



COMMONWEALTH OF PENNSYLVANIA

July 22, 2019

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC /
Docket No. R-2019-3006818**

Dear Secretary Chiavetta:

The Pennsylvania Public Utility Commission's Implementation Order at *Electronic Access to Pre-Served Testimony*, Docket No. M-2012-2331973, requires that all testimony furnished to the court reporter during a proceeding must subsequently be provided to the Secretary's Bureau.

As such, this letter will confirm that the Office of Small Business Advocate ("OSBA") has e-filed the Direct Testimony and Exhibits, **Public Version**, of Brian Kalcic, labeled OSBA Statement No.1, with Exhibit BK-1, Referenced Interrogatory Responses, and Appendix, the Rebuttal Testimony and Exhibits of Brian Kalcic labeled OSBA Statement No. 1-R, with Exhibits BK-1R through BK-3R, and the Surrebuttal Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1-S, with Exhibit BK-1S, on behalf of the OSBA, in the above-captioned proceeding.

All known parties were previously served with the aforementioned Testimony. If you have any questions, please contact me.

Sincerely,

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: Brian Kalcic
Parties of Record (Cover Letter and Certificate of Service Only)



COMMONWEALTH OF PENNSYLVANIA

April 29, 2019

The Honorable Joel H. Cheskis
Deputy Chief Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC /
Docket No. R-2018-3006818**

Dear Judge Cheskis:

Enclosed please find the Direct Testimony and Exhibits of Brian Kalcic, **Public Version**, labeled OSBA Statement No. 1, with Exhibit BK-1, Referenced Interrogatory Responses, and Appendix, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Erin K. Fure".

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: **Brian Kalcic**
Parties of Record

OSBA STATEMENT NO. 1

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

: Docket No. R-2019-3006818

PEOPLES NATURAL GAS COMPANY LLC :

Direct Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

PUBLIC VERSION

Topics:

**SGS & MGS Rate Design
Gas-on-Gas Competition
Main Extension Policy**

Date Served: April 29, 2019

Date Submitted for the Record: July 22, 2019

Direct Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri
3 63105.

4
5 **Q. What is your occupation?**

6 A. I am an economist and consultant in the field of public utility
7 regulation, and principal of Excel Consulting. My qualifications are
8 described in the Appendix to this testimony.

9
10 **Q. On whose behalf are you testifying in this case?**

11 A. I am testifying on behalf of the Office of Small Business Advocate
12 (“OSBA”), which is representing the small business customers served
13 by Peoples Natural Gas Company LLC (“Peoples” or the “Company”).

14
15 **Q. What is the subject of your testimony?**

16 A. I will address various issues related to Peoples’ proposed: a) Small
17 General Service (“SGS”) rate design; b) Medium General Service
18 (“MGS”) rate design; c) gas-on-gas discount levels; and d)
19 modifications to its existing Main Extension Policy.

20
21 **Q. Do you have any preliminary comments?**

22 Yes. I wish to note at the outset that certain of my recommendations
23 and/or schedules reflect the Company’s full rate request in this
24 proceeding. Any such reference is intended for comparison purposes
25 only and should not be construed as a recommendation by the OSBA
26 that the Commission grant Peoples’ request in whole or in part.

27
28 **Q. Please summarize your primary recommendations.**

29 A. Based on my analysis of the Company’s filing and discovery responses,
30 I recommend that the Commission:

- 31
32 • adopt the OSBA’s recommended SGS rate design guidelines;

33

Direct Testimony of Brian Kalcic

- 1 • reject the Company’s proposed MGS customer charges in favor
2 of the OSBA’s recommended customer charge levels;
3
4 • reject the Company’s proposal to recover 100% of its proposed
5 gas-on-gas discounts from ratepayers;
6
7 • adopt the OSBA’s recommendation to impute revenues to gas-
8 on-gas customers in the Company’s fully projected future test
9 year (“FPFTY”); and
10
11 • reject the Company’s proposed changes to its Main Extension
12 Policy for residential customers.
13

14 The specific details associated with the above recommendations are
15 discussed below.
16

17 **Q. How is the remainder of your testimony organized?**

18 A. Section I of my testimony addresses Peoples’ proposed SGS rate
19 design. Section II reviews the Company’s proposed MGS rate design.
20 Section III examines the propriety of the Company’s proposed rate
21 discounts to customers located in the overlapping portions of certain
22 natural gas distribution company (“NGDC”) service territories, i.e., in
23 locations with “gas-on-gas” competition. Finally, Section IV critiques
24 Peoples’ proposed modifications to its existing Main Extension Policy
25 for residential customers.
26

27 **I. SGS Rate Design**
28

29 **Q. Mr. Kalcic, please describe the Company’s current small general
30 service rate schedule for Peoples Division customers.**

31 A. Rate SGS (Small General Service) is available to commercial and
32 industrial customers consuming less than 1,000 Mcf of natural gas per
33 year. Rate SGS contains a customer charge and a flat rate volumetric
34 charge. The customer charge varies by (i) annual usage level and (ii)

1 customer classification (i.e., commercial versus industrial). The
2 volumetric charge also varies by customer type.

3
4 **Q. Please describe the Company's corresponding small general service
5 rate schedule for Equitable Division customers.**

6 A. Rate GSS (General Service Small) is available to commercial and
7 industrial customers consuming less than 1,000 Mcf of natural gas per
8 year. Rate GSS contains a customer charge and a flat rate volumetric
9 charge. The customer charge varies by annual usage level.

10
11 **Q. Is the Company proposing to revise the structure of Rate SGS in
12 this proceeding?**

13 A. Yes. Peoples proposes to phase out the current commercial versus
14 industrial rate differentials within Rate SGS in this case. At the same
15 time, the Company is proposing to consolidate Rates SGS and GSS at
16 the conclusion of this case.¹

17
18 **Q. Have you provided a summary of the Company's small general
19 service rate design proposals?**

20 A. Yes. Table 1A below shows the Company's present and proposed Rate
21 SGS base rate charges for the Peoples Division. Table 1B below shows
22 the corresponding information for Rate GSS customers in the Equitable
23 Division.

24
25 **Table 1A**
26 Present versus Proposed SGS Base Rate Charges
27 Peoples Division

28

<i>Rate SGS</i>	<i>Present Rate</i>	<i>Proposed Rate</i>
<u>Customer (\$/mo)</u>		
Commercial (<500 mcf)	\$14.88	\$25.00

¹ Upon consolidation, all small general service customers would be served on Rate SGS.

Direct Testimony of Brian Kalcic

Industrial (<500 mcf)	\$20.00	\$25.00
C&I (>500 mcf)	\$27.00	\$40.00
Delivery (\$/Mcf)		
Commercial	\$2.1939	\$2.8312
Industrial	\$1.7623	\$2.4430

Source: Peoples' Present and Proposed Tariff

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Table 1B
Present versus Proposed GSS Base Rate Charges
Equitable Division

<i>Rate GSS</i>	<i>Present Rate</i>	<i>Proposed Rate</i>
<u>Customer (\$/mo)</u>		
C&I (<500 mcf)	\$17.00	\$25.00
C&I (>500 mcf)	\$28.00	\$40.00
Delivery (\$/Mcf)		
All usage	\$2.5910	\$2.8312

Source: Peoples' Present and Proposed Tariff

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Q. Does the OSBA oppose Peoples' proposal to consolidate Rates SGS and GSS?

A. No.

Q. Upon consolidation, would industrial customers served on the former Rate GSS become eligible for the lower industrial volumetric rate shown in Table 1A?

A. No. The SGS industrial volumetric rate would be limited to those industrial customers presently served on (Peoples Division) Rate SGS, i.e., "Peoples' Transitional Industrial Ratepayers."

1 **Q. Do you have any comment on Peoples' proposed small general**
2 **service rate design?**

3 A. Yes. My comment concerns the Company's proposed Rate SGS
4 volumetric delivery charges for commercial and transitional industrial
5 customers, which are summarized for convenience in Table 2 below.
6

7 **Table 2**
8 **Present versus Proposed SGS Base Rate Delivery Charges**
9 **Peoples Division**

10 (\$/Mcf)

<i>Rate SGS</i>	<i>Present Rate</i>	<i>Proposed Rate</i>
Commercial	\$2.1939	\$2.8312
Industrial	<u>\$1.7623</u>	<u>\$2.4430</u>
Difference	\$0.4316	\$0.3882

11 Source: Peoples' Present and Proposed Tariff
12

13 **Q. Do the Company's proposed Rate SGS delivery charges reduce the**
14 **existing SGS rate differential?**

15 A. Yes, but only to a limited extent. As shown in Table 2, the difference
16 in the base rate delivery charges paid by small commercial versus small
17 industrial customers on Rate SGS would decrease slightly, i.e., by
18 approximately (1 minus \$0.3882 divided by \$0.4316 or) 10%.
19

20 **Q. How did Peoples decide on the magnitude of the industrial rate**
21 **phase out to implement in this case?**

22 A. The Company sought to balance the rate impacts inherent in a phase out
23 with its goal of moving toward rate parity. In particular, Peoples
24 proposed to increase its delivery rate for SGS transitional customers by
25 "approximately 1.5 times the percent increase in revenues proposed for
26 this rate class (approximately 26% on a non-gas or margin revenue
27 basis)."² Using this guideline, the Company proposed to increase the

² See Peoples Statement No. 11 at page 49.

1 SGS transitional industrial volumetric rate by approximately (1.5 times
2 26% or) 39%.

3
4 **Q. Do you agree that the Company's overall proposed SGS rate
5 increase is approximately 26% on a non-gas basis?**

6 A. No. Schedule BK-1 provides a summary of Peoples' proposed class
7 revenue allocation on a non-gas basis. Per page 1, line 6 of Schedule
8 BK-1, the Company's proposed increase to the (consolidated) Rate SGS
9 class is 30.0%.

10
11 **Q. Do you agree that the Company's proposed SGS industrial rate
12 phase out in this case strikes a reasonable balance between
13 achieving rate parity and limiting customer rate impacts?**

14 A. No.

15
16 **Q. Why not?**

17 A. Returning to Schedule BK-1, it is evident that the Company's overall
18 proposed SGS rate increase of 30.0% (on a non-gas revenue basis)
19 represents an average of a) the proposed 36.7% increase to Rate SGS
20 customers in the Peoples Division (per page 2, line 7 of Schedule BK-1)
21 and b) the proposed 20.9% increase to Rate GSS customers in the
22 Equitable Division (per page 3, line 6 of Schedule BK-1). Moreover,
23 per line 6, on page 2 of Schedule BK-1, the Company's proposed
24 increase to transitional (or legacy) industrial customers is 36.3%, or
25 slightly below the proposed increase to non-transitional SGS customers
26 in the Peoples Division.

