable are analyzed (on an annual basis for financial
3 statement purposes) for collectability. The collectability study (which was
4 provided to OCA for FY 2014, 2015 and 2016 in response to OCA Interrogatory
5 V-7) assesses the collectability of accounts receivable balances at PGW's fiscal
6 year end. (Key data points are attached as Exhibit GJS-1). Uncollectible
7 percentages are established for the different categories of accounts receivable
8 after each customer's account is analyzed and the percentages are then applied to
9 accounts receivable balances in order to calculate the total reserve for
10 uncollectible requirement.²

11 After the reserve for uncollectible requirement is calculated, it is
12 compared to the current reserve for uncollectible balance. In order to adjust the
13 current reserve balance to match the collectability study requirement, the
14 difference is recorded as bad debt expense.

15 It is also important to note that there are adjustments during the fiscal year
16 to the reserve for uncollectible account for the following:

- 17 • Write-offs: PGW writes off account balances 90 days after a final bill
18 is issued. Write-offs reduce both the reserve for uncollectible accounts
19 and accounts receivable.
- 20 • Write-off recoveries: Payments received after an account is written off
21 are write-off "recoveries." Write-off recoveries are credited to the
22 reserve and increase the reserve balance.

² The reserve for uncollectible is a balance sheet account -- just like accounts receivable is a balance sheet account. Additionally, the reserve for uncollectible accounts is called a contra account and it is netted against accounts receivable.

- CRP Arrearage Forgiveness: the reserve for uncollectible balance is reduced for the CRP arrearage forgiveness billed via the Universal Service Surcharge.

The following are two examples of annual adjustments to the reserve for uncollectible accounts:

Example #1

Reserve for Uncollectible at FYE X1	\$	110,000
Write-offs	\$	(30,000)
Write-off Recoveries	\$	12,000
CRP Arrearage Forgiveness billed via USC	\$	(10,000)
Bad Debt Expense	\$	25,000
Reserve for Uncollectible at FYE X2	\$	107,000