27 If it is reasonable to assign an average increase of 36.7% to Rate
28 SGS customers in the Peoples Division (in order to facilitate the
29 consolidation of Rates SGS and GSS), then it would be reasonable to
30 assign transitional SGS customers in the Peoples division an increase in
31 excess of 36.7% (in order to facilitate greater movement toward rate
32 parity).

33
34 **Q. What do you recommend?**

1 A. In order to provide for greater movement toward rate parity for
2 transitional industrial customers at the conclusion of this proceeding, I
3 recommend that Peoples' SGS transitional industrial delivery charge be
4 increased so as to reduce the current difference in transitional and non-
5 transitional delivery charges (shown in Table 2) by 50%.

6
7 **Q. What would be the resulting overall increase to SGS transitional**
8 **industrial customers under the OSBA's proposal?**

9 A. At the Company's filed revenue requirement level, the resulting
10 increase would be approximately 45.0%, or 150% of the Company's
11 overall proposed SGS increase of 30.0%.

12

13 **II. MGS Rate Design**

14

15 **Q. Mr. Kalcic, please describe the Company's current medium general**
16 **service rate schedule for Peoples Division customers.**

17 A. Rate MGS (Medium General Service) is available to commercial and
18 industrial customers consuming between 1,000 and 24,999 Mcf of
19 natural gas per year. Rate MGS contains a customer charge and a flat
20 rate volumetric charge. The customer charge varies by annual usage
21 level the volumetric charge varies by customer type (i.e., commercial
22 versus industrial).

23

24 **Q. On what rate schedule do medium general service customers in the**
25 **Equitable Division take service?**

26 A. Such customers take service on Rate GSL (General Service Large),
27 which is available to commercial and industrial customers consuming
28 more than 1,000 Mcf of natural gas per year. Rate GSL contains a
29 customer charge and a flat rate volumetric charge. The customer
30 charge varies by annual usage level.

31

32 **Q. Is Peoples proposing to revise the *structure* of Rate MGS in this**
33 **proceeding?**

1 A. Yes. As with Rate SGS, Peoples proposes phase out the current
2 commercial versus industrial rate differentials within Rate MGS in this
3 case. The Company is also proposing to consolidate all C&I customers
4 consuming between 1,000 and 24,999 Mcf of natural gas annually on
5 Rates MGS at the conclusion of this case.

6

7 **Q. Do you have any comment on Peoples' proposed Rate MGS rate**
8 **design?**

9 A. Yes. My comment concerns the level of the Company's consolidated
10 Rate MGS customer charges, which are shown in Table 3 below.

11

12

13

14

Table 3
Present versus Proposed MGS Base Rate Customer Charges
(\$/mo.)

<i>Customer Charges</i>	<i>Present Rate</i>	<i>Proposed Rate</i>	<i>% Change</i>
Peoples Division			
1,000 to 2,499 mcf	\$50.00	\$100.00	100.0%
2,500 to 24,999 mcf	\$77.00	\$200.00	159.7%
Equitable Division			
1,000 to 2,499 mcf	\$150.00	\$100.00	-33.3%
2,500 to 4,999 mcf	\$150.00	\$200.00	33.3%
5,000 to 24,999 mcf	\$300.00	\$200.00	-33.3%

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Source: Peoples' Present and Proposed Tariff

As shown in Table 3, the Company is proposing customer charge increases of 100.0% and 159.7% for applicable Peoples Division customers. Equitable Division customers would experience customer charge impacts ranging from -33.3% to 33.3%, depending on usage levels, under the Company's proposal.

1 **Q. How did the Company determine its proposed Rate MGS customer**
2 **charge levels?**

3 A. The Company's proposal appears to be driven by rate consolidation
4 considerations, rather than traditional cost of service and/or gradualism
5 considerations.

6 According to the customer cost analyses performed by the
7 Company, a cost-based MGS customer charge would range from
8 \$61.86 to \$72.72 per month.³ However, the Company recognized that
9 setting Rate MGS customer charges within this cost-base range would
10 necessitate assigning large *decreases* to existing Equitable Division
11 customer charges. Instead, Peoples chose to implement the Rate MGS
12 customer charges shown in Table 3 so as "to accommodate the need to
13 significantly decrease the current monthly customer charges for
14 customers in the Equitable Division and the decision to address this
15 need in a gradual manner."⁴ In doing so, the Company also chose to
16 assign extraordinary large increases (i.e., 100.0% to 159.7%) to
17 customer charges in the Peoples Division.

18
19 **Q. Do you agree that the Company's proposed Rate MGS customer**
20 **charges are appropriate?**

21 A. No. The results of the Company's customer cost analyses, coupled with
22 gradualism considerations, lead me to conclude that Peoples' proposed
23 customer charges are too high.

24
25 **Q. What do you recommend?**

26 A. I recommend that the Commission adopt the OSBA's proposed MGS
27 customer charges shown in Table 4 below. The OSBA's proposed rates
28 are more reflective of Peoples' customer cost evidence than the
29 Company's proposed charges, and would limit the customer charge
30 increase in the Peoples Division to approximately 50%.

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³ See Peoples Statement No. 11 at page 51.

⁴ See Peoples Statement No. 11 at pages 51-52.

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Table 4
Present versus OSBA Proposed MGS Base Rate Customer Charges
(\$/mo.)

<i>Customer Charges</i>	<i>Present Rate</i>	<i>OSBA Proposed</i>	<i>% Change</i>
<u>Peoples Division</u>			
1,000 to 2,499 mcf	\$50.00	\$75.00	50.0%
2,500 to 24,999 mcf	\$77.00	\$115.00	49.4%
<u>Equitable Division</u>			
1,000 to 2,499 mcf	\$150.00	\$75.00	-50.0%
2,500 to 4,999 mcf	\$150.00	\$115.00	-23.3%
5,000 to 24,999 mcf	\$300.00	\$115.00	-61.7%

III. Gas-on-Gas Competition

Q. Mr. Kalcic, is Peoples permitted to discount (or flex) its tariff rates for delivery service in response to competition?

A. Yes. In order to deter a customer from exiting or bypassing its system, Peoples may decide to offer a discounted rate to customers with competitive supply alternatives. From Peoples' perspective, a customer's competitive supply alternatives may include access to (i) private well gas, (ii) landfill gas, (iii) direct supply from interstate pipelines or (iv) natural gas delivery service from another NGDC. In other cases, a customer may have competitive alternative fuel options in the form of propane or electricity.⁵

Q. How does Peoples recover the revenue shortfalls that result from discounting its tariff rates?

⁵ See Peoples Statement No. 5 at pages 13-15.

Direct Testimony of Brian Kalcic

1 A. Peoples includes its expected discount-related revenue shortfalls in its
2 requested revenue requirement, and recovers such revenue shortfalls
3 from other ratepayers.
4

5 **Q. What is meant by the term “gas-on-gas competition”?**

6 A. Certain geographical locations in western Pennsylvania lie within the
7 overlapping service territories of two or more NGDCs. As such,
8 customers located in such areas have the option of taking natural gas
9 delivery service from alternative NGDCs. To retain an existing (or
10 acquire a new) customer located in an overlapping service territory, an
11 NGDC may discount its regular tariff rates in response to a lower price
12 offer from another “competing” NGDC. This practice is generally
13 referred to as gas-on-gas competition.
14

15 **Q. Are NGDCs still permitted to engage in gas-on-gas competition?**

16 A. Yes. I am advised by Counsel that the Commission recently affirmed
17 the practice of gas-on-gas competition in its Opinion and Order in
18 consolidated Docket Nos. P-2011-2277868 and I-2012-2320323 (“Gas-
19 on-Gas Order”).⁶
20

21 **Q. In this proceeding, does Peoples propose to discount its tariff rates
22 to select customers in response to gas-on-gas competition, and to
23 recover the revenue shortfalls stemming from such discounts from
24 general ratepayers?**

25 A. Yes, it does.
26

27 **Q. What is the OSBA’s position with respect to Peoples’ treatment of
28 gas-on-gas revenue shortfalls in this case?**

⁶ See Opinion and Order entered May 4, 2017, at 50, 59 in *Joint Petition for Generic Investigation or Rulemaking Regarding “Gas-On-Gas Competition Between Jurisdictional Natural Gas Distribution Companies*, Docket No. P-2011-2277868, and *Generic Investigation Regarding Gas-On-Gas Competition Between Jurisdictional Natural Gas Distribution Companies*, Docket No. I-2012-2320323.

1 A. As discussed below, the OSBA finds that: 1) Peoples' proposed flexed
2 rates produce aggregate gas-on-gas discounts that exceed the level of
3 discounts that would otherwise arise from flexing rates down to the
4 applicable tariff rates of competing NGDCs; and 2) the Commission
5 should not permit Peoples to recover the revenue shortfall arising from
6 excess gas-on-gas discounts from general ratepayers.

7
8 **Q. Did the Commission limit the degree to which NGDCs may**
9 **discount rates in response to gas-on-gas competition?**

10 A. Counsel advises that it did.

11 On page 58 of the Gas-on-Gas Order, the Commission states, in
12 pertinent part:

13
14 While we have expressed our concerns with gas-on-gas
15 discounts in various orders long before the initiation of this
16 investigation in July 2012, the NGDCs have been fully aware
17 that there may be changes in gas-on-gas discounts since at
18 least July 2012. Consequently, NGDCs knew there may be
19 some risk in entering into *long-term* contracts once this
20 proceeding began. Therefore, we concur with the ALJ that
21 December 31, 2018, may be a reasonable date to end
22 ratepayer subsidies of gas-on-gas discounts that exceed
23 applicable rates of competing NGDCs. Accordingly, the
24 NGDCs are placed on notice that they may not be able to
25 recover any foregone revenue beyond December 31, 2018, in
26 future rate proceedings.

27
28
29 **Q. Have you determined the extent to which Peoples' FPFTY gas-on-**
30 **gas discounts exceed the applicable rates of competing NGDCs?**

31 A. Yes, in HIGHLY CONFIDENTIAL Schedule BK-2.

32
33 **Q. Please discuss HIGHLY CONFIDENTIAL Schedule BK-2.**

34 A. BEGIN HIGHLY CONFIDENTIAL: [REDACTED]
35 [REDACTED]

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Q. Should the Commission permit Peoples to recover the excess gas-on-gas discounts shown in HIGHLY CONFIDENTIAL Schedule BK-2 from ratepayers?

A. Consistent with the Commission's decision in its Gas-on-Gas Order, Counsel advises it should not.

Q. What do you recommend?

A. Rather than recover the excess gas-on-gas discounts from ratepayers, I recommend that the Commission direct Peoples to impute additional revenues in the amount of **BEGIN HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY CONFIDENTIAL** to gas-on-gas customers during the FPFTY.