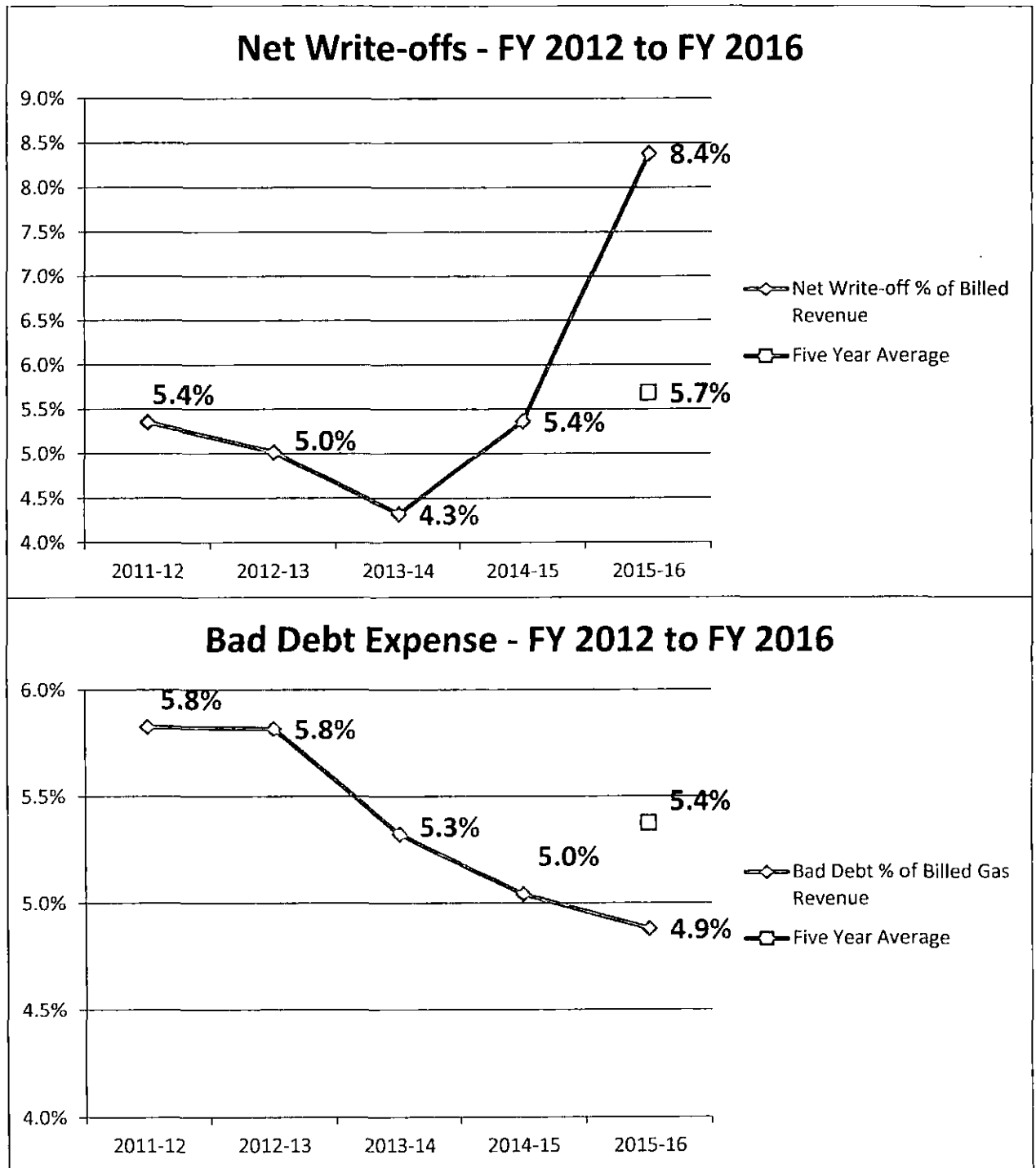
Example #2

Reserve for Uncollectible at FYE X2	\$	107,000
Write-offs	\$	(25,000)
Write-off Recoveries	\$	10,000
CRP Arrearage Forgiveness billed via USC	\$	(14,000)
Bad Debt Expense	\$	30,000
Reserve for Uncollectible at FYE X3	\$	108,000

As can be seen from the narrative and the examples, Mr. Colton incorrectly labels the write-off percentages reported in the 2015 BCS Annual Report on Collection Performance and Universal Service as the bad debt rate or uncollectible rate. Additionally, the BCS Annual Report only provides gross write-offs and does not subtract write-off recoveries, therefore, Mr. Colton's write-off percentage is overstated. Additionally, Mr. Colton only looks at one year of data instead of looking at a multi-year average.

The following charts show the historical five year averages for both the net write-off percentages and bad debt expense percentages (which were provided to OCA in response to OCA Interrogatories XIV-1 and XIV-2). The following

1 data shows that the FY 2016 data for net write-offs is 3% to 4.1% higher than the
2 4 prior fiscal years. This further supports the use of a five year average.



4
5
6 Additionally, the above data shows that on a five year average basis, net
7 write-off and bad debt percentages track closely at 5.7% and 5.4%, respectively.

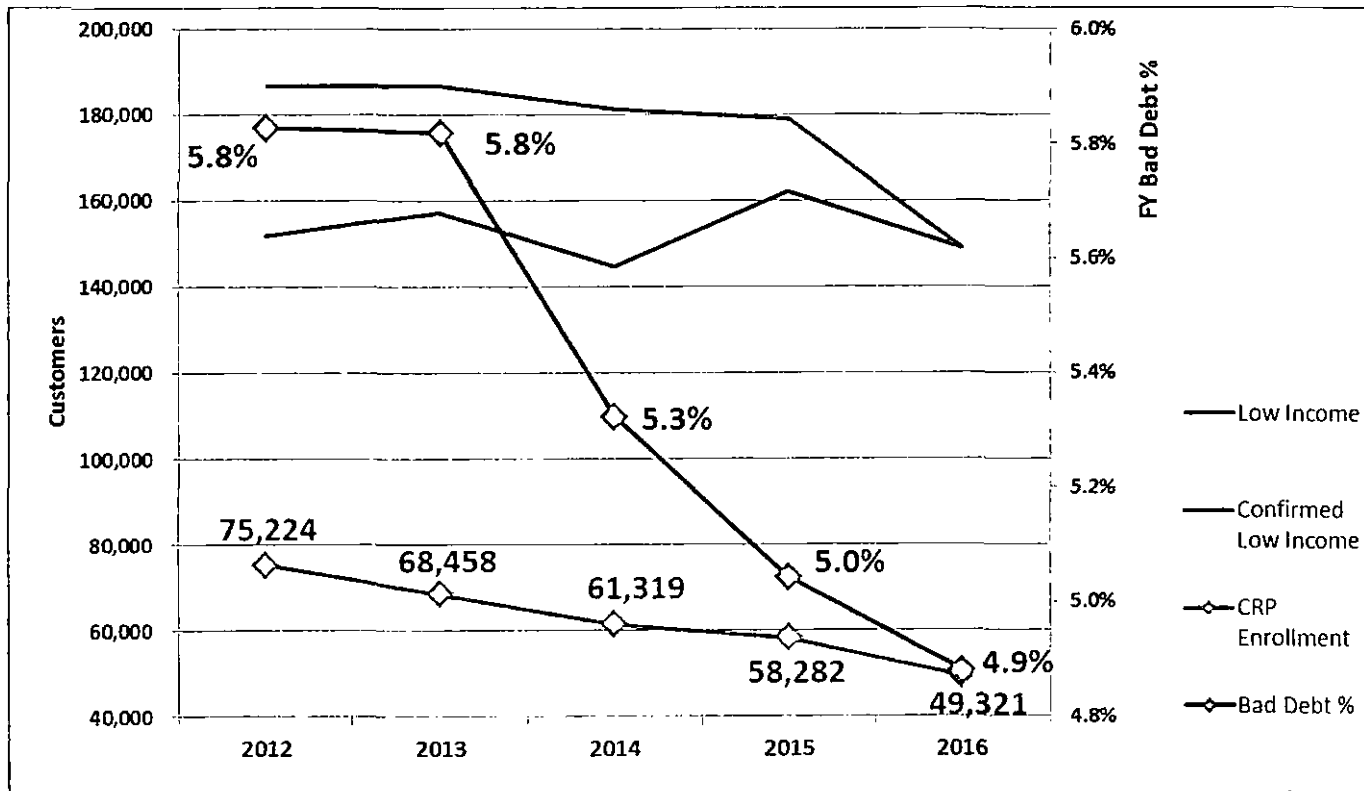
1 As a result of the foregoing, Mr. Colton's conclusion that PGW over-recovers for
2 write-offs or bad debt expense when (confirmed) low-income customers enroll in
3 CRP is incorrect because the percentages track so closely.

4 Simply put, there is emphatically no "double recovery" of revenues by
5 PGW when (confirmed) low-income customers enroll in CRP. A double recovery
6 would occur if PGW was recovering for an item of expense in base rates and then
7 recovering the very same item of expense in another place, in this case, through
8 the USC. What Mr. Colton is testifying about is NOT the recovery of the same
9 expense with the same characteristics, but whether PGW's overall bad debt
10 expense changes, on a pro forma basis, (i.e. all other things equal and not
11 considering any other factors) when a customer that was being billed as a regular
12 residential customer moves from that category to the CRP category, by enrolling
13 in the program, and, if so, by how much.

14 **Q. IS THERE MORE EVIDENCE THAT PGW DOES NOT OVER-**
15 **RECOVER FOR BAD DEBT EXPENSE WHEN CONFIRMED LOW-**
16 **INCOME AND/OR LOW-INCOME CUSTOMERS ENROLL IN CRP?**

17 A. Yes. Mr. Colton states that confirmed low-income and/or low-income customers
18 cause higher bad debt percentages when they are not enrolled in CRP and,
19 therefore, PGW over-recovers (i.e., double recovers) for bad debt as CRP
20 enrollment increases. Logically, if this relationship actually exists it should exist
21 as well when CRP enrollment goes down; that is, as CRP enrollment goes down
22 PGW's bad debt expense should go up, if Mr. Colton's argument is valid.
23 However, this conclusion is not supported when comparing 2012 to 2016 data
24 from the BCS Annual Reports on Collection Performance and Universal Service
25 to the bad debt percentages for the same time period. The below graph (which is

based on the data in Exhibit GJS-1) shows that the bad debt percentage decreased from 5.8% to 4.9% from FY 2012 to FY 2016 while, during the same time period, CRP enrollment decreased dramatically from 75,244 to 49,321.



As discussed above, if Mr. Colton's conclusion was valid, bad debt expense should have increased when CRP enrollment decreased. But, based on the data shown above, and the analysis prepared by Dr. Peach³, the converse is true – bad debt expense decreases when CRP enrollment decreases.

Q. IS MR. COLTON CORRECT ABOUT OVER-RECOVERING FOR BAD DEBT EXPENSE WITH RESPECT TO CRP ARREARAGE FORGIVENESS?

A. No. CRP Arrearage Forgiveness is not included in base rates. The FPFTY income statement provided in Exhibit JFG-2 shows that the total bad debt expense

³ See the Rebuttal Testimony of PGW Witness Dr. H. Gil Peach.

1 at proposed rates is \$30,073,000. The projected CRP Arrearage Forgiveness for
2 the FPFTY is \$10,461,000. The Cost of Service Study ("COSS") does not
3 allocate this amount to base rates because the CRP Arrearage Forgiveness is
4 recovered through the Universal Service Surcharge.⁴ In other words, the net bad
5 debt expense included in base rates is \$19,612,000 (\$30,073,000 minus
6 \$10,461,000). Additionally, the COSS included with the initial filing (in Exhibit
7 PQH-3H;⁵ page 4, line 140) shows the total CRP Arrearage Forgiveness in the
8 amount of \$10,461,000 as being included in the computation of the universal
9 service charge.