IV. Main Extension Policy

Q. Mr. Kalcic, please describe Peoples' existing main extension policy.

A. Peoples will extend its distribution facilities to a new point of delivery within its service territory if, in its judgment, the service to the new point of delivery will have no adverse effect upon the availability of gas to meet the present and reasonably foreseeable volume and pressure needs of existing customers. However, Peoples may condition an extension of distribution facilities upon an applicant's providing a

1 contribution in aid of construction (“CIAC”). Peoples will determine
2 the amount of any CIAC, consistent with any parameters approved or
3 required by the Commission.
4

5 **Q. How does Peoples determine if a CIAC is required?**

6 A. Peoples performs a detailed economic analysis that compares present
7 value of the projected (margin) revenue stream over a forty-year period
8 from a prospective customer(s) to its cost of extending distribution
9 facilities. If Peoples’ analysis determines that the projected revenue
10 stream supports/recovers the cost of the facilities required to extend
11 service over forty years, Peoples will undertake the required investment
12 at no upfront cost to the new customer(s). However, if Peoples
13 determines that the revenue stream would not support a service
14 extension, Peoples requires the new customer(s) to provide a CIAC to
15 offset that part of the cost of the extension that is not otherwise
16 supported.
17

18 **Q. What role does the CIAC play in Peoples’ extension policy?**

19 A. An uneconomic extension project may be defined as one that, absent a
20 CIAC, would not generate sufficient revenues to recover the cost of
21 extending natural gas service to a new customer. Accordingly, a CIAC
22 is intended to ensure that an extension project is economic from a
23 general ratemaking perspective.
24

25 **Q. What would be the consequence of going ahead with an *uneconomic***
26 **extension project?**

27 A. Since the full cost of the project would be included in rate base, Peoples
28 would collect 100% of its project-related revenue requirement from
29 general ratepayers over the service life of the extension facilities,
30 despite the insufficiency of the extension customer’s CIAC
31 contribution. As such, existing (general) ratepayers would subsidize the
32 cost of providing natural gas service to new customers.
33

1 **Q. If applicable, does Peoples currently require an *upfront* CIAC**
2 **payment from the customer in order to extend service?**

3 A. No. The customer has the option to pay the required CIAC over time
4 via a customized delivery rate surcharge, as determined by the
5 Company's Rider MLX.
6

7 **Q. How is Peoples proposing to modify its main extension policy in this**
8 **proceeding?**

9 A. For each residential customer that requests a main line extension under
10 normal situations, Peoples would install the first 150 feet of main line
11 without charge to the customer, in lieu of the performing the
12 Company's current economic analysis. For extension projects in excess
13 of 150 feet, Peoples would determine the customer's required CIAC by
14 subtracting 150 feet from the actual cost per foot associated with the
15 extension project. As before, the customer would retain the option to
16 pay any required CIAC upfront or via Rider MLX.
17

18 **Q. Does Peoples tariff proposal apply only to residential applicants?**

19 A. Yes. Peoples would continue to apply its current economic model to
20 non-residential applicants in order to determine whether a CIAC is
21 required.
22

23 **Q. Why is Peoples proposing to modify its current extension policy at**
24 **this time?**

25 A. In Peoples' view, the CIAC represents "one of the more significant
26 barriers for residential customers to receive or convert to natural gas."
27 Also, given the availability of low-cost gas in Pennsylvania from
28 Marcellus Shale, the Company believes "this is an ideal opportunity to
29 help more people convert to natural gas and enjoy the cost savings of
30 this efficient natural resource."⁷
31

⁷ See Peoples Statement No. 2 at page 37.

1 **Q. How would Peoples' proposal make it easier for residential**
2 **applicants to select natural gas service?**

3 A. The intent of the proposal is to lower the overall level of the CIAC that
4 would otherwise be required of residential customers under the
5 Company's existing main extension policy.
6

7 **Q. Would the Company's proposal achieve that outcome?**

8 A. Yes, it would. Under Peoples' existing policy, a residential applicant
9 (i) consuming (a FPFTY average of) 86.9 Mcf per year while (ii)
10 paying the Company's proposed tariff rates would qualify for an
11 allowable investment up to \$5,906.20 without the need of a CIAC.⁸ In
12 contrast, the cost to extend a main line 150 feet to serve a residential
13 customer would be \$6,774.00 (based on 2018 project costs).⁹

14 In other words, all else equal, the Company's proposed changes
15 to its extension policy would increase a residential applicant's
16 allowable investment level (and therefore lower any otherwise
17 applicable CIAC) by \$868 or approximately 15%.
18

19 **Q. Would the actual impact of Peoples' proposal on future residential**
20 **CIAC contribution levels likely be greater than a 15% reduction?**

21 A. Yes. To the extent that (i) Peoples' proposed residential rates are scaled
22 back to reflect the Commission's final rate award and/or (ii) Peoples'
23 actual FPFTY main installation costs increase from 2018 levels, the
24 reduction to a residential applicant's otherwise applicable CIAC will be
25 greater than 15%.
26

27 **Q. Would the adoption of Peoples' main extension proposal lower the**
28 **Company's cost of extending service to residential applicants?**

29 A. No. Such underlying costs would obviously remain unchanged. What
30 the Company's proposal would do is shift a portion of the actual cost of

⁸ See Peoples' response to OSBA-II-1.

⁹ See Peoples' response to OSBA-I-12.

1 extending service to residential customers from residential applicants to
2 general ratepayers (compared to Peoples' existing extension policy).
3

4 **Q. Would such an outcome be appropriate?**

5 A. No. The economic analysis used under the Company's existing main
6 extension policy gives an applicant credit for *forty* years of net revenue
7 contributions for purposes of determining the customer's allowable
8 investment amount. Forty years should be more than sufficient time for
9 a customer to pay back the initial service extension costs incurred by
10 Peoples, without requiring a CIAC.

11 In contrast, by reducing a residential applicant's required CIAC
12 from otherwise applicable levels, the Company's main extension
13 proposal would effectively extend the period to payback Peoples' initial
14 extension costs beyond the current forty year time horizon used by the
15 Company. In the OSBA's view, Peoples has provided no valid
16 economic reason(s) why it is necessary or reasonable to use more than a
17 forty-year revenue stream to determine an applicant's allowable
18 investment level.
19

20 **Q. What do you recommend?**

21 A. I recommend that the Commission reject Peoples' proposed changes to
22 its main extension policy for residential customers.
23

24 **Q. Does this conclude your direct testimony?**

25 A. Yes.

;

;

EXHIBITS

Schedules BK-1 and HIGHLY CONFIDENTIAL Schedule BK-2
(Highly Confidential materials omitted from Public Version)

;

;

PEOPLES NATURAL GAS COMPANY LLC
Combined Divisions

Company Proposed Allocation of its
Requested Increase in Base Revenue
Basis: Non-Gas Revenues Only
(Dollars in Thousands)

Line	Classification	Present	Proposed Increase	
		Base Revenue	Amount	Percent
		1	2	3
Residential				
1	Sales	\$217,634	\$66,994	30.8%
2	Transportation	<u>\$48,048</u>	<u>\$14,010</u>	29.2%
3	Total	\$265,682	\$81,004	30.5%
Small General Service				
4	Sales	\$20,857	\$6,236	29.9%
5	Transportation	<u>\$11,150</u>	<u>\$3,359</u>	30.1%
6	Total	\$32,007	\$9,595	30.0%
Medium General Service				
7	Sales	\$9,841	\$962	9.8%
8	Transportation	<u>\$32,937</u>	<u>\$4,446</u>	13.5%
9	Total	\$42,777	\$5,409	12.6%
Large General Service				
10	Sales	\$483	(\$13)	-2.7%
11	Transportation	<u>\$36,265</u>	<u>\$2,485</u>	6.9%
12	Total	\$36,747	\$2,472	6.7%
13	Total Rate Revenue	\$377,214	\$98,479	26.1%
Other Revenues				
14	Forfeited Discounts	\$4,405	\$679	15.4%
15	Misc. Services	\$3,254	(\$2,379)	-73.1%
16	Trans. via Gathering	\$3,377	\$0	0.0%
17	Rent Gas Property	\$174	\$0	0.0%
18	Other Gas Revenues	<u>\$7,632</u>	<u>(\$1,931)</u>	-25.3%
19	Total Other Revenues	\$18,842	(\$3,630)	-19.3%
20	TOTAL	\$396,056	\$94,849	23.9%

Source: OSBA-I-3(a).

PEOPLES NATURAL GAS COMPANY LLC
Peoples Division

Company Proposed Allocation of its
Requested Increase in Base Revenue
Basis: Non-Gas Revenues Only
(Dollars in Thousands)

Line	Classification	Present	Proposed Increase	
		Base Revenue	Amount	Percent
		1	2	3
Residential				
1	Sales	\$120,898	\$30,957	25.6%
2	Transportation	\$37,999	\$10,110	26.6%
3	Total	\$158,898	\$41,066	25.8%
Small General Service				
4	Sales	\$11,569	\$4,255	36.8%
5	Transportation	\$6,710	\$2,461	36.7%
6	Industrial Legacy	\$32	\$12	36.3%
7	Total	\$18,312	\$6,728	36.7%
Medium General Service				
8	Sales	\$5,059	\$1,202	23.8%
9	Transportation	\$17,835	\$4,519	25.3%
10	Total	\$22,893	\$5,721	25.0%
Large General Service				
11	Sales	\$187	\$19	10.2%
12	Transportation	\$23,375	\$1,799	7.7%
13	Total	\$23,562	\$1,818	7.7%
14	Total Rate Revenue	\$223,664	\$55,333	24.7%
Other Revenues				
15	Forfeited Discounts	\$2,593	\$391	15.1%
16	Misc. Services	\$1,721	(\$1,209)	-70.3%
17	Other Gas Revenues	\$7,502	(\$1,855)	-24.7%
18	Total Other Revenues	\$11,816	(\$2,673)	-22.6%
19	TOTAL	\$235,480	\$52,660	22.4%

Source: OSBA-I-3(a).