10 **Q. DO YOU AGREE WITH MR. COLTON'S TOTAL OFFSET FOR CAP**
11 **CREDITS OF 36.7% ON PROGRAM PARTICIPANTS ABOVE 51,500?**

12 A. No. Mr. Colton's calculation of a total offset for CRP Credits of 36.7% (15.7%
13 for bad debt offset; and 21% carrying cost offset) is seriously flawed for the
14 reasons that I have discussed above. Additionally, while this type of offset may
15 have been applied to investor owned utilities, where overearnings is a concern,
16 there is no such concern with PGW. As a company whose rates are set using the
17 cash flow method, reducing PGW's USC recovery will simply mean that PGW
18 will have less cash and, consequently, the use of such adjustments will force
19 PGW to have a larger revenue requirement in its next base rate case.

20 I also note that the logical justification in support of the proposed bad debt
21 offset of 15.7% is flawed. Mr. Colton is inappropriately focusing on one incorrect

⁴ The CRP Arrearage Forgiveness amount is FERC Account 904CRP and the FERC Account Description is "Uncollectible accounts in CRP."

⁵ Exhibit PQH-3H provides the USEC – Customer functional classification which shows the detail of the accounts that contribute to USEC.

1 factor for a one year period (i.e. the difference in the gross write-off percentage
2 for residential customers versus the gross write-off percentage for confirmed low-
3 income customers) to effectively modify PGW's bad debt recovery allowed in
4 base rates while ignoring all the other factors that could affect its actual
5 experience. There are many factors that affect PGW's bad debt expense, for
6 example: natural gas costs increase or decrease, the number of customers
7 increase or decrease, the level (and application) of LIHEAP grants increase or
8 decrease, or a change in the level of unemployment in the PGW service territory.
9 Each of these factors can impact PGW's bad debt expense.

10 I would further note that Mr. Colton provides no mathematical
11 justification in support of his proposed carrying cost offset of 21%. Moreover,
12 Mr. Colton attempts to justify this adjustment, despite the lack of a specific claim
13 by PGW for "working capital" because there is a (alleged) need to replace dollars
14 that PGW (1) does not receive because of arrears and/or (2) could have invested
15 and received some return on it (OCA St. 4 at 26). The former is inaccurate and
16 the latter is unsupported. PGW has not had to utilize its commercial paper
17 program for working capital since 2009. Nothing indicates that borrowing to fund
18 ongoing operations will be needed in the FPFTY. PGW uses cash to fund
19 ongoing operations.

20 **Q. DO YOU AGREE WITH MR. COLTON'S TOTAL OFFSET FOR**
21 **ARREARAGE FORGIVENESS CREDITS OF 36.7% ON PROGRAM**
22 **PARTICIPANTS ABOVE 51,500?**

23 **A.** No. As discussed above, total CRP Arrearage Forgiveness in the amount of
24 \$10,461,000 is removed entirely from base rates, therefore, even if one agreed
25 with Mr. Colton's offset theory of over-recovery, there is not any amount in bad

1 debt expense for CRP Arrearage Forgiveness which is being charged to customers
2 through the delivery charge.

3 **Q. DO YOU AGREE WITH MR. COLTON'S PROPOSED (OCA ST. NO. 4**
4 **AT 29) BASE PARTICIPATION RATE OF 51,500?**

5 A. As the program is designed today, the base participation rate is acceptable but I
6 am uncertain if CRP will be changed in a material way in this proceeding or the
7 current PGW USEC proceeding, therefore, this issue should be re-addressed if a
8 *material change occurs.*

9 **Q. IF THE COMMISSION DECIDES TO ORDER A BAD DEBT EXPENSE**
10 **OFFSET AND/OR A CARRYING COST OFFSET FOR AMOUNTS**
11 **BILLED THROUGH THE USC FOR INCREMENTAL PARTICIPATION**
12 **IN CRP, WHAT LEVELS OF OFFSET(S) SHOULD BE USED?**

13 A. That is hard to determine because I profoundly disagree with Mr. Colton's
14 position because the data and information set forth above does not support a bad
15 debt off-set or carrying cost offset. If a bad debt offset and/or a carrying cost
16 offset is ordered by the Commission, I respectfully request that PGW be offered
17 the opportunity to further develop any related data for discussion with OCA and
18 resolve the issue within twelve months of the Commission's order in this matter.

19 **Q. IF THE COMMISSION DECIDES TO ORDER A BAD DEBT EXPENSE**
20 **OFFSET AND/OR A CARRYING COST OFFSET FOR AMOUNTS**
21 **BILLED THROUGH THE USC FOR INCREMENTAL PARTICIPATION**
22 **IN CRP SHOULD THE MECHANISM BE RECIPROCAL?**

23 A. Most definitely. If the Commission finds that PGW's bad debt expense could be
24 lower than pro forma amounts if CRP enrollment goes up over the level in the
25 FPFTY then, logically, PGW should be able to *add an allowance* to its USC
26 recovery if CRP enrollment goes down. I would note that if such a mechanism
27 had been in place since PGW's last rate case, PGW would have recovered a

1 significant amount, owing to the material drop in CRP participation over the last
2 several years. However, to reiterate, PGW does not believe that such a “bad debt
3 tracker” is justified, and, I am informed, that Mr. Colton’s offset proposals are
4 legally questionable.⁶

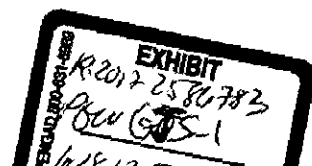
5
6 **III. CONCLUSION**

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 **A.** Yes.

⁶ See 66 Pa. C.S. § 1408 (“The commission shall not grant or order for any public utility a ...automatic surcharge mechanism for uncollectible expense.”). While I am not testifying as an attorney, in my opinion, Mr. Colton’s “bad debt” offset in the USC automatic adjustment clause does just that.

EXHIBIT GJS-1



PGW
OF LOW-INCOME AND CONFIRMED LOW-INCOME CUSTOMERS

	LOW-INCOME	CONFIRMED LOW-INCOME	CRP	Bad Debt Expense
2012	186,747	151,789	75,224	5.8%
2013	186,780	157,320	68,458	5.8%
2014	181,143	144,696	61,319	5.3%
2015	178,899	161,961	58,282	5.0%
2016	149,001	148,995	49,321	4.9%

Sources: PUC Report on USC & Collections Performance pp. 7-8, 42 (2015).
Customer counts for 2013 to 2015 were provided in PGW's Response to OCA Interrogatory OCA III-1, Attachment A
Customer counts for 2016 were provided in PGW's Response to OCA Interrogatory OCA III-1, Attachment B
Bad Debt expense was provided in PGW's Response to OCA Interrogatory XIV-1, Attachment A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REJOINDER TESTIMONY OF

GREGORY STUNDER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:
Universal Service Surcharge, Bad Debt Offset
Universal Service Surcharge, Carrying Cost Offset

June 26, 2017

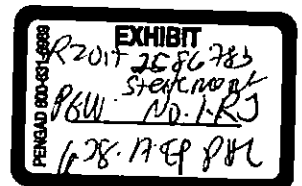


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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

3 A. My name is Gregory Stunder. My position with PGW is Vice President, Regulatory and
4 Legislative Affairs.

5 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON**
6 **BEHALF OF PGW?**

7 A. Yes. I submitted my direct testimony, PGW St. No. 1 on February 27, 2017 and rebuttal
8 testimony, PGW St. No. 1-R on June 9, 2017.

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

10 A. The purpose of my rebuttal testimony is to respond to the surrebuttal testimony of Office
11 of the Consumer Advocate (“OCA”) Witness Roger Colton (OCA St. No. 4-S) on the
12 structure of cost recovery for PGW’s Customer Assistance Program (“CAP”), which
13 PGW calls its “Customer Responsibility Program” (“CRP”). The Company recovers
14 CRP costs through a “Universal Service Surcharge” (“USC”). More specifically, Mr.
15 Colton has set forth a position that adjustments should be made to the USC for bad debt
16 and carrying costs if CRP enrollment increases.

17 **II. UNIVERSAL SERVICE SURCHARGE**

18 **Q. PLEASE RESPOND TO MR. COLTON’S STATEMENT THAT HE**
19 **DEMONSTRATED A POSSIBILITY OF DOUBLE COLLECTION OF BAD**
20 **DEBT BY PGW. OCA ST. 4-S AT 7-8, 10-11, 27-28, 29-30.**

21 A. Mr. Colton states that the “purpose of the bad debt offset is to allow the Commission to
22 identify the net universal survive program costs that should be collected from residential
23 ratepayers through the universal service program surcharge.” OCA St. 4-S at 28. Mr.
24 Colton is proposing offsets for CRP Credits of 36.7% (15.7% for bad debt offset; and
25 21% carrying cost offset) and for Arrearage Forgiveness Credits of 36.7% (15.7% for bad

1 debt offset, and 21% for carrying cost offset). The cost to PGW of these proposed offsets
2 (or adjustments) would be \$2.74 million annually for each and every incremental
3 addition of 10,000 CRP participants above the base level of participation.

4 But, Mr. Colton does not actually demonstrate that “PGW will experience a
5 double recovery in the absence of a” offset. OCA St. 4-S at 10-11. *See also* OCA St. 4-S
6 at 28, 29-30. Mr. Colton’s conclusion that PGW will experience an over-collection of
7 costs is based on three points, none of which are based on data or the actual experience of
8 PGW.

9 First, Mr. Colton cites to the Commission’s Policy Statement on CAP Cost
10 Recovery (52 Pa.Code. § 69.266). *See* OCA St. 4-S at 7, 28; OCA St. 4 at 23. This
11 Policy Statement merely expresses the Commission’s concern about preventing a double
12 collection of bad debt. It provides that cost offsets should be considered but does not
13 mandate the use of a cost offset or demonstrate that a double collection of bad debt exists
14 for PGW.