PEOPLES NATURAL GAS COMPANY LLC
Equitable Division

Company Proposed Allocation of its
Requested Increase in Base Revenue
Basis: Non-Gas Revenues Only
(Dollars in Thousands)

Line	Classification	Present	Proposed Increase	
		Base Revenue	Amount	Percent
		1	2	3
Residential				
1	Sales	\$96,735	\$36,037	37.3%
2	Transportation	<u>\$10,049</u>	<u>\$3,901</u>	38.8%
3	Total	\$106,784	\$39,938	37.4%
Small General Service				
4	Sales	\$9,279	\$1,978	21.3%
5	Transportation	<u>\$4,417</u>	<u>\$889</u>	20.1%
6	Total	\$13,695	\$2,866	20.9%
Medium General Service				
7	Sales	\$4,782	(\$240)	-5.0%
8	Transportation	<u>\$15,102</u>	<u>(\$72)</u>	-0.5%
9	Total	\$19,884	(\$312)	-1.6%
Large General Service				
10	Sales	\$296	(\$32)	-10.8%
11	Transportation	\$12,890	<u>\$686</u>	5.3%
12	Total	<u>\$13,186</u>	\$654	5.0%
13	Total Rate Revenue	\$153,549	\$43,146	28.1%
Other Revenues				
14	Forfeited Discounts	\$1,812	\$288	15.9%
15	Misc. Services	\$1,533	(\$1,169)	-76.3%
16	Trans. via Gathering	\$3,377	\$0	0.0%
17	Rent Gas Property	\$174	\$0	0.0%
18	Other Gas Revenues	<u>\$130</u>	<u>(\$75)</u>	-58.1%
19	Total Other Revenues	\$7,026	(\$957)	-13.6%
20	TOTAL	\$160,575	\$42,189	26.3%

Source: OSBA-I-3(a).

REFERENCED INTERROGATORY RESPONSES

(in numeric order)

OSBA-I-3

OSBA-I-12

OSBA-II-1

I&E-RS-9-D Revised – Highly Confidential
(Highly Confidential materials omitted from Public Version)

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Carol Scanlon

OSBA-I-3 Reference Exhibit No. 3, Schedule No. 15, Attachment A, page 3 of 3 for the (i) Peoples Division and (ii) Equitable Division.

- a) Please provide a revised Exhibit No. 3, Schedule No. 15, Attachment A, page 3 of 3, for each division, that excludes all Gas Cost Revenues, at both present and proposed rates. Include an electronic copy of the revised exhibits in spreadsheet format with all formulae intact; and
- b) Please explain in detail why the (i) Miscellaneous Service Revenues and (ii) Other Gas Revenues shown for each division would decrease under the Company's proposal.

Response:

- a) Electronic copies are attached.
- b) Refer to Peoples Statement No. 5, the direct testimony of Carol Scanlon.
 - (i) Miscellaneous service revenues decrease under the Company's tariff proposal to eliminate separate charges for connection fees, transfer fees, remote meter fees, split load fees and field visit fees, as described on page 24, lines 17 and 18.
 - (ii) Other Gas Revenues decrease under the Company's supplier tariff proposal to eliminate separate supplier pooling fees, as described on page 24, line 21.

Peoples Natural Gas Company LLC
Peoples Division
Comparison of Forecasted Non-Gas Cost Revenues at Current and Proposed Rates
For the 12 Months Ended October 31, 2020

Line No.	Description	Bills (1)	Volumes (2) Mcf	Non-Gas Cost Revenue @ Current Rates (3) \$	Proposed Non-Gas Cost Adjustment (4) = (5 - 3) \$ %	Non-Gas Cost Revenue @ Proposed Rates (5) \$
		(Ex 3, Sch 15, Atch D)	(Ex 3, Sch 15, Atch D)	(Ex 3, Sch 15, Atch D)		(Ex 3, Sch 15, Atch E)
1 Tariff Sales by Rate Class						
2	Residential	3,070,920	22,085,640	120,898,442	30,956,541 26%	151,854,984
3	SGS	211,613	3,522,781	11,577,851	4,258,191 37%	15,836,041
4	MGS	10,425	1,965,721	5,058,770	1,202,348 24%	6,261,118
5	LGS	58	67,802	186,857	19,071 10%	205,928
6	Total Tariff Sales Excluding Gas Cost	3,293,016	27,641,945	137,721,920	36,436,151 26%	174,158,071
7 Transportation by Rate Class						
8	Residential	925,717	6,864,117	37,999,355	10,109,648 27%	48,109,003
9	SGS	90,603	2,365,958	6,733,663	2,470,088 37%	9,203,751
10	MGS	25,527	7,767,406	17,834,664	4,517,668 25%	22,352,332
11	LGS	1,932	21,719,960	23,374,805	1,798,644 8%	25,173,448
12	Total Transportation Excluding Gas Cost	1,043,779	38,717,441	85,942,487	18,896,048 22%	104,838,535
13 Summary by Rate Class						
14	Residential	3,996,637	28,949,757	158,897,798	41,066,189 26%	199,963,987
15	SGS	302,216	5,888,739	18,311,514	6,728,279 37%	25,039,793
16	MGS	35,952	9,733,128	22,893,434	5,720,016 25%	28,613,450
17	LGS	1,990	21,787,762	23,561,662	1,817,715 8%	25,379,376
18	Total by Rate Class Excluding Gas Cost	4,336,795	66,359,385	223,664,407	55,332,199 25%	278,996,606
19 Other Operating Revenue						
20	483 - Sales for Resale			-	-	-
21	487 - Forfeited Discounts			2,592,928	391,342 15%	2,984,270
22	488 - Miscellaneous Service Revenues			1,721,197	(1,209,356) -70%	511,841
23	489.1 - Revs from Transp of Gas of Others thru Gath Fac.			-	- 0%	-
24	493 - Rent from Gas Property			-	- 0%	-
25	495 - Other Gas Revenues			7,501,962	(1,855,127) -25%	5,646,835
26	496 - Provision for Rate Refunds			-	- 0%	-
27	Total Other Operating Revenue Excluding Gas Cost			11,816,087	(2,673,141) -23%	9,142,946
28	Overall Total Excluding Gas Cost	4,336,795	66,359,385	235,480,494	52,659,058 22%	288,139,552

Peoples Natural Gas Company LLC
Equitable Division
Comparison of Forecasted Non-Gas Cost Revenues at Current and Proposed Rates
For the 12 Months Ended October 31, 2020

Line No.	Description	Bills (1) <i>(Ex 3, Sch 15, Atch D)</i>	Volumes (2) Mcf <i>(Ex 3, Sch 15, Atch D)</i>	Non-Gas Cost Revenue @ Current Rates (3) \$ <i>(Ex 3, Sch 15, Atch D)</i>	Proposed Non-Gas Cost Adjustment (4) = (5 - 3) \$ %	Non-Gas Cost Revenue @ Proposed Rates (5) \$ <i>(Ex 3, Sch 15, Atch E)</i>
1	Tariff Sales by Rate Class					
2	Residential	2,697,726	19,155,419	96,735,124	36,037,167 37%	132,772,291
3	SGS	147,032	2,522,776	9,278,922	1,977,539 21%	11,256,461
4	MGS	7,532	1,406,495	4,782,004	(240,041) -5%	4,541,963
5	LGS	36	93,680	295,692	(31,936) -11%	263,756
6	Total Tariff Sales Excluding Gas Cost	2,852,325	23,178,370	111,091,742	37,742,729 34%	148,834,471
7	Transportation by Rate Class					
8	Residential	277,595	1,947,758	10,048,933	3,900,831 39%	13,949,764
9	SGS	46,394	1,406,717	4,416,540	888,740 20%	5,305,279
10	MGS	15,952	5,184,435	15,102,018	(72,260) 0%	15,029,758
11	LGS	791	18,455,949	12,890,020	685,995 5%	13,576,015
12	Total Transportation Excluding Gas Cost	340,732	26,994,858	42,457,510	5,403,306 13%	47,860,816
13	Summary by Rate Class					
14	Residential	2,975,321	21,103,177	106,784,056	39,937,999 37%	146,722,055
15	SGS	193,426	3,929,493	13,695,462	2,866,278 21%	16,561,740
16	MGS	23,484	6,590,930	19,884,022	(312,301) -2%	19,571,721
17	LGS	827	18,549,629	13,185,712	654,059 5%	13,839,771
18	Total by Rate Class Excluding Gas Cost	3,193,057	50,173,228	153,549,252	43,146,035 28%	196,695,287
19	Other Operating Revenue					
20	483 - Sales for Resale			-	-	-
21	487 - Forfeited Discounts			1,812,336	287,664 16%	2,100,000
22	488 - Miscellaneous Service Revenues			1,533,284	(1,169,158) -76%	364,126
23	489.1 - Revs from Transp of Gas of Others thru Gath Fac.			3,376,781	- 0%	3,376,781
24	493 - Rent from Gas Property			173,982	- 0%	173,982
25	495 - Other Gas Revenues			129,708	(75,387) -58%	54,320
26	496 - Provision for Rate Refunds			-	- 0%	-
27	Total Other Operating Revenue Excluding Gas Cost			7,026,091	(956,881) -14%	6,069,209
28	Overall Total Excluding Gas Cost	3,193,057	50,173,228	160,575,343	42,189,153 26%	202,764,496

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Request

Respondent: Joseph Gregorini

OSBA-I-12 **Reference Peoples Statement No. 2 at page 38, lines 1-9. Please provide a detailed estimate of the projected cost of extending 150 feet of main line to a residential customer "in normal situations" during the twelve months ending October 31, 2020.**

Response: Based off 2018 projects, the Company estimates that the cost to extend one foot of main for a residential customer in normal situations is \$45.16. Thus, the cost to extend main line 150 feet to serve a residential customer would be \$6,774.

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Carol Scanlon

OSBA-II-1 Reference the electronic file submitted with the Company's response to OSBA-1-11. Please provide a redacted printout of the referenced Allowable Investment Model analysis.

Response: Refer to OSBA-II-1 Attachment A. The Company considers the print out of the analysis to be public information, but the working excel version of the model that was provided in OSBA-I-11 to be proprietary.

Allowable Investment Model

Valuation Period	-	1	2	3	4	5	6	7
Assumptions	<i>Inputs</i>							
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Delivery Margin Per Mcf	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536
Usage Per Customer (Mcf)	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Depreciation Rate	1.49%							
O&M Cost per Customer	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49

Allowable Investment Calculations

5,906.2

Cash Flows

Capex	\$	(5,906)	\$	-	\$	-	\$	-	\$	-
Revenue		592		592		592		592		592
Less: expense		(49)		(49)		(49)		(49)		(49)
Less: taxes		(132)		(132)		(132)		(132)		(132)
Add: Def'd taxes		39		98		89		80		72
	\$	(5,456)	\$	509	\$	500	\$	492	\$	484
	\$								\$	476
	\$								\$	470

NPV-40 **0.0**
IRR-40 **8.0%**

Depreciation Assumptions/Calculations

		1	2	3	4	5	6	7
MACRS Year								
20 Year MACRS Schedule		3.75%	7.22%	6.68%	6.18%	5.71%	5.29%	4.89%
Tax Depreciation	5,906.2	221.48	426.37	394.36	364.83	337.42	312.14	288.69
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation		88.0	88.0	88.0	88.0	88.0	88.0	88.0
Deferred Taxes		38.57	97.76	88.51	79.98	72.06	64.76	57.98

Allowable Investment Model

Valuation Period	8	9	10	11	12	13	14	15	16
Assumptions									
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Delivery Margin Per Mcf	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536
Usage Per Customer (Mcf)	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Depreciation Rate									
O&M Cost per Customer	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49

Allowable Investment Calculations

Cash Flows	8	9	10	11	12	13	14	15	16
Capex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	592	592	592	592	592	592	592	592	592
Less: expense	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)
Less: taxes	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)
Add: Def'd taxes	52	51	51	51	51	51	51	51	51
	<u>\$ 463</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>

NPV-40
IRR-40

Depreciation Assumptions/Calculations

MACRS Year	8	9	10	11	12	13	14	15	16
20 Year MACRS Schedule	4.52%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%
Tax Depreciation	267.08	263.53	263.48	263.53	263.48	263.53	263.48	263.53	263.48
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Deferred Taxes	51.74	50.71	50.70	50.71	50.70	50.71	50.70	50.71	50.70

Allowable Investment Model

Valuation Period	17	18	19	20	21	22	23	24	25
Assumptions									
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Delivery Margin Per Mcf	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536	\$ 4.0536
Usage Per Customer (Mcf)	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9	86.9
Depreciation Rate									
O&M Cost per Customer	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49

Allowable Investment Calculations

Cash Flows	17	18	19	20	21	22	23	24	25
Capex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	592	592	592	592	592	592	592	592	592
Less: expense	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)
Less: taxes	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)	(132)
Add: Def'd taxes	51	51	51	51	13	(25)	(25)	(25)	(25)
	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 462</u>	<u>\$ 424</u>	<u>\$ 386</u>	<u>\$ 386</u>	<u>\$ 386</u>	<u>\$ 386</u>

NPV-40
IRR-40

Depreciation Assumptions/Calculations

MACRS Year	17	18	19	20	21	22	23	24	25
20 Year MACRS Schedule	4.46%	4.46%	4.46%	4.46%	2.23%				
Tax Depreciation	263.53	263.48	263.53	263.48	\$ 132	-	-	-	-
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation	88.0	88.0	88.0	88.0	\$ 88	\$ 88	\$ 88	\$ 88	\$ 88
Deferred Taxes	50.71	50.70	50.71	50.70	12.64	(25.43)	(25.43)	(25.43)	(25.43)

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Indiana, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.


Peoples Natural Gas Company LLC

:
:
: **Docket No. R-2018-3006818**
:
:

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Direct Testimony labeled OSBA Statement No. 1 are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: April 29, 2019



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2018-3006818**
v. :
: **Peoples Natural Gas Company LLC** :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

The Honorable Joel H. Cheskis
Deputy Chief Administrative Law Judge
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(Complainant)

DATE: April 29, 2019



Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245



COMMONWEALTH OF PENNSYLVANIA

May 28, 2019

The Honorable Joel H. Cheskis
Deputy Chief Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC /
Docket No. R-2018-3006818**

Dear Judge Cheskis:

Enclosed please find the Rebuttal Testimony and Exhibits of Brian Kalcic, labeled OSBA Statement No. 1-R, with Exhibits BK-1R through BK-3R, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Erin K. Fure".

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1-R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

:

Docket No. R-2019-3006818

PEOPLES NATURAL GAS COMPANY LLC

:

Rebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: May 28, 2019

Date Submitted for the Record: July 22, 2019

Rebuttal Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri
3 63105.
4

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

6 A. Yes.
7

8 **Q. What is the subject of your rebuttal testimony?**

9 A. I will respond to the direct testimony of (i) Mr. Ethan H. Cline on
10 behalf of the Bureau of Investigation and Enforcement ("I&E") and (ii)
11 Ms. Diane Meyer Burgraff on behalf of Snyder Brothers, Inc. ("SBI").
12

13 **I&E Witness Cline**
14

15 **Q. Is Mr. Cline sponsoring an alternative class revenue allocation
16 proposal in this proceeding?**

17 A. Yes. I&E's proposed revenue allocation is shown on page 28 of I&E
18 Statement No. 4.
19

20 **Q. How did Mr. Cline determine his alternative revenue allocation?**

21 A. Mr. Cline used the results of the Company's Peak and Average cost-of-
22 service study ("P&A COSS") as a guide to develop I&E's alternative
23 proposal. More specifically, Mr. Cline: 1) began with the individual
24 increases required to move each rate class to full cost of service under
25 the Company's P&A COSS; 2) reduced the otherwise required P&A-
26 based Large General Service ("LGS") increase by approximately \$4.5
27 million in order to limit I&E's proposed increase to LGS customers to
28 no more than 1.5 times the system average, based on traditional
29 gradualism or customer impact considerations; and 3) recovered the
30 \$4.5 million revenue "shortfall" associated with I&E's proposed LGS
31 increase from the Residential class.
32

33 **Q. How large is I&E's proposed LGS increase compared to the system
34 average increase?**

1 A. Mr. Cline chose to limit the LGS increase to no more than 1.5 times the
2 system average increase on a total revenue basis (i.e., including gas
3 costs). In that regard, I&E is proposing to assign LGS customers an
4 increase of 20.7%, which is approximately 1.46 times the system
5 average increase in total (i.e., gas and non-gas) revenues of 14.2%.¹
6

7 **Q. Do you agree that it is appropriate to include gas costs when**
8 **evaluating the reasonableness of proposed class increases in this**
9 **case?**

10 A. No. Peoples' gas costs are not at issue in this proceeding. Since only
11 non-gas revenues are subject to increase in this case, the Commission
12 should examine non-gas revenue increases for the purpose of
13 determining whether a given revenue allocation proposal would assign
14 an excessive increase to one or more classes.
15

16 **Q. Are there any other factors that the Commission should be**
17 **cognizant of when evaluating alternative class revenue allocation**
18 **proposals?**

19 A. Yes, there are two. First, as shown on page 1, line 19 of Schedule BK-1
20 (attached to OSBA Statement No. 1), Peoples' total Other Revenues
21 would decline by \$3.63 million or 19.3%, as a result of the Company's
22 proposal to reduce certain fees and/or charges. However, since Other
23 Revenues contribute toward Peoples' total claimed revenue requirement
24 (i.e., act as a credit toward class base rate revenue requirements), the
25 proposed \$3.63 million reduction in Other Revenues must be made up
26 in *higher* base rate revenues.

27 As shown on page 1, line 13 of Schedule BK-1, the Company's
28 proposed system average increase in total base rate revenue is 26.1%,
29 which is significantly greater than Peoples' total proposed increase in
30 non-gas revenues of 23.9% (line 20). As such, the Commission should
31 consider the relative magnitude of the proposed increases in *base rate*
32 *revenue* across rate classes, when determining whether a given revenue

¹ See I&E Statement No. 4, at page 28.

1 allocation proposal would appropriately mitigate otherwise excessive
2 class increases.

3
4 **Q. What is the second factor?**

5 A. The second factor to consider is that Peoples has proposed to
6 flex/discount the delivery rates paid by certain customers, most of
7 which take service on Rate LGS. Absent any determination by the
8 Commission to the contrary, the discounted rate revenue provided by
9 competitive service customers is not subject to increase in this
10 proceeding. Accordingly, the base rate increases assigned to rate
11 classes should be adjusted to reflect a 0.00% increase to the competitive
12 service revenues with a class, where applicable.

13
14 **Q. Have you restated Mr. Cline's class revenue allocation proposal to
15 show I&E's proposed increases in base rate revenues, net of
16 competitive service revenue considerations?**

17 A. Yes, I have. Since Mr. Cline used the Company's P&A COSS as a
18 starting point, I first prepared Schedule BK-1R, which shows the *base
19 rate revenue* increases required to move all rate classes to full cost of
20 service under the P&A COSS.

21 Next, I adjusted the P&A cost-based increases shown in Schedule
22 BK-1R to reflect Mr. Cline's proposed class revenue adjustments
23 shown in I&E Exhibit No. 4, Schedule 7. These results are shown in
24 Schedule BK-2R.

25 Finally, I split the class base rate revenues at present rates shown
26 in column 1 of Schedule BK-2R into (i) non-competitive and (ii)
27 competitive components, and assigned 100% of I&E's proposed base
28 rate increases to the non-competitive portion of each class. These
29 results are shown in Schedule BK-3R.

30
31 **Q. What do you conclude from Schedule BK-3R?**

32 A. Lines 8-10 of Schedule BK-3R show that while Mr. Cline is proposing
33 an overall increase in LGS base rate revenues of 34.5% (line 10), the
34 non-competitive portion of the LGS class would need to shoulder 100%

1 of I&E's proposed increase. The resulting increase to non-competitive
2 LGS customers would be 50.0% (line 8), which is (50.0% divided by
3 26.1% or) 1.92 times Peoples' requested system average increase in
4 base rate revenues of 26.1% (line 11).

5 I conclude that I&E's proposal to assign an effective increase of
6 50.0% to LGS customers would be excessive. Indeed, such an increase
7 would violate Mr. Cline's own recommendation to limit class increases
8 to no more than 1.5 times the system average.

9
10 **Q. What do you recommend?**

11 A. I recommend that the Commission reject I&E's class revenue allocation
12 proposal.

13
14 **Q. Do you wish to respond to any other portion of Mr. Cline's direct
15 testimony?**

16 A. Yes. On pages 23-25 of his direct testimony, Mr. Cline discusses the
17 Company's proposed customer charge levels, including Peoples'
18 proposed MGS customer charges. In Mr. Cline's view, the Company's
19 proposed customer charges do not need to be adjusted, but should
20 instead be included in any required scale back of rates, in the event the
21 Commission awards Peoples less than its requested increase in this
22 case.

23
24 **Q. Do you agree with Mr. Cline that Peoples' proposed MGS customer
25 charge increases are reasonable?**

26 A. No. As shown in Table 3 in OSBA Statement No. 1, the Company is
27 proposing to increase MGS customer charges in the Peoples Division
28 by 100.0% to 159.7%. Such increases would result in customer charges
29 of \$100.00 and \$200.00 per month, which are far in excess of the
30 Company's own MGS customer cost benchmarks of \$61.86 to \$72.72
31 per month.