15 Second, Mr. Colton cites to the Order in PGW’s 2006-2007 rate case (R-
16 00061931). *See* OCA St. 4-S at 7; OCA St. 4 at 23. I am advised by counsel that the
17 Order is not binding on the Commission in this proceeding. My reading of that Order
18 show that the conclusions in that proceeding were based on the record in that proceeding.
19 *Id.* at 40. In fact, the Commission concluded that, in that proceeding, “PGW did not
20 provide a persuasive argument ... against double recovery.” *Id.* Here, as explained in
21 rebuttal testimony, PGW’s data and experience do not show that a double collection of
22 bad debt exists. *See* PGW St. 1-R; PGW St. 11-R at 28-31.

23 Third, Mr. Colton provides a hypothetical. *See* OCA St. 4-S at 7; OCA St. 4-S at

1 20-22. The hypothetical does not demonstrate that a double collection of bad debt exists
2 because it is not based on PGW's current data or experience. In fact, the hypothetical is
3 refuted by PGW's data, which shows that PGW's actual bad debt expense does not
4 conform to the hypothetical or Mr. Colton's conclusions. *See* PGW St. 1-R at 2-8; PGW
5 St. 11-R at 28-31. Additionally, I would note that hypothetical is generic. Mr. Colton
6 used the same hypothetical in PGW's 2006-2007 rate case (R-00061931; OCA St. 4-SR
7 at 4-5) and PGW's 2009-2010 rate case (R-2009-2139884; OCA St. 1 at 13-14). He also
8 used the same hypothetical for other utilities, such as PPL Electric Utilities (R-2015-
9 2469275; OCA St. 4 at 20-21). Since the hypothetical is not based on, or reflective of,
10 PGW's actual data or experience, it does not demonstrate that a double collection of bad
11 debt exists for PGW or that an offset is reasonable.

12 In addition, I would note that Mr. Colton does not recognize that PGW's
13 circumstances have changed over time. I will offer two brief examples. First, bad debt,
14 in general, is declining in the current era. That is signal that PGW's fundamentals have
15 changed. Next, gas costs for all customers have decreased dramatically, including
16 confirmed low-income customers and the portion of confirmed low-income customers
17 who are included in the CRP. Since bills have been lowered to the point at which some
18 low-income customers can be put on a cost-of-service bill (including Budget and Budget
19 Plus), the type of analysis that Mr. Colton puts forward (that decline in participation in
20 CRP is associated with lowering bad debt) is not necessarily correct. To the extent that
21 confirmed low-income customers can be given a lower monthly bill outside of CRP than
22 inside CRP, Mr. Colton's so-called analysis is neither reasonable nor justified.

1 **Q. DID MR. COLTON PERFORM ANY ANALYSIS TO DEMONSTRATE AN**
2 **ACTUAL DOUBLE RECOVERY BY PGW?**

3 A. No, and, in fact, because of PGW's rate making methodology, "double recovery" is not
4 possible. As a Cash Flow ratemaking company, even if there were any decreases in
5 PGW's bad debt expense (or other costs) compared to the levels allowed in PGW's rate
6 case due to increased CRP participation (which I dispute), there would be not be any
7 "double recovery" because those cost savings would be flowed through to ratepayers. As
8 all parties recognize, PGW's revenue requirement is determined looking at PGW's test
9 year cash flow statement and debt service coverage.

10 As one can see by examining PGW's Cash Flow Statement (e.g., PGW Exh.
11 JFG-1) PGW's year-end cash is calculated by examining PGW's beginning balance of
12 cash (i.e. the prior year ending balance of cash), taking account of sources and uses of
13 cash projected in the year, and then determining the Company's ending cash balance.
14 Please see Exh. JFG-1, pg. 2, Ln. 21 ("Cash-Beginning of Period). This process is used
15 in each year, which can plainly be seen by examining the "Forecast Periods" set forth on
16 Exh. JFG-1. Each year's cash flow calculation begins with PGW's cash balance at the
17 beginning of the year. So, if after PGW's rates are set here and in some subsequent year
18 its bad debt expenses or other cost item is reduced (for any reason) below the amount
19 assumed in the Fully Projected Future Test Year), PGW's cash balance would increase in
20 that year. That increased cash balance would be carried forward each year until PGW
21 files for new base rates. At that time PGW's "beginning" cash flow would be higher (all
22 things equal) than it would have been if PGW had not experienced the cost reductions.

23 Higher cash flow will mean more ending cash and thus less need for a rate
24 increase. Unlike investor owned utilities, customers receive the entire benefit from any

1 cost reductions between rate cases. Thus, Mr. Colton's fundamental premise of a "double
2 recovery" absent his offsets if CRP participation increases is incorrect. I am unable to
3 find any double collection of bad debt or carrying costs in the actual revenues of PGW.