32 Assuming for purposes of argument that Peoples were to be
33 awarded 50% of its requested increase, Mr. Cline's proposed scaleback
34 would result in MGS customer charges on the order of \$75.00 and

1 \$138.50 per month – levels that remain well above cost of service.² In
2 other words, a simple scaleback of the Company’s proposed MGS
3 customer charges is not likely to result in customer charges that align
4 with Peoples’ MGS customer cost benchmarks.
5

6 **Q. What do you recommend?**

7 A. I continue to recommend that the Commission adopt the OSBA’s
8 proposed MGS customer charge levels shown in Table 4 in OSBA
9 Statement No. 1.
10

11 **SBI Witness Burgraff**
12

13 **Q. Mr. Kalcic, how is Peoples proposing to recover the base rate costs**
14 **associated with its gathering system in this case?**³

15 A. The Company is proposing to recover such costs from both ratepayers
16 and gas producers, since both entities benefit from the gathering
17 system.
18

19 **Q. How would Peoples recover gathering system costs from**
20 **producers?**

21 A. The Company is proposing to implement a new Appalachian Gathering
22 Service (“Rate AGS”) tariff schedule that would apply to any party (i)
23 desiring to transport gas through the Company’s gathering system, or
24 (ii) delivering locally produced gas directly into the Company’s
25 distribution or transmission systems.⁴

² For a Peoples’ Division MGS customer using 1,000 to 2,499 Mcf per month, the Company is proposing to increase the customer charge from \$50.00 to \$100.00 per month. Assuming a 50% scaleback of the Company’s proposed increase, the final customer charge would be (\$50.00 plus \$100.00, divided by 2 or) \$75.00 per month. For a Peoples’ Division MGS customer using 2,500 to 24,999 Mcf per month, the Company is proposing to increase the customer charge from \$77.00 to \$200.00 per month. Assuming a 50% scaleback of the Company’s proposed increase, the final customer charge would be (\$77.00 plus \$200.00, divided by 2 or) \$138.50 per month.

³ The term “gathering system” is applied to pipeline facilities that are primarily used to move conventionally produced gas from production fields to either transmission and/or distribution systems, for ultimate delivery to end users.

⁴ At present, only the Equitable Division has a gathering service rate schedule.

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31

Q. How much of Peoples' claimed gathering system costs does the Company expect to recover from producers via Rate AGS?

A. The Company projects that it will recover approximately 33% of its claimed gathering system costs from producers during the FPFTY period.

Q. What is SBI's position with respect to Rate AGS?

A. Ms. Burgraff recommends, in part, that Rate AGS be rejected in its entirety for the Peoples Division, and that Rate AGS should be applied in the Equitable Division only to gas flowing into the gathering system (rather than transmission or distribution lines).⁵

Q. On what basis does Ms. Burgraff recommend that the Commission reject Rate AGS for the Peoples Division?

A. Ms. Burgraff argues that the Peoples Division gathering system was installed to move local gas to end-use customers. Therefore, producers should not be responsible for any of the costs of the Peoples Division gathering system.⁶

Q. Do you agree with Ms. Burgraff that producers should not be required to contribute toward the cost of the Peoples Division gathering system?

A. No. Producers clearly benefit from their connections to the Company's gathering system. Indeed, without the gathering system, certain local producers might not have a market for their supplies. As such, I conclude it is reasonable and appropriate for producers to contribute toward the costs of the Peoples Division gathering system.

Q. Does this conclude your rebuttal testimony?

A. Yes.

⁵ See SBI Statement No. 1, at page 44.

⁶ See SBI Statement No. 1, at page 16.

EXHIBITS

Schedules BK-1R through Schedule BK-3R

PEOPLES NATURAL GAS COMPANY LLC
Combined Divisions

Cost-Based Non-Gas Revenue Apportionment of Peoples'
 Requested Increase in Base Revenue
 Basis: Peak & Average COSS
 (Dollars in Thousands)

<u>Line</u>	<u>Classification</u>	<u>Present Base Revenue</u>	<u>Peak & Average Cost-Based Increase</u>	
			<u>Amount</u>	<u>Percent</u>
		<u>1</u>	<u>2</u>	<u>3</u>
1	Residential	\$265,682	\$57,421	21.6%
2	Small General Service	\$32,007	\$11,668	36.5%
3	Medium General Service	\$42,777	\$12,191	28.5%
4	Large General Service	<u>\$36,747</u>	<u>\$17,198</u>	46.8%
5	Total Rate Revenue	\$377,214	\$98,478	26.1%
	<u>Other Revenues</u>			
6	Forfeited Discounts	\$4,405	\$679	15.4%
7	Misc. Services	\$3,254	(\$2,379)	-73.1%
8	Trans. via Gathering	\$3,377	\$0	0.0%
9	Rent Gas Property	\$174	\$0	0.0%
10	Other Gas Revenues	<u>\$7,632</u>	<u>(\$1,931)</u>	-25.3%
11	Total Other Revenues	\$18,842	(\$3,630)	-19.3%
12	TOTAL	\$396,056	\$94,848	23.9%

Source: I&E Exhibit No. 4, Sch. 6 & 7, and 53.53 IV-B-1(B), page 11 of 146.

PEOPLES NATURAL GAS COMPANY LLC
Combined Divisions

I&E Proposed Allocation of Peoples'
Requested Increase in Base Revenue
Basis: Non-Gas Revenues Only
(Dollars in Thousands)

<u>Line</u>	<u>Classification</u>	<u>Present Base Revenue</u>	<u>I&E Proposed Increase</u>	
			<u>Amount</u>	<u>Percent</u>
		<u>1</u>	<u>2</u>	<u>3</u>
1	Residential	\$265,682	\$61,908	23.3%
2	Small General Service	\$32,007	\$11,693	36.5%
3	Medium General Service	\$42,777	\$12,208	28.5%
4	Large General Service	<u>\$36,747</u>	<u>\$12,670</u>	34.5%
5	Total Rate Revenue	\$377,214	\$98,478	26.1%
	<u>Other Revenues</u>			
6	Forfeited Discounts	\$4,405	\$679	15.4%
7	Misc. Services	\$3,254	(\$2,379)	-73.1%
8	Trans. via Gathering	\$3,377	\$0	0.0%
9	Rent Gas Property	\$174	\$0	0.0%
10	Other Gas Revenues	<u>\$7,632</u>	<u>(\$1,931)</u>	-25.3%
11	Total Other Revenues	\$18,842	(\$3,630)	-19.3%
12	TOTAL	\$396,056	\$94,848	23.9%

Source: I&E Exhibit No. 4, Sch. 6 & 7, and 53.53 IV-B-1(B), page 11 of 146.

PEOPLES NATURAL GAS COMPANY LLC
Combined Divisions

I&E Proposed Allocation of Peoples'
Requested Increase in Base Revenue
Basis: Competitive v. Non-Competitive Rate Revenues
(Dollars in Thousands)

Line	Classification	Present Base Revenue 1	I&E Proposed Increase	
			Amount 2	Percent 3
1	Residential	\$265,682	\$61,908	23.3%
	<u>Small General Service</u>			
2	Non-Competitive	\$32,003	\$11,693	36.5%
3	Competitive	\$4	\$0	0.0%
4	Total SGS	\$32,007	\$11,693	36.5%
	<u>Medium General Service</u>			
5	Non-Competitive	\$42,297	\$12,208	28.9%
6	Competitive	\$480	\$0	0.0%
7	Total MGS	\$42,777	\$12,208	28.5%
	<u>Large General Service</u>			
8	Non-Competitive	\$25,352	\$12,670	50.0%
9	Competitive	\$11,395	\$0	0.0%
10	Total LGS	\$36,747	\$12,670	34.5%
11	Total Rate Revenue	\$377,214	\$98,478	26.1%
	<u>Other Revenues</u>			
12	Forfeited Discounts	\$4,405	\$679	15.4%
13	Misc. Services	\$3,254	(\$2,379)	-73.1%
14	Trans. via Gathering	\$3,377	\$0	0.0%
15	Rent Gas Property	\$174	\$0	0.0%
16	Other Gas Revenues	\$7,632	(\$1,931)	-25.3%
17	Total Other Revenues	\$18,842	(\$3,630)	-19.3%
18	TOTAL	\$396,056	\$94,848	23.9%

Source: Schedule BK-2R and Peoples Exh. No. 3, Schedule 15, Attachment D.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

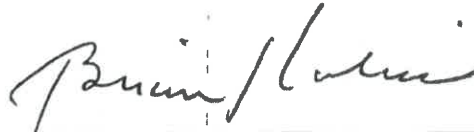
Peoples Natural Gas Company LLC

:
:
: **Docket No. R-2018-3006818**
:
:

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Rebuttal Testimony labeled OSBA Statement No. 1-R are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: May 24, 2019



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2018-3006818**
v. :
: **Peoples Natural Gas Company LLC** :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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COMMONWEALTH OF PENNSYLVANIA

June 12, 2019

The Honorable Joel H. Cheskis
Deputy Chief Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street
Commonwealth Keystone Building
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Peoples Natural Gas Company LLC /
Docket No. R-2018-3006818**

Dear Judge Cheskis:

Enclosed please find the Surrebuttal Testimony and Exhibit of Brian Kalcic, labeled OSBA Statement No. 1-S, with Exhibit BK-1S, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "EK Fure".

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: Brian Kalcic
Parties of Record

OSBA STATEMENT NO. 1-S

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION :

v.

: Docket No. R-2019-3006818

PEOPLES NATURAL GAS COMPANY LLC

:

Surrebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: June 12, 2019

Date Submitted for the Record: July 22, 2019

Surrebuttal Testimony of Brian Kalcic

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri
3 63105.

4
5 **Q. Have you previously submitted testimony in this proceeding?**

6 A. Yes.

7
8 **Q. What is the subject of your surrebuttal testimony?**

9 A. I will respond to the rebuttal testimony of the following Company
10 witnesses: 1) Mr. Russell A. Feingold; 2) Ms. Carol A. Scanlon; and 3)
11 Mr. Joseph A. Gregorini. In addition, I will reply to the rebuttal
12 testimony of OCA witness Glenn A. Watkins.

13
14 **Company Witness Feingold**

15
16 **Q. On page 55 of Peoples Statement No. 11-R, Mr. Feingold dismisses**
17 **your proposal to reduce the current rate *differential* between SGS**
18 **transitional and non-transitional delivery charges by 50%. He**
19 **argues instead that the Company's proposal, which would increase**
20 **the current SGS transitional delivery charge by approximately 1.5**
21 **times the system average increase in base revenue, provides**
22 **reasonable progress toward rate parity in this case. Do you agree?**

23 A. No. The purpose behind limiting the SGS transitional delivery charge
24 increase in this proceeding is to limit the overall increase to transitional
25 SGS customers that would otherwise result, if rates were set at parity.
26 However, as I discussed in my direct testimony, the Company's
27 proposal (to limit the SGS transitional delivery charge increase to 1.5
28 times the system average increase in base revenue) would result in an
29 overall base rate increase of 36.3% to SGS transitional customers,
30 which is slightly *less* than the Company's overall proposed SGS base
31 rate increase in the Peoples Division.¹

¹ See lines 6-7 of Schedule BK-1, page 2 of 3, attached to OSBA Statement No. 1. The reason that SGS transitional customers receive a lower overall base rate increase than non-transitional SGS customers under Peoples' proposed rate design is that (i) transitional customers currently pay a higher customer charge than

Surrebuttal Testimony of Brian Kalcic

1 Since SGS transitional rate customers would receive a lower base
2 rate increase than non-transitional SGS customers in the Peoples
3 Division under the Company's proposed rate design, I conclude it is
4 feasible to provide for greater movement toward rate parity for
5 transitional SGS customers in this case. The OSBA's recommendation
6 to reduce the current rate differential between SGS transitional and non-
7 transitional delivery charges by 50% would result in greater movement
8 toward parity, without imposing an excessive base rate increase on
9 transitional SGS customers.

10
11 **Q. On page 56 of his rebuttal testimony, Mr. Feingold discusses the**
12 **OSBA's proposal with respect to MGS customer charge levels. He**
13 **notes that rate consolidation will necessitate a significant reduction**
14 **in the current customer charges for MGS customers in the**
15 **Equitable Division, and that the Company prefers to address this**
16 **need in a gradual manner. Nevertheless, he concludes that "the**
17 **Company's proposal does recognize and balance cost of service,**
18 **rate consolidation and gradualism considerations." What is your**
19 **response?**

20 **A.** In support of his position, Mr. Feingold notes that (i) the combined
21 MGS class would receive an overall base revenue increase that is less
22 than 50% of the Company's requested average increase, and (ii) the
23 proposed increases to MGS customers across the Peoples and Equitable
24 Divisions (on a total revenue basis) would be 10.1% and -4.2%,
25 respectively.

26 In the OSBA's view, Schedule BK-1 (attached to OSBA
27 Statement No. 1) gives a clearer picture of the impact of the Company's
28 proposed rate design on MGS customers. Pages 2-3 of Schedule BK-1
29 show that the Company's proposed base rate revenue increases to MGS
30 customers across the Peoples and Equitable Divisions would be 25.0%

non-transitional customers, (ii) Peoples proposed consolidation of SGS customer charges effectively assigns a significantly lower customer charge increase to transitional customers, and (iii) this lower customer charge increase works to offset the impact of Peoples' proposed transitional delivery charge increase on transitional customers.

1 and -1.6%, respectively. Moreover, given that the Company is
2 proposing to increase the MGS (1,000 to 2,499 Mcf) customer charge in
3 the Peoples Division by 100%, one may expect the impact of the
4 Company's proposed rate design on smaller MGS users in the Peoples
5 Division to be greater than 25.0%.

6 In contrast, adopting the OSBA's proposed MGS customer
7 charges would (i) mitigate the overall increases to smaller MGS
8 customers in the Peoples Division by shifting revenue recovery from
9 customer to delivery charges, and (ii) set MGS customer charge levels
10 closer to the Company's cost-of-service benchmarks.

11
12 **Company Witness Scanlon**

13
14 **Q. On pages 4-7 of Peoples Statement No. 5-R, Ms. Scanlon discusses**
15 **the OSBA's position regarding the recovery of revenue shortfalls**
16 **arising from excess gas-on-gas rate discounts from general**
17 **ratepayers, and argues that the OSBA's recommended \$2.291**
18 **million revenue adjustment is inappropriate. Why does Ms.**
19 **Scanlon disagree with the OSBA's position?**

20 **A. Ms. Scanlon presents four arguments in support of her position.**

21
22 **Q. What is Ms. Scanlon's first argument?**

23 **A. Ms. Scanlon argues that the "concept" of allowing two competing**
24 **natural gas distribution companies ("NGDCs") to discount delivery**
25 **charges only to the lower of the two utility rate levels was raised as a**
26 **potential solution to gas-on-gas competition at Docket Nos. P-2011-**
27 **2277868 and I-2012-2320323. The consensus of the parties was that a**
28 **collaborative should be convened to determine the appropriate**
29 **methodology to calculate the lowest applicable tariff rate available to a**
30 **gas-on-gas customer. However, since the Commission has not yet**
31 **issued a final order on any such "outstanding issues," none of the**
32 **competing NGDCs is obligated to limit gas-on-gas discounts at this**
33 **time.**

34

1 **Q. Please respond to Ms. Scanlon's first argument.**

2 A. The OSBA agrees that no competing NGDC is *required* to limit its gas-
3 on-gas discounts to the lowest applicable tariff rate available to a gas-
4 on-gas customer at this time. However, Counsel advises it is the
5 OSBA's position, as a legal matter, that NGDCs that choose to continue
6 to offer excess gas-on-gas discounts to customers do so at their own
7 risk. Counsel further advises that the OSBA will present its legal
8 arguments and conclusions regarding this point in its briefs.

9

10 **Q. What is Ms. Scanlon's second argument?**

11 A. Given that no requirement exists to limit gas-on-gas discounts at this
12 time, Ms. Scanlon argues that if one of two competing NGDCs chose to
13 limit its discount to the lowest applicable tariff rate, the second NGDC
14 "would receive an unfair competitive advantage."

15

16 **Q. Do you agree?**

17 A. No. In the absence of any risk for offering excess gas-on-gas discounts,
18 I would agree with Ms. Scanlon's conclusion. However, if an NGDC is
19 not able to recover the foregone revenue associated with excess gas-on-
20 gas discounts in a future rate proceeding, then neither competing
21 NGDC is at an unfair competitive advantage.

22

23 **Q. Please summarize Ms. Scanlon's third argument.**

24 A. Assuming for the sake of argument only that the Commission's Gas-on-
25 Gas Order required NGDCs to limit their gas-on-gas discounts, Ms.
26 Scanlon points out that the Commission's Gas-on-Gas Order was
27 entered on May 4, 2017. Since that date, Peoples has entered into only
28 one gas-on-gas contract, and the customer's negotiated delivery charge
29 "is equivalent to the rate of the comparable rate schedule of the
30 competing NGDC." Therefore, Ms. Scanlon concludes there is no basis
31 to deny Peoples recovery of any of the foregone revenue associated
32 with its gas-on-gas discounts.

33

34 **Q. What is your response?**

Surrebuttal Testimony of Brian Kalcic

1 A. In my direct testimony, I provided a quote from page 58 of the Gas-on-
2 Gas Order, which is repeated for convenience below:

3
4 While we have expressed our concerns with gas-on-gas
5 discounts in various orders long before the initiation of this
6 investigation in July 2012, the NGDCs have been fully aware
7 that there may be changes in gas-on-gas discounts since at
8 least July 2012. Consequently, NGDCs knew there may be
9 some risk in entering into *long-term* contracts once this
10 proceeding began. Therefore, we concur with the ALJ that
11 December 31, 2018, may be a reasonable date to end
12 ratepayer subsidies of gas-on-gas discounts that exceed
13 applicable rates of competing NGDCs. Accordingly, the
14 NGDCs are placed on notice that they may not be able to
15 recover any foregone revenue beyond December 31, 2018, in
16 future rate proceedings.

17
18 Counsel advises that it is the OSBA's legal position that July
19 2012, not May 4, 2017, constitutes the appropriate cut-off for
20 determining whether the foregone revenue associated with gas-on-gas
21 contracts is subject to full recovery after December 31, 2018.

22
23 **Q. Mr. Kalcic, for the record, were any of the gas-on-gas contracts**
24 **shown in HIGHLY CONFIDENTIAL Schedule BK-2 (attached to**
25 **OSBA Statement No. 1) entered into before July 2012?**

26 A. No. The contract for the gas-on-gas customer identified as #6 in
27 HIGHLY CONFIDENTIAL Schedule BK-2 was entered into July 2012
28 – the same month the Commission initiated its investigation at Docket
29 Nos. P-2011-2277868 and I-2012-2320323. At best, therefore, only the
30 excess discounts for customer #6 shown in HIGHLY CONFIDENTIAL
31 Schedule BK-2 might arguably be excluded from the OSBA's
32 recommended revenue adjustment.

33
34 **Q. What is Ms. Scanlon's fourth argument?**

1 A. Ms. Scanlon highlights language found on page 56 of the Gas-on-Gas
2 Order and concludes that the Commission anticipated implementing a
3 transition period before implementing limits on gas-on-gas discounts.
4 However, Ms. Scanlon argues that “a reasonable transition period has
5 not yet been established,” and that “any amendments to gas-on-gas
6 competition discounting should be uniform in nature and begin at the
7 same time for all of the NGDCs.”
8

9 **Q. What is your response?**

10 A. In Peoples’ view, the Commission’s Gas-on-Gas Order
11 notwithstanding, it is “business as usual” among competing NGDCs
12 until such time as the Commission issues a “final order” on all
13 outstanding issues in Docket Nos. P-2011-2277868 and I-2012-
14 2320323. The OSBA respectfully disagrees with the Company’s legal
15 conclusion, and maintains that it would not be prejudicial to deny
16 Peoples recovery of a portion of the foregone revenues associated with
17 its gas-on-gas discounts in this proceeding.
18

19 **Company Witness Gregorini**

20
21 **Q. On pages 2-4 of Peoples Statement No. 2-R, Mr. Gregorini discusses**
22 **the OSBA’s objection to the Company’s proposed modification to**
23 **its main line extension policy for residential customers. Mr.**
24 **Gregorini rejects the OSBA’s position, arguing that the Company’s**
25 **proposal (i) was developed with the aim of improving**
26 **administration and increasing customer transparency, and (ii)**
27 **contrary to the OSBA’s position, would not result in the**
28 **subsidization of residential applicants by general ratepayers.**
29 **Please respond.**

30 A. With regard to Mr. Gregorini’s first point, it is not clear how the
31 Company’s current extension policy is costly to administer. As
32 discussed below in my response to Mr. Watkins, the Company’s current
33 economic (spreadsheet) model is straightforward to use, requiring only
34 that the Company input the applicant’s (i) current rates and (ii)

1 estimated usage level to determine the customer's allowable investment
2 level.