4 Not only would there not be any "double recovery," applying Mr. Colton's
5 adjustments would actually make it impossible for PGW to achieve the financial levels
6 determined to be reasonable in this case. His proposed adjustment would have a
7 significant impact on the revenues of PGW: \$2.74 million **annually** for each and every
8 incremental addition of 10,000 CRP participants above the base level of participation.
9 That \$2.74 million (which could double, triple, quadruple, etc...in any or every year
10 between now and the next rate case, depending upon CRP participation level) is presently
11 assumed to be billed to customers and added to PGW's ongoing cash flow. This
12 significant revenue decrease will also negatively impact the debt service coverage
13 calculation which is also another factor upon which PGW's revenue requirement is
14 determined. If PGW is not permitted to recover its full revenue requirement, PGW's cash
15 balances and debt service coverage would be lower than projected and PGW would
16 effectively be denied the full annual rate increase determined by the PUC to be just and
17 reasonable. This will simply force PGW to file for rate relief sooner and at higher levels
18 than it otherwise would have to do.

19 **Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENTS AGAINST THE USE**
20 **OF RECIPROCAL OFFSET. OCA ST. 4-S AT 24-26.**

21 A. To reiterate, PGW does not believe that offsets proposed by Mr. Colton are justified.
22 That being said, a reciprocal offset is logical. See PGW St. 1-R at 10-11. The arguments
23 against reciprocal offsets are not well-grounded.

24 First, Mr. Colton argues that no double collection of bad debt occurs when the

1 actual CRP participation is less than the base number. OCA St. 4-S at 25. A reciprocal
2 offset is intended to capture the effect on changing levels of CRP customers on the
3 Company. Mr. Colton focuses only on increased CRP participation (and his allegations
4 of a double collection of bad debt). Mr. Colton ignores that decreased CRP participation
5 has impacts as well. That is why if the CRP participation level drops below the level
6 used for the base rate case an allowance should be added to PGW's USC recovery.

7 Second, Mr. Colton argues that a reciprocal offset would constitute
8 impermissible single-issue ratemaking. OCA St. 4-S at 25. I am advised by counsel that
9 single-issue ratemaking (a) only adjusts rates for one factor and can lead to excess
10 revenues and/or and reduced scrutiny; and (b) is a concern outside of a base rate case
11 proceeding.¹ This is a base rate proceeding, and the proposal for a reciprocal offset is not
12 an attempt to isolate a single base rate variable for adjustment outside the context of a
13 base rate proceeding. Moreover, if an adjustment to PGW's USC to attempt to account
14 for an alleged decrease in bad debt expenses due to increased CRP enrollment is not
15 impermissible single issue ratemaking, I fail to see how a reciprocal adjustment to
16 PGW's USC to account for the effect of decreases in CRP enrollment on the Company's
17 bad debt would be impermissible single issue ratemaking.

18 Third, Mr. Colton argues that a reciprocal offset would create the wrong
19 incentive for PGW. OCA St. 4-S at 25. Mr. Colton is wrong. As explained by Dr.
20 Peach, the one-way offset creates the wrong incentives by reducing cost recovery of CRP
21 participation exceeds a "base" number. PGW St. 11-R at 28-29. Simply put, Mr.

¹ Single-issue ratemaking outside of a base rate case is prohibited if it impacts on a matter that is normally considered in a base rate case. *See, e.g., Popowsky v. PUC*, 13 A.3d 583, at 593 (Pa. Cmwlth. 2011); *Pennsylvania Industrial Energy Coalition v. PUC*, 653 A.2d 1336, at 1350 (Pa. Cmwlth. 1995), *aff'd per curiam*, 670 A.2d 1152 (Pa. 1996).

1 Colton's proposal creates a disincentive for PGW to add CRP participants above the base
2 level. In comparison, a two-way offset would make PGW indifferent to CRP
3 participation.

4 Finally, Mr. Colton argues that a reciprocal offset is not appropriate because
5 customers that move out of CRP do not necessarily remain a customer of PGW. OCA St.
6 4-S at 25-26. Mr. Colton ignores that fact that, generally speaking, customers leaving
7 CRP (who do not remain customers of PGW) often do so with amounts owed to PGW.
8 The two-way offset would provide PGW with a mechanism to recover those amounts.

9 **Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENTS THAT ONLY A**
10 **CURRENT YEAR OF DATA SHOULD BE USED TO DETERMINE THE**
11 **OFFSETS. OCA ST 4-S AT 26-27.**

12 **A.** Nothing shows that the existence of this difference actually results in the double
13 collection of bad debt by PGW. PGW St. 1-R; PGW St. 11-R at 28-31. Mr. Colton's has
14 stated a five-year average of write-offs should not be used with the average of
15 participation data for a single year. OCA. St. 4-S at 26. That concern would be remedied
16 by using a five-years of CRP participation data. The average of the five-years of CRP
17 participation data shown on Exhibit GJS-1 is 62,521.

18 Here, Mr. Colton advocates for a time frame that generates the largest difference
19 and the highest offset. He has noted that use of five-year time frame produces a different
20 differential and offset. However, he does not explain why the use of five-year time
21 frame, which produces a lower differential and offset, is unreasonable or inappropriate.
22 Given that write-offs will differ from year-to-year, it is reasonable and appropriate to use
23 a multi-year average to determine a level for FPFTY purposes.
24

1 Q. PLEASE RESPOND TO ALLEGED INCONSISTENCY BETWEEN YOUR
2 REBUTTAL TESTIMONY AND THE REBUTTAL TESTIMONY OF MR.
3 CUMMINGS. OCA ST. 4-S AT 29-30.

4 A. To begin, I would note that Mr. Colton defined “carrying costs” for purposes of the
5 carrying cost offset for PGW. OCA St. 4 at 26. For purposes of PGW (who does not
6 make a claim for “working capital”) that there is a “carrying cost” that consists of either
7 (a) the “borrowing” cost associated with PGW’s need to borrow money to replace the
8 dollars it does not receive because of arrears and (2) the “opportunity” cost associated
9 with the dollars that PGW could have invested (and received some return on) – even if
10 the Company does not need to borrow money to replace those dollars. *Id.*

11 My rebuttal testimony responded to Mr. Colton’s definition. I explained that his
12 point on borrowing was inaccurate, and that his point on the opportunity cost was
13 unsupported. PGW St. 1-R at 9. Contrary to Mr. Colton’s assertions, I did not state that
14 there is no opportunity cost for PGW not receiving revenue. Mr. Cummings’ testimony
15 noted that there is a “cost of not receiving revenue,” PGW St. 10-R at 35, and that it
16 could impact cash-on hand, PGW St. 10-R at 38. The lack of cash on hand could lead to
17 borrowing for working capital, but that has not happened since 2009 (and this type of
18 borrowing is not forecasted in the FPFTY). Mr. Cummings did not quantify any carrying
19 cost for offset purposes. Nor did Mr. Colton. As I noted, Mr. Colton has not provided
20 any mathematical justification in support of his proposed carrying cost offset of 21%.
21 PGW St. 1-R at 9. Moreover, Mr. Colton has done nothing to show that PGW has
22 actually over collected “carrying costs,” which if an over collection existed would be
23 reflected in actual revenues received by PGW.

1 **Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENT THAT IT IS MORE**
2 **APPROPRIATE TO USE GROSS BAD DEBT, AS OPPOSED TO NET BAD**
3 **DEBT. OCA ST. 4-S AT 23-24.**

4 A. Mr. Colton notes that the use of net write-offs would create a lower offset than the use of
5 gross-write offs. OCA St. 4-S at 24. He does not actually respond to appropriateness of
6 using net write-offs as compared to gross write-offs. As I explained, gross write-offs do
7 not subtract write-off recoveries. PGW St. 1-R at 4. For calculating purposes, net write-
8 offs are gross write-offs less recoveries of amounts previously written off. So, to the
9 extent that Mr. Colton attempting to use differences between write-off figures for
10 residential customers as a whole and for confirmed low-income customers to prevent a
11 double collection of bad debt, he should be using net write-offs, which are a better
12 reflection of true uncollectible accounts expense than gross write-offs.

13 **III. CONCLUSION**

14 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

15 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

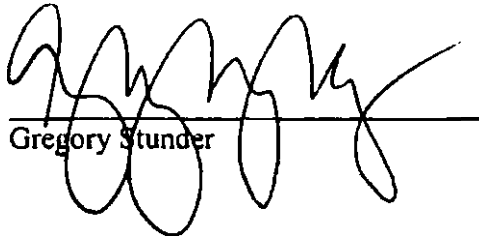
Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial	:	
Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT

I, Gregory Stunder, hereby state that the facts set forth below are true and correct to the best of my knowledge, information and belief and I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

1. I have submitted testimony in this proceeding on behalf of Philadelphia Gas Works and am authorized to make this statement on its behalf.
2. I prepared PGW St. No. 1 which was served on the parties in this proceeding on February 27, 2017.
3. I prepared PGW St. No. 1-R, which includes Exhibit GJS-1, and which was served on the parties in this proceeding on June 9, 2017.
4. I prepared PGW St. No. 1-RJ which was served on the parties in this proceeding on June 26, 2017.
5. I do not have any corrections to any of this testimony.
6. If I were asked the same questions set forth in each of these statements today, my answers would be the same.

Date: June 27, 2017



Gregory Stunder