3 It is equally unclear how the Company's proposal would increase
4 customer transparency. Presumably, Peoples believes it is somehow
5 more "transparent" to inform a residential applicant that Company will
6 provide an upfront allowance equal to the first 150 feet of the main
7 extension, rather than a credit of \$5,906.20 towards the cost of the
8 extension.² In either case, the applicant could question how the
9 Company arrived at the quoted amount. More importantly, the
10 applicant's decision to go forward with the extension will be dependent
11 upon the level of required CIAC, if any, not the relative transparency of
12 Peoples' extension offer.
13

14 **Q. Is the Company's proposed 150-foot allowance equivalent to**
15 **\$5,906.20 for the purpose of determining any required CIAC?**

16 A. No, and this is the point. The current \$5,906.20 allowable investment
17 amount is equivalent to an allowance of approximately (\$5,906.20
18 divided by Peoples' 2018 extension cost of \$45.16 per foot equals) 131
19 feet, not 150 feet. The difference is otherwise required CIAC under the
20 two approached equates to general ratepayers subsidizing a residential
21 applicant by up to \$868.
22

23 **Q. What is the basis for Mr. Gregorini's conclusion that the**
24 **Company's extension proposal would not result in the subsidization**
25 **of residential applicants by general ratepayers?**

26 A. Mr. Gregorini notes that not all residential extension applicants require
27 a Contribution in Aid of Construction ("CIAC"). Moreover, he argues
28 that if both groups (i.e., those requiring a CIAC and those not requiring
29 a CIAC) are examined on a *combined* basis, "the average cost [per
30 extension] (including the added cost under our proposed 150-foot rule)

² Under Peoples' existing extension policy, a residential applicant (i) consuming (a FPFTY average of) 86.9 Mcf per year while (ii) paying the Company's proposed tariff rates would qualify for an allowable investment up to \$5,906.20 without the need of a CIAC. See OSBA Statement No. 1 at page 16.

1 is considerably well below the average allowable cost under our
2 existing allowable investment model.”

3
4 **Q. Is Mr. Gregorini’s argument on point?**

5 A. No, it is not. The purpose of the Company’s extension rule is to
6 evaluate whether a given extension project is economic before the fact
7 (i.e., before construction), not whether it is “economic” after the fact,
8 on an average basis, when combined with all completed extension
9 projects.

10 Indeed, if the Company’s existing main extension rule operated
11 on an average basis, as posited by Mr. Gregorini, the Company would
12 never have to charge a residential applicant a CIAC, and there would be
13 no need for the Company to request permission to modify its existing
14 extension policy in this proceeding.

15
16 **OCA Witness Watkins**

17
18 **Q. On pages 1-2 of OCA Statement No. 3-R, Mr. Watkins suggests**
19 **that one of the reasons that you object to the Company’s proposed**
20 **changes to its main extension policy is that Peoples’ proposed 150-**
21 **foot main extension allowance would not apply to non-residential**
22 **customers. Are you in favor making the Company’s proposed main**
23 **extension allowance applicable to non-residential customers?**

24 A. No. Mr. Watkins interpreted the statement on page 15 of my direct
25 testimony to be a criticism of Company’s proposal, when in fact I was
26 merely describing the new extension policy.

27
28 **Q. So that the record is clear, why do you oppose making Peoples’**
29 **proposed main extension allowance applicable to non-residential**
30 **customers?**

31 A. As I discussed in my direct testimony, the purpose of the Company’s
32 main extension policy is to ensure that an extension project is economic
33 from a general ratemaking perspective.

1 For non-residential customers, the Company's existing mains
2 extension policy produces an allowable investment amount that exceeds
3 Peoples' proposed 150-foot extension allowance. In other words, a
4 non-residential customer would earn an extension allowance under
5 Peoples' current economic model analysis that would provide for a
6 main extension *greater than* 150 feet in length. As such, applying the
7 proposed 150-foot allowance to non-residential customers could result
8 in such customers being required to pay a CIAC, when in fact no CIAC
9 was required to make an extension economic.

10
11 **Q. To illustrate this point, have you calculated the main extension**
12 **allowance that would be available to a hypothetical SGS service**
13 **applicant under Peoples' existing extension policy?**

14 **A.** Yes. Schedule BK-1S shows that an SGS applicant consuming (the
15 class average) 238 Mcf per year would qualify for an investment
16 allowance of \$9,733.30, at the Company's proposed SGS rate levels.
17 On the other hand, the cost of a 150-foot main extension to serve the
18 customer would be \$6,774.00 (based on 2018 project costs). Therefore,
19 applying the proposed 150-foot allowance to an SGS applicant would
20 reduce the customer's allowance by \$2,959.30 or 30.4%.

21
22 **Q. Continuing on page 2 of his rebuttal testimony, Mr. Watkins agrees**
23 **with you that the Company's proposal would shift a portion of the**
24 **actual cost of extending service to residential customers to general**
25 **ratepayers. However, he argues that, as a policy matter, Peoples'**
26 **"proposal is reasonable and is in the best public interest of**
27 **promoting the availability of natural gas to unserved and**
28 **underserved areas of the Company's service area." What is your**
29 **response?**

30 **A.** If the Company's proposed main extension rule for residential
31 customers should go forward as a matter of public policy rather than
32 project economics, I would recommend that the Commission order the
33 Company to directly assign the cost of otherwise uneconomic

Surrebuttal Testimony of Brian Kalcic

1 residential extension projects to the residential class in Peoples next
2 base rate proceeding.

3 In that way, the cost of subsidizing residential extension projects
4 would be borne solely by residential customers.
5

6 **Q. On page 3 of his rebuttal testimony, Mr. Watkins discusses the case**
7 **of a customer in an established neighborhood that resides only 150**
8 **feet from the Company's existing gas main. He argues that "it**
9 **would seem totally unfair that this customer cannot be provided**
10 **natural gas service without a significant CIAC while his neighbors**
11 **down the same street enjoy the energy savings of natural gas**
12 **service." Is Mr. Watkins' hypothetical realistic?**

13 **A. No. Mains are typically extended to *all* customers in a new housing**
14 **development or no customers in the development, depending on the**
15 **economics of the extension project. As such, the customer in Mr.**
16 **Watkins' hypothetical would never be required to pay a CIAC that his**
17 **neighbors (taking gas service) had not already agreed to pay.**
18

19 **Q. Does this conclude your surrebuttal testimony?**

20 **A. Yes.**

EXHIBIT

Schedule BK-1S

OSBA-I-11
Allowable Investment Model
SGS (0-500) using 238 Mcf per year

Valuation Period	-	1	2	3	4	5	6	7
Assumptions								
	Inputs							
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Delivery Margin Per Mcf	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196
Usage Per Customer (Mcf)	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0
Depreciation Rate	1.49%							
O&M Cost per Customer	\$ 99.75	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

Allowable Investment Calculations 9,733.30

Cash Flows

		1	2	3	4	5	6	7
Capex	\$	(9,733)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue		995	995	995	995	995	995	995
Less: expense		(100)	(100)	(100)	(100)	(100)	(100)	(100)
Less: taxes		(217)	(217)	(217)	(217)	(217)	(217)	(217)
Add: Def'd taxes		64	161	146	132	119	107	96
	\$	(8,991)	\$ 840	\$ 824	\$ 810	\$ 797	\$ 785	\$ 774

NPV-40 0.0
IRR-40 8.0%

Depreciation Assumptions/Calculations

		1	2	3	4	5	6	7
MACRS Year								
20 Year MACRS Schedule		3.75%	7.22%	6.68%	6.18%	5.71%	5.29%	4.89%
Tax Depreciation	9,733.3	365.00	702.65	649.89	601.23	556.06	514.40	475.76
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation		145.0	145.0	145.0	145.0	145.0	145.0	145.0
Deferred Taxes		63.55	161.11	145.87	131.81	118.76	106.72	95.56

OSBA-I-11
Allowable Investment Model
SGS (0-500) using 238 Mcf per year

Valuation Period	8	9	10	11	12	13	14	15	16
Assumptions									
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Delivery Margin Per Mcf	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196
Usage Per Customer (Mcf)	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0
Depreciation Rate									
O&M Cost per Customer	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

Allowable Investment Calculations

Cash Flows

Capex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	995	995	995	995	995	995	995	995	995
Less: expense	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Less: taxes	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
Add: Def'd taxes	85	84	84	84	84	84	84	84	84
	\$ 764	\$ 762	\$ 762	\$ 762	\$ 762	\$ 762	\$ 762	\$ 762	\$ 762

NPV-40
IRR-40

Depreciation Assumptions/Calculations

	8	9	10	11	12	13	14	15	16
MACRS Year	8	9	10	11	12	13	14	15	16
20 Year MACRS Schedule	4.52%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%
Tax Depreciation	440.14	434.30	434.20	434.30	434.20	434.30	434.20	434.30	434.20
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0
Deferred Taxes	85.26	83.58	83.55	83.58	83.55	83.58	83.55	83.58	83.55

OSBA-I-11**Allowable Investment Model****SGS (0-500) using 238 Mcf per year**

Valuation Period	17	18	19	20	21	22	23	24	25
Assumptions									
Equity Ratio	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%	53.66%
Debt Ratio	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%	46.34%
ROE	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Cost of LT Debt	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%	4.24%
WACC	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Fed tax	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
State tax	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%
Income Taxes	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%	28.89%
Customer Charge	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Delivery Margin Per Mcf	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196	\$ 2.9196
Usage Per Customer (Mcf)	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0	238.0
Depreciation Rate									
O&M Cost per Customer	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

Allowable Investment Calculations**Cash Flows**

Capex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	995	995	995	995	995	995	995	995	995
Less: expense	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Less: taxes	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
Add: Def'd taxes	84	84	84	84	21	(42)	(42)	(42)	(42)
	\$ 762	\$ 762	\$ 762	\$ 762	\$ 699	\$ 636	\$ 636	\$ 636	\$ 636

NPV-40

IRR-40

Depreciation Assumptions/Calculations

MACRS Year	17	18	19	20	21				
20 Year MACRS Schedule	4.46%	4.46%	4.46%	4.46%	2.23%				
Tax Depreciation	434.30	434.20	434.30	434.20	\$ 217	-	-	-	-
Book Depreciation Rate	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%	1.49%
Book Depreciation	145.0	145.0	145.0	145.0	\$ 145	\$ 145	\$ 145	\$ 145	\$ 145
Deferred Taxes	83.58	83.55	83.58	83.55	20.84	(41.90)	(41.90)	(41.90)	(41.90)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

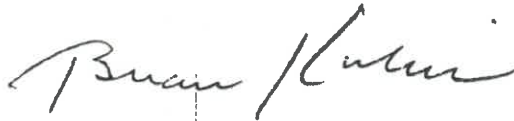
Peoples Natural Gas Company LLC

:
:
: **Docket No. R-2018-3006818**
:
:

VERIFICATION

I, Brian Kalcic, hereby state that the facts set forth in my Surrebuttal Testimony labeled OSBA Statement No. 1-S are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: June 10, 2019



(Signature)

Brian Kalcic

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : **Docket No. R-2018-3006818**
 :
 Peoples Natural Gas Company LLC :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
: **Docket No. R-2018-3006818**
: **v.** :
: **Peoples Natural Gas Company LLC** :

CERTIFICATE OF SERVICE

